



## Chapter 20

# Urban Development

### Urbanisation Pattern in Himachal Pradesh

The formation of Himachal Pradesh as a part 'C' state on April 15, 1948, with the merger of 30 erstwhile princely states marked the onset of urbanisation in the state. Himachal Pradesh experienced a sudden growth of its urban population from 0.86 lakh in 1941 to 1.54 lakh in 1951. The rate of urbanisation grew from 3.80 per cent to 6.45 per cent in the respective census decades. The compound annual growth rate (CAGR) of urban population rose from 1.5 per cent during 1931-41 to 5.99 per cent during 1941-51. Since then, the growth of urban population has been steady. The gradual urbanisation of a predominantly rural society has been set into motion and the urban population of Himachal Pradesh has more than doubled between 1971 and 2001. The absolute increase of urban population during 1991-2001 is 1.46 lakh against 1.23 lakh during 1981-1991 and 0.84 lakh during 1971-81. Though the growth of

urbanisation has slowed down in the 1990s, yet the net increase of the state's urban population during the period 1991-2001 has been only slightly less than the total urban population of the state in 1951. The projected higher growth of the economy, industry, trade, commerce and tourism in Himachal Pradesh may lead to faster urbanisation. Table 20.1 indicates the trends in urbanisation in Himachal Pradesh.

From 1971 onwards, urbanisation has been constant, with the CAGR of urban population varying between 2.86 per cent to 3.25 per cent. During the period 1971 to 2001, the average CAGR of the urban population i.e. 9.41 per cent has been considerably higher than the CAGR of the rural population i.e. 5.47 per cent. This difference is likely to increase in the future due to the higher growth of population in the urban areas, which offer better employment opportunities. The consequent economic, environmental and physical changes are likely to exert pressure on the

TABLE 20.1

#### Trends in Urbanisation in Himachal Pradesh

Census Year	Total Population (in lakh)	Urban Population (in lakh)	Rural Population (in lakh)	Percentage of Urban Population	Compound Annual Growth Rate** (%)		Number of Towns/ Urban Agglomerations
					Rural	Urban	
1971	34.60	2.42	32.18	6.99	-1.98	3.12	36
1981	42.81	3.26	39.55	7.61	4.15	3.02	47
1991	51.71	4.49	47.22	8.69	1.79	3.25	58
2001	60.77	5.95	54.82	9.79	1.50	2.86	57
2011*	71.42	7.89	63.64	11.05	1.50	2.86	-
2021*	83.93	10.45	73.88	12.45	1.50	2.86	-

Source: (i) Census of India 1981, Town Directory, Himachal Pradesh, Series-7, Part XA.

(ii) Census of India 1991, Town Directory, Himachal Pradesh, Series-9, Part IX.

(iii) Census of India 2001, Rural Urban Distribution, Himachal Pradesh, Series -3, Paper-2 of 2001.

Note: \* Projections: Based on CAGR of 1991-2001 decade.

\*\* The CAGR for 1971, 1981, 1991, 2001, 2011 and 2021: Calculated from the actual decadal values of 1961-71, 1971-81, 1981-91, 1991-01 and projected values of 2001-11 and 2011-2021 respectively.

Urban Local Bodies (ULBs) to meet the growing demand for infrastructure such as land, water supply, sewerage, solid waste management, housing, roads etc.

District-wise trend of urbanisation indicates that Shimla, Solan and Sirmaur districts have 23.12 per cent, 18.26 per cent and 10.38 per cent urban population respectively and are the top three urbanised districts with higher level of urbanisation as compared to the state average. The urban population of Himachal Pradesh is not growing in an equitable manner. The inequalities have increased considerably in the last five decades. The two most urbanised districts of the state have 18 towns of different sizes i.e. 10 in Shimla and 8 in Solan, and these indicate a linear/corridor pattern of urbanisation. There is a ribbon type of growth of towns in other districts also i.e. Bilaspur, Mandi, Kullu, Una, Hamirpur, Kangra and Chamba except Kinnaur and Lahaul & Spiti, which have no urban population.

Shimla, the only Class I town is highly urbanised. There are 6 Class III towns, 7 Class IV towns, 17 Class V towns and 26 Class VI towns. Two new towns i.e. Baddi (Solan district) and only the census town of Mant Khas (Kangra district) came up in 2001. Pandoh, a census town in Mandi district in 1991, lost its status in 2001. Table 20.2 shows class wise trend of urban population in Himachal Pradesh from 1971 to 2001.

The number of towns has increased from 36 in 1971 to 57 in 2001 and the urban population of Himachal Pradesh is converging in the larger towns. It is also interesting to note that the smaller towns with a small

urban population have started exhibiting a decadal rate of growth, which is as high as that of the larger towns or even higher. Manali Nagar Panchayat, a Class V town in Kullu district, experienced the highest decadal growth rate of +157.50 per cent during 1991-2001, which is largely due to the growth of tourism in Manali, which is emerging as an alternative to Jammu and Kashmir. With the growth of urban population, the number of municipal councils is likely to increase. The spatial pattern of urbanisation emerging from the growth of tourism, trade and industrial activities needs to be observed and monitored for sustainable development of the urban areas.

The population base and growth trend of municipal towns/cantonment boards (CBs) confirm the unequal trend in towns of various size and class. Shimla is the largest and the only municipal corporation town of the state. Among the 20 municipal councils, Solan (0.34 lakh) is the largest and Naina Devi (0.01 lakh) in Bilaspur district the smallest. Among the 28 Nagar Panchayats, the recently constituted Nagar Panchayat of Baddi (0.23 lakh) is the largest and Narkanda (0.007 lakh) is the smallest. Among the seven cantonment boards, Yol (0.11 lakh) in Kangra district is the largest and Bakloh (0.02 lakh) the smallest. Some municipalities in the upper areas (inner Himalyas) of Kangra, Chamba and Kullu districts are very small in size, weak in fiscal base and are unable to initiate projects for infrastructure development. There is a wide variation of size, population base and the growth of population between towns of the same class and

TABLE 20.2  
Class-wise Trend of Urban Population in Himachal Pradesh

Years	Different Size Class Towns						
	Class I	Class II	Class III	Class IV	Class V	Class VI	Total
1971	- (-) [-]	01 (22.89) [55,368]	01 (8.81) [21,304]	05 (27.18) [65,739]	06 (17.51) [42,362]	23 (23.61) [57,117]	36 (100.00) [241,890]
1981	- (-) [-]	01 (21.66) [70,604]	02 (12.54) [40,869]	05 (22.08) [71,985]	09 (19.83) [64,637]	30 (23.89) [77,876]	47 (100.00) [325,971]
1991	01 (22.75) [102,186]*	- (-) [-]	04 (19.42) [87,228]	07 (21.73) [97,617]	10 (15.81) [71,018]	36 (20.29) [91,147]	58 (100.00) [449,196]
2001	01 (24.31) [144,578]	- (-) [-]	06 (25.87) [153,912]	07 (19.06) [113,376]	17 (19.10) [113,633]	26 (11.66) [69,382]	57 (100.00) [594,881]

Source: (i) Same as in Table 20.1 ( i, ii & iii).

Note: (i) Number of towns in each class (without bracket).

(ii) Percentage of urban population in each class ( ).

(iii) Total population in each class [ ].

(iv) Size of population : Class I = 100,000 and above; Class II = 50,000-99,999; Class III = 20,000-49,999; Class IV = 10,000-19,999; Class V = 5,000 -9,999; Class VI = Below 5,000.

(v) \* includes out growth population.

between towns of different classes. A few issues relating to changes in the growth pattern of urban areas have not been discussed in this section due to non-availability of data.

The level and growth of urbanisation in Himachal Pradesh has been poor in comparison to neighbouring states as shown in Table 20.3.

TABLE 20.3

**Comparative Picture of Urbanisation in Himachal Pradesh, Punjab, Haryana and J&K (1971 to 2001)**

State	Urban Population (%)				Decadal Variation of Urban Population (%)		
	1971	1981	1991	2001	1971-81	1981-91	1991-2001
<b>Himachal</b>	<b>6.99</b>	<b>7.61</b>	<b>8.69</b>	<b>9.79</b>	<b>+34.76</b>	<b>+37.80</b>	<b>+32.43</b>
J&K	18.59	21.05	23.83	24.88	+45.86	+45.94	N.A.*
Haryana	17.67	21.88	24.63	29.00	+59.47	+43.41	+50.79
Punjab	23.73	27.68	29.55	33.95	+44.51	+28.95	+37.58
<b>India</b>	<b>19.91</b>	<b>23.31</b>	<b>25.71#</b>	<b>27.78#</b>	<b>+46.39</b>	<b>+36.24</b>	<b>+31.13</b>

Source: (i) Same as in Table 20.1 (i, ii & iii).

Note: i. \* decadal variation of J&K for 1991-2001: is not available as census of 1991 was not conducted in J&K due to disturbed law and order situation.

ii. # includes projected population of J&K.

Though the urban centres of Himachal Pradesh are not growing at par with those of Punjab, Haryana, and Jammu and Kashmir, yet the consequences of the urbanisation pattern in the state seem to be more complicated and can have long-term implications on the ecology of Himachal Pradesh as well as that of its neighboring states. Comparatively, the absence or poor growth of industry, trade and commerce and the difficult mountainous terrain have controlled the expansion of urban areas and their economies. Disparities in the growth of urbanisation, the economy of the cities and the level and quality of urban infrastructure are growing within the state as well as between the states of north-west region. Poor investment in the various sectors in a large number of towns due to their limited economic base is affecting the development of urban infrastructure/services in Himachal Pradesh.

The spatial pattern of urbanisation in Himachal Pradesh is creating imbalances of resources and deficiencies in the coverage of urban infrastructure and municipal services. Despite the growing contribution of the urban sector, particularly the urban service sector, to the state domestic product (SDP), the quality and quantity of urban infrastructure continue to be poor in Himachal Pradesh. With the decreasing share of

the primary sector and the increasing share of the secondary and tertiary sectors in the SDP, in terms of generation of employment and total output, the share of the urban areas in SDP has increased disproportionately.

One of the major concerns in Himachal Pradesh is the growing environmental pollution due to the disposal of untreated sewage in most of the rivers by a large number of towns. Even solid waste such as garbage, polythene bags and other domestic waste, is thrown in the rivers or dumped on the slopes. 'One of the major concerns in Manali is growing environmental pollution due to disposal of untreated sewage in the river Beas and unscientific disposal of non-biodegradable waste' (Gupta, J.P. & Manoj K. Teotia, 2003). Open defecation is common in the urban areas. This can lead to a serious ecological crisis not only in Himachal Pradesh but also in the neighboring states of Punjab and Haryana. Himachal Pradesh does not have any 'urbanisation strategy' or 'urban development policy' to meet the demand and shortfalls in the supply of urban infrastructure/services.

The growth of new and the existing urban centres should be planned. 'Health for All' goal of the state government can be achieved only by providing safe drinking water, improving the urban environmental infrastructure by scientific management of liquid and solid waste to control air, water and soil pollution. Upgradation of the urban environmental infrastructure will improve ecology not only of the state but also of the neighboring states.

There is need for addressing issues relating to the negative impact of urbanisation and evolving an "urbanisation strategy" and "urban development policy" comprising area/region specific economic frameworks, rural-urban continuum/connectiveness/interdependence, backward and forward linkages and inter-sectoral as well as spatial and environmental dimensions of infrastructure development. Emphasis should be put on localisation so that the urban areas are able to meet the needs of the residents without affecting the interests of the future generations. The strategy/policy should comprise long-term city/environment friendly goals such as empowerment of the ULBs by transferring funds, functions and functionaries and adequate urban infrastructure/services like water supply, sewerage, solid waste management, roads, street lights, housing and transport facilities.

Environmental conservation should be a major thrust area for the urban policymakers and stakeholders

in infrastructure development. Creation of an enabling legal, financial and regulatory framework for infrastructure development should be the immediate policy initiative of the state government. Urban development policy must emphasise on capacity building of the elected and appointed functionaries of local self-governments and other officers responsible for infrastructure development in urban areas. Training of urban managers is necessary for institutional development and functional strengthening of local self-government and housing and urban development/irrigation and public health (IPH) departments responsible for the development of urban infrastructure. Considering that the resources of the ULBs are poor and budgetary support from the state government and transfers/grants from the central government are unlikely to increase, the strategy should suggest ways and means of resource mobilisation from capital markets/non budgetary sources for financing the urban infrastructure.

### Urban Infrastructure Scenario in Himachal Pradesh

The urban infrastructure scenario in Himachal Pradesh is grim. Deficiencies in water supply, sewerage, solid waste management, municipal roads, streets and streetlights are becoming acute with growing urbanisation. According to the *State of Environment Report (SER)-HP (2000)*, 'most towns lack sewerage systems, and solid waste management is also inadequate. These twin factors expose water to severe pollution hazards' (p.107). The situation becomes acute in peak tourist months in summer as well as in winter. The urban infrastructure and municipal services have been deteriorating in the larger towns and have been grossly unsatisfactory in the small towns. A considerably high proportion of the urban population remains uncovered by municipal services. The cost of providing urban infrastructure services is higher in the urban centres of Himachal Pradesh because of the difficult mountainous terrain, inadequate supply of low-cost raw material and labour. At the same time, pricing and cost recovery of the urban infrastructure is negligible. The technology used for providing and maintaining the urban infrastructure services is old and inappropriate to meet the growing needs.

Urban decay is visible in Himachal Pradesh in the form of water and air pollution, ecological degradation and traffic congestion. It is largely due to unplanned and uncontrolled urbanisation and faulty urban management/development systems. The pronounced

inadequacy of urban infrastructure services is affecting the quality of life in the urban areas. It could be attributed to the poor fiscal health of the ULBs. The ULBs of small and medium towns have more serious problems due to planning bias in favour of the larger towns. Disparities in the level and quality of infrastructure between the small and large towns are expected to increase in the future. The '*Report of the Committee on India Vision 2020*' (Planning Commission, Government of India, 2002, p.59) has mentioned that 'greater inequality may be expected in the level of basic services across urban centres of different sizes by the year 2020, unless concerted initiative is taken to reverse the trend'. The major issues relating to the status of urban infrastructure and municipal services in Himachal Pradesh have been discussed in this section.

### Water Supply

Himachal Pradesh is no exception to the critical urban water supply position in the major states of India i.e. Andhra Pradesh, Rajasthan, Maharashtra, Gujarat, Karnataka, Tamil Nadu and Delhi. Water supply in the urban areas is inadequate, in terms of quantity as well as quality. According to the *SER-HP (2000, pp 94-95)*, 'the water supply systems in most of the towns are quite old and have outlived their utility, their sources need augmentation and the distribution systems in almost all the supply schemes need replacement and rehabilitation'. Table 20.4 shows per capita availability of water in the urban areas maintained by IPH Department.

TABLE 20.4  
Per Capita Availability of Water in Urban Areas of Himachal Pradesh

Per-capita Availability of Water (LPCD)	Number of Towns	Name of Towns
80-120	27	Arki, Chopal, Chowari, Chamba, Dehra, Daulatpur Ghumarwin, Gagret, Jogindernagar, Jubbal, Jawalamukhi, Kangra, Kullu, Kotkhai, Mehatpur, Manali, Nadaun, Nahan, Palampur, Rampur, Rohroo, Rewalsar, Santokhgarh, Sujampur, Sri Naina Devi, Suni and Una
50 -80	10	Bilaspur, Dharamsala, Dalhousie, Hamirpur, Mandi, Nagrota, Shimla, Solan, Sarkaghat and Sundernagar
25-50	12	Banjar, Bhuntar, Bhota, Baddi, Mant Khas, Narkanda, Nurpur, Nalagarh, Paonta Sahib, Rajgarh, Theog and Talai

Source: Irrigation and Public Health Department, Government of Himachal Pradesh.

Though all the towns of Himachal Pradesh have water supply facility, yet the per capita availability of water in a large number of towns is well below the desired norms. The major populated towns, i.e., Shimla, Solan, Mandi, Hamirpur, Bilaspur, and Dharmshala have a per capita water supply of less than 80 lpcd and the industrial towns of Baddi, Paonta Sahib and Nalagarh have a per capita water supply of less than 50 lpcd. Not all households have individual water connections in most of the towns and not all localities and areas are covered by the water distribution network. The supply is unreliable due to irregular supply, inadequacy, short duration as well as the poor quality of water. A large number of people use drinking water from traditional sources without ascertaining the quality of the water. Due to the unreliability of the water supply, consumers have made additional investments on installing individual tubewells, handpumps, storage facilities (ground as well as overhead), pumping sets, booster pumps and filtration systems.

In a survey of drinking water in the six towns of Chamba, Dharamshala, Manali, Mandi, Shimla and Solan done by the Health Department in 1994, it was found that water-borne diseases were a major health problem in the urban areas of the state. Nearly one-third of the water samples tested were found contaminated with enteric bacterial pathogens (*SER-HP*, 2000, p.109). The situation is no better in other towns as a large number of cases of water-borne diseases are reported in hospitals every year.

#### **Water Supply in Shimla: Some Critical Issues**

The per capita availability of water in Shimla is less than 80 lpcd. The situation becomes acute in summer as the demand for water rises to almost double, when hotel occupancy is 100 per cent due to a heavy influx of tourists. It affects the tourists as well as the local citizens. A CRRID study (1999) shows that per capita revenue expenditure (PCRE) on water supply and sewerage in Shimla increased from Rs. 55.67 in 1992-93 to Rs. 61.89 in 1997-98. The PCRE has further increased and is affecting development works as fewer funds are available for improving water crisis management capabilities. Unaccounted water is high due to network losses/wastage and the duration of supply is 30-60 minutes twice a day.

The current system of pricing and cost recovery of water supply in SMC is unsustainable and has serious fiscal implications on the corporation. There is a huge gap between the cost of the water supply and the recovery of water rates. There is no system of periodical review of the tariffs with general inflation rates and costs, due to political interference in fixing water tariffs in Shimla. SMC has been unable to pay arrears to IPH which have accumulated over the time.

The deficiencies of water supply multiply in summer due to the increase in demand and the drying up of several sources. Shimla's water crisis in summer is well known. The supply of water is not volumetric in all towns and it is a major factor in its wastage. Rich and poor sections pay the same rates and hence the consumption of more water by the higher income groups becomes a 'social good' for them as they get it at a nominal cost. There is no system of cross subsidisation. The cost is not linked with consumption and the rates are not revised periodically with the hike in electricity charges, labour charges, and the cost of material. The principle of cost recovery has not been applied to the water supply and plan allocations have been inadequate to cope with the demand. The arrears of Rs. 17.13 crore are due at ULBs on account of water bills to be paid to IPH.

One of the crucial aspects of water supply in Himachal Pradesh is that in most of the towns it is maintained either by the Irrigation and Public Health (IPH) Department (49 towns) or the Cantonment Boards (6 towns) or the Himachal Pradesh Housing Board (1 town) and not by the ULBs. Only Shimla, Solan (distribution of water) and Palampur (O&M and distribution of water) ULBs have this function under their jurisdiction but in a limited manner. Though the 74th Constitutional Amendment envisages the transfer of water supply to the ULBs, yet even after 11 years after the passage of this amendment water supply in Himachal Pradesh continues to be looked after by the IPH Department of the state government. It is time to transfer this function along with funds and functionaries to the ULBs. Their active involvement in prioritising the works according to the needs of the people can help to provide potable water to the citizens in an efficient manner. The involvement of the local people in the operation and maintenance of the water supply systems can be secured through water users associations.

According to the *India Infrastructure Report* (1996), technological upgradation and improved design can increase efficiency and rationalise consumption. Regularity in supply could mean lower project cost and greater willingness of the consumers to pay. The report recommends differential treatment of water for different uses. Micro level system needs to be designed to recycle water at the household level. The supply should be metered to plug leakages. Water conservation, recycling and volumetric supply are necessary to tide over the crisis and sustain the water supply system in the urban centres of Himachal Pradesh in the long run.

### Sewerage

The sewerage system in the urban areas of Himachal Pradesh is grossly inadequate. Sewage treatment facilities exist only in seven towns i.e., Shimla, Palampur, Sri Naina Devi, Chamba, Mandi, Bilaspur and Rohroo. Untreated sewage in other towns is disposed of in rivers. It is polluting the drinking water and damaging the ecology of the state. The cost of water treatment is also going up as river water, which is used for drinking purposes in several towns, is becoming polluted day by day due to the disposal of untreated sewage. The pollution level in the major rivers of Himachal Pradesh viz. Beas, Satluj, Ravi and Parbati is on the rise and it has serious implications on the health of the people of Himachal Pradesh and of the neighboring states. The Pollution Control Board of Himachal Pradesh, under a national programme called 'Monitoring of National Aquatic Resources' regularly assesses the quality of the water in the major rivers and their tributaries, covering 22 important parameters (*SER-HP*, 2000). It has observed and recommended that:

- frequent sampling should be done if river water is used for drinking and the water for drinking should be properly treated and disinfected.
- all towns on the banks of the rivers should be provided with sewage treatment facilities and should not be allowed to discharge urban waste without treatment into or on the banks of the river.
- a number of hotels and tourist resorts are coming up on the banks of the rivers. These must have proper sewage treatment plants.
- industrial units should not be allowed to discharge untreated effluents into rivers/khads/nallahs.

These recommendations should be implemented by the state government without any delay as it is important to protect the ecology and the natural beauty of the state. The sewerage facility should be extended to all major towns. The treatment of sewage is necessary and urgent steps are required to be taken for the disposal of treated sewage in the rivers. In several towns, sewage water after proper treatment can be recycled for domestic use. Since sanitation is a municipal function, it should be transferred to the ULBs along with staff working in the urban areas for maintaining and augmenting the sewerage system. The cost of O&M of sewerage should be recovered progressively.

### Sewerage and Drainage in Shimla: Emerging Concern for Ecology

The sewerage system in Shimla is almost 100 years old. With the growing population, use of water and increased volume of sewage, the deficiencies in sewerage and drainage have become serious. The construction of sewage treatment plant with financial assistance from OPEC is likely to improve the situation but partially and still several sewage disposal streams have to be covered by treatment facilities.

A study (CRRID, 1999) found that the area covered by sewer lines as a percentage of the area of the SMC declined from 60 per cent in 1992-93 to 54 per cent in 1997-98. We hope situation has not improved much in the last five years. The length of drains per sq. km of area of the SMC also declined from 5.76 km to 4.27 km during the same period. It was largely due to the extension of the municipal area from 19.55 sq.km in 1991 to 28.53 sq.km in 1998. The increase in per capita revenue expenditure on sewerage and drainage from Rs. 13.66 to Rs. 25.34 also affected augmentation of sewerage and drainage as funds for capital expenditure were siphoned off by the increase in salaries and wages.

The augmentation and maintenance of sewerage is with IPH Department and the lack of coordination between the IPH Department and the SMC is affecting proper management and upgradation of the sewerage system. The role of the SMC in prioritising development works has been undermined by the IPH Department. It is against the spirit of the 74th Constitutional Amendment as sewerage is a municipal function listed in its 12<sup>th</sup> schedule. The involvement of the SMC is necessary to expand the sewerage services according to the needs of the people. 100 per cent collection and treatment of sewage is essential for protecting ecology of Shimla and its neighboring areas.

The *India Infrastructure Report* (1996) recommends that the use of low-cost technologies, the unbundling of services to involve the private sector and proper packaging i.e. clubbing together water supply and drainage projects can reduce the project cost and improve its viability. Similarly, road development and storm water drain management can be clubbed with commercial development of the adjoining areas.

### Solid Waste Management

There are serious deficiencies in solid waste management (SWM) in the urban areas and environmental decline is visible in almost all towns. The sudden influx of tourists puts tremendous pressure on the sanitary services. The SWM services are inadequate and the accumulation of garbage can be seen in most of the towns. Diseases like diarrhoea and malaria break out frequently in many towns due to the poor sanitary conditions. The situation has been worsening despite the favourable climatic and environmental conditions in

### Solid Waste Management in Shimla: Some Growing Concerns

The capital of the state and the most important tourist town of Himachal has serious deficiencies in SWM. According to a study (CRRID, 1999), the per capita collection of solid waste declined from 294 gm. to 286 gm. during the period 1992-93 to 1997-98. Though solid waste collected as a per cent of the waste generated increased from 64 per cent in 1992-93 to 67 per cent in 1997-98, it has now decreased to 60 per cent (in 2002-03). The uncollected waste is degenerating the environmental conditions of Shimla.

The study also reveals that the per capita revenue expenditure on sanitation and conservancy grew from Rs.105.82 in 1992-93 to Rs. 173.94 in 1997-98, which affected the capital works for augmentation of sanitation services. The SWM services are still poor, as the revenue receipts of the SMC are not growing in proportion and the corporation has been depending on the state government for financing its growing revenue expenditure and committed liabilities on SWM.

The recommendations of the committee, constituted by the Supreme Court of India, to improve SWM in Class I towns, have not been considered and implemented seriously by the Class-I corporation town of Shimla. A waste treatment plant has been set up for bioconversion of waste, but it is not getting enough segregated wastes. The time consumed in conversion is long and people's participation is poor in providing segregated waste. The non-biodegradable/hazardous waste is not disposed of scientifically, which is affecting ecology of the city as well as neighboring areas.

Himachal Pradesh. The municipalities complain of the shortage of sanitation staff but discussions with the local people in several towns reveal that the existing sanitation staff do not work or irregularly sweep the streets and collect the garbage. The cost of collection, transportation and disposal is high due to certain outdated practices and old technologies. Unscientific disposal of waste is common and biodegradable waste is not taken care of at the household level.

One of the factors for poor SWM in the urban areas is the gap in the physical targets and achievements in several SWM activities i.e. construction of dustbins, toilets, purchase of vehicles and construction of waste treatment plants during the Ninth Five Year Plan. This gap is likely to increase with the existing fiscal, institutional and functional deficiencies in the development of the urban infrastructure.

Though the ULBs of Shimla, Kullu, Manali, Nahan and Solan have solid waste treatment plants, the problem of poor SWM continues due to the lack of support of the local people in providing segregated waste to the sanitary staff. These ULBs have to segregate waste at the sites of treatment plants, which

is a costly and time-consuming affair. In a few towns i.e. Una, Hamirpur, Dharamshala and Kangra works for construction of treatment plants are in progress. A large number of towns do not have treatment facilities and are creating environmental pollution. Heaps of polythene bags are seen in all major towns. The tourists leave a lot of garbage including polythene bags in the urban areas, which is affecting the ecology of the state. The Himachal government is the first to enact legislation to manage non-biodegradable garbage but the law has not been implemented effectively. Throwing of garbage in drainage channels/nallahs and in the streets is a common practice and the ULBs have to start special campaigns to desilt the nallahs/channels time and again. Sanitation charges are collected by a few municipalities, which are grossly inadequate to maintain even O&M of SWM.

The need of funds for providing adequate treatment facilities and covering the uncovered areas is colossal. *Solid Waste (Management and Regulation) Rules 2000*, formulated by the Ministry of Environment and Forests, Government of India call upon the ULBs to take urgent steps to address problems relating to solid waste management. No doubt the ULBs are making efforts to improve the sanitary conditions in their areas but still a lot remains to be done to create a people-friendly sustainable environment in the urban areas of Himachal Pradesh.

According to *India Infrastructure Report* (1996, p.28), the cost of collection, treatment and disposal of solid waste is to be reduced through various mechanisms. Technological innovations to improve the reusability of the recycled waste will increase the returns and make the projects viable. Privatisation of as many operations as feasible will improve efficiency and reduce the cost. The report suggests:

- greater attention to segregation of different kinds of waste at the collection point to reduce the cost of disposal.
- biodegradable waste should be tackled locally to avoid storage and transportation over long distances.
- wherever environmentally acceptable, disposal can be decentralised to reduce the transportation cost.
- separate collection and disposal of toxic waste.
- use of right technologies to improve the quality of processed waste.
- landfills can be scientifically organised to minimise pollution.

According to the Tenth Five Year Plan of Himachal Pradesh, there are about 152 units which produce hazardous wastes. Sites have been identified for their disposal but there are yet to be notified. This needs to be expedited and disposal facilities created on the ground. Hospital waste management is also important. The United Nations Population Fund (UNFPA) has supplied three incinerators to the zonal hospitals at Mandi, Dharmshala and Nahan. Another incinerator will be installed at the district hospital at Recong Peo in the tribal areas. As a part of the integrated solid waste management project, a common incinerator has been installed near IGMC, Shimla. The Government should install more incinerators, at least one in each major district town, to create a people-friendly environment in the cities of Himachal Pradesh.

The State government should prepare a '*solid waste management strategy*' for urban areas to manage solid waste efficiently, in view of the ecological sensitivity and importance of this hilly state. The small and medium sized ULBs can have a common waste treatment facility, as the construction of a treatment plant in a *nagar panchayat* or even in a medium size municipal council will not be feasible or viable. Since solid waste management in hills requires specific skills and technology due to difficult topography, climatic and environmental factors, the training/capacity building of staff is essential.

### *Municipal Roads and Streets*

Municipal roads in Himachal Pradesh are inadequate, dilapidated and congested. Encroachment of municipal roads is a common practice. Maintenance of roads is poor due to the poor fiscal position of the ULBs and therefore, the flow of traffic is slow in the major cities of the state. Excessive pressure on the roads in cities like Shimla, Solan, Kullu, Manali, Dharmshala, Dalhousie, Mandi, Bilaspur and Kangra is harming their quality. The heavy influx of tourists in the peak seasons aggravates the situation.

The length of roads in municipal areas is 750.84 kms, which comprises 162.48 kms of Shimla MC, 353.82 kms of municipal councils and 234.54 kms of *nagar panchayats* (SSFC, 2002). The length of streets in the ULBs was 396.76 km in 1996 which has increased to 570.87 kms due to the expansion of city limits and addition of new towns. A large number of streets in several towns are not even *pucca* and these should be upgraded to ensure better flow of traffic and convenience to the people. Specific funds should be provided for maintenance of the municipal roads and streets.

### **Municipal Roads and Streets in Shimla: Some Grey Areas**

The total length of roads and streets (roads= 162.48 kms + streets 40.58 kms) in SMC is approximately 203 kms. Out of these about 60 per cent are metalled and tarred and the remaining 40 per cent are unmetalled. The municipal roads and streets in Shimla, the capital town and the centre of all major political, economic and administrative activities, are over burdened due to movement of thousands of vehicles every day along with the commuters. The condition of several roads is far from satisfactory and their maintenance is very poor. In many areas, roads have been encroached by shopkeepers, hoteliers and residents. The neglected streets, dilapidated and encroached roads affect the movement of vehicles, and harm the environmental conditions.

Due to its poor fiscal condition, the SMC has been unable to maintain and upgrade several of its important roads properly. According to a CRRID study (1999), surface roads per sq. km of the area of the SMC decreased from 5.76 kms in 1992-93 to 4.27 kms in 1997-98. The augmentation of roads could not be taken up with expansion of the city limits, which resulted in a decline of per sq. km surface road. The situation has not improved much in the last five years.

Metalling, tarring, resurfacing, widening, repair and maintenance of roads, paths, streets and steps by Roads and Building Department of the SMC has been poor due to inadequate and irregular flow of funds under municipal fund, EIUS and SISRY schemes and grants in aid from the state government.

The First State Finance Commission (FSFC) estimated an annual requirement of Rs. 62.15 lakh for the maintenance of municipal roads in SMC, the municipal councils and *Nagar Panchayats*. This requirement has gone up now and the ULBs need about Rs. 2 crore per annum for the maintenance and augmentation of municipal roads and streets.

The *India Infrastructure Report* (1996), recommends that 'technological upgradation should be used to reduce maintenance cost'. Better coordination with other departments i.e. Telecommunication and IPH can reduce the frequency and cost of leveling of dug up roads.

### *Street Lights*

The maintenance of street lights in the urban areas is not satisfactory. The total number of street lights in the ULBs is 24,555 comprising 3,173 in Shimla Municipal Corporation, 16,568 in Municipal Councils and 4,814 in *Nagar Panchayats* (FSFC, 1996). With the expansion of city limits, the requirement of street lights has gone up especially in larger ULBs but they have been unable to provide adequate number of street lights.

The ULBs are unable to pay street light bills to the Himachal Pradesh State Electricity Board (HPSEB). On

31.3.2002, arrears worth Rs. 6.32 crore were due at SMC against electricity bills for street lights. Many ULBs are in a similar situation. Against the physical target of installing 6000 street light points during the Ninth Five Year Plan, only 1000 points could be installed.

There is no doubt that installation and maintenance of street lights need considerable expenses which the ULBs are unable to bear due to their poor fiscal base. In this situation, the possibility of associating the private sector should be explored on the pattern of Pune, Ahmadabad, Tirunelveli Municipal Corporations and several other towns. Participation of the local community should also be obtained in the maintenance of street lights in some localities.

### *Parkings*

Parkings are grossly inadequate in the urban areas. The situation is grim in towns like Shimla, Manali, Dalhousie, Bilaspur, Solan, Dharamsala, Kangra, Kullu and many others which receive a large number of vehicles due to the growing influx of tourists. The situation in industrial towns like Parwanoo, Nalagarh and Baddi is even grimmer. The tourists as well as the local citizens have to face inconvenience in parking their vehicles. A large numbers of vehicles are challaned for parking at wrong places such as prohibited roads, market places and congested tourist spots. With the growth of tourism in Himachal Pradesh, an adequate number of parkings should be constructed, especially in towns relevant from the tourist and pilgrimage point of views. It is a capital-intensive activity and is not possible to be financed through the budgetary sources of the ULBs.

It is suggested that the ULBs should access the capital market to raise non-budgetary sources for financing this urban infrastructure service. The private sector can play an important role in augmenting parking facilities in the urban areas on Build-Operate-&-Transfer (BOT) or Build-Own-Operate-&-Transfer (BOOT) basis. ULBs like Kullu, Mandi and a few other towns have constructed parkings under various schemes i.e. Integrated Development of Small and Medium Towns (IDSMT). O&M and recovery of the cost of construction of a parking near the High Court in Shimla has been handed over to the private sector on BOT basis. Now it is not possible to construct the large number of parkings under Integrated Development of Small and Medium Towns (IDSMT) and other municipal schemes. It is therefore suggested that the national and international capital market should be

accessed for financing parking facilities in urban areas. For a town like Manali, which has come into the limelight due to growing tourism and visits of foreign and national dignitaries like the Prime Minister of India, it is suggested that specific funds should be provided from the Central Finance Commission and the Tourism department for augmentation of parking facilities.

### *Other Urban Infrastructure Services*

Urban forestry, construction of rain shelters, toilets, railings, steps, small bridges on *nallas* and drainage channels, maintenance of roundabouts, shops, palika bhawans and beautification of streets are important urban infrastructure services but there are deficiencies in their provision and maintenance. Though these services do not require large funds individually, yet together these services require a considerable amount of funds. It is therefore suggested that some of the municipal services should be handed over to the private sector and ULBs should prioritise development of these services.

Land development in urban areas of Himachal Pradesh has serious deficiencies. According to a note provided by the Town and Country Planning Department of Himachal Pradesh, 'haphazard development on fringes of towns, ribbon development along roads, sporadic development on raw land and scattered constructions over eco-fragile slopes are major areas of concern'. At present, with casual approach to land subdivision and building permissions, the violation of existing land use and provisions of development plans have increased. Due to limited availability of serviced land, haphazard development in and around urban centres, has been taking place. 'The landscape in Manali is under strain due to haphazard and uncontrolled construction of hotels and guest houses/restaurants' (Gupta, J.P. and Manoj K. Teotia, 2003).

Traffic and transportation problems have multiplied in larger towns due to poor land use and development pattern. Land development therefore, represents one of the major challenges, for urban policymakers and it is likely to become critical in future. There is a need to formulate effective 'land use/land development policy' to promote eco-friendly sustainable development of urban areas. The State should facilitate all round development of towns and villages so that they can grow in a harmonious manner. Housing and urban development plans/policies should be formulated in such a manner that they do not pose threat to the ecosystem in the state. Perspective plans for land use, traffic and transportation planning should be adhered strictly and

proper planning and regulation of subdivisions of land are important aspects of land development in Himachal Pradesh. The development of commercial areas, industrial focal points and other establishments should be allowed to grow in harmony with surrounding environments and ecologically sensitive areas should not be affected by their activities. The state policy on development of new townships should take care of environmental implications, and to the extent possible new emerging towns should be planned and developed rather than developing new towns which will be highly capital intensive and ecologically dangerous.

The active participation of local people and institutions including urban local bodies should be secured for planned development and management of land resources in urban areas. Their involvement can help in recovery of encroached lands and commercial exploitation of such land by streamlining/resettlement of unauthorised colonies.

Housing is not a big problem in urban areas as number of houseless people is negligible in Himachal Pradesh. Himachal Pradesh Housing Board has not projected physical and financial targets for construction of houses for economically weaker sections (EWSs). The Board is of the view that urban areas of Himachal Pradesh do not have housing shortage for EWSs and there are no takers for a large number of houses in several towns constructed by the Board. The growing towns with small volumes of houseless persons and people living below poverty line can take benefit of centrally sponsored scheme of Valmiki Ambedkar Awas Yojana (VAMBAY), launched in 2001 on 50:50 basis between the Central and the State Governments. Despite construction of new dwelling units, the existing dwelling units in poor conditions can be upgraded under this scheme.

'Himachal Pradesh is endowed with exotic natural beauty' (Gupta, J.P. and Manoj K. Teotia, 2003). The large number of tourists visit Himachal for adventure, educational, religious and other purposes. Tourism infrastructure is inadequate in the state to meet the demand and expectations of growing tourists and local urban population. This is affecting tourism infrastructure as well as prospects of higher growth of tourism in Shimla, Manali, Dalhousie and many other small and medium towns. The deficiencies in tourism infrastructure in urban areas must be mitigated to promote tourism and satisfy local people.

The institutional set-up in Himachal Pradesh is not conducive to efficient management and improvement of

urban infrastructure. Water supply and sewerage, the most important urban infrastructure service, is provided by the IPH Department of the state government, which is already overburdened with a variety of functions in urban as well rural areas. According to 'Conjunctive Utilisation of Ground Water and Surface Water Resources - A Case Study', over-dominance of civil engineers in the IPH department has led to non-development of ground and surface water resources in the hill state. The case study also mentions under the title 'wastage of public money' that the design of the scheme for water supply has been on seasonal sources and in a majority of cases the lean period discharge was not available and therefore, the systems become non-functional immediately after their completion in summer because of drying up of the water sources (*SER-HP, 2000, p.102*). The functions of urban planning including town planning and regulation of land use are listed in the XIIth Schedule of the 74th Constitutional Amendment and are supposed to be performed by the ULBs. But the Town and Country Planning Organisation (TCPO) of the state government performs these functions. The fragmented functioning, illustrated by the performance of several municipal functions by parastatal departments is affecting the functioning of the ULBs. The Himachal Pradesh Infrastructure Development Board (HPIDB) was created as a Special Purpose Vehicle (SPV) to improve the infrastructure in the state but it has not made any investment to upgrade the urban infrastructure. The funds raised by the SPV, were diverted by the state government to the budget account/consolidated fund of the state. This is a bad practice as far as institutional restructuring for infrastructure development is concerned. It is suggested that specific-purpose funds raised by the HPIDB should not be diverted to the budget account and the HPIDB should be allowed to work independently and invest funds in identified critical sectors of infrastructure including the urban infrastructure.

According to *SER-HP (2000)*, environmental issues need to be focused. Unfortunately, low cost sanitation (LCS) is not suitable for hill areas. Further, treatment by septic tanks is not adequate and the effluent is not treated up to the required level of IS:4283. In a cold climate and a rock base, the absorption and digestion of sewage is slow and partial. Sewerage schemes with proper sewage treatment plants seem to be the only alternative. Collection and transportation of solid waste need to be made more effective as every crude dump is an environmental hazard and a health risk because of flies, rats and air pollution from deliberate or accidental

burning. Disposal through landfills, composting and incineration needs to be done more effectively (p. 107).

Deficiencies in terms of access to municipal services and O&M requirements need to be addressed to improve the quality of life in urban areas. The institutional mechanism should be strengthened to manage urban infrastructure services efficiently. The services being capital intensive should be considered 'economic goods'. Therefore, progressive recovery of user charges is necessary to sustain the delivery of quality services. With growing revenue and fiscal deficits and loan repayments, the state government is not in a position to continue to finance the growing deficits in pricing and cost recovery of the urban infrastructure and municipal services largely due to excessive subsidisation. In this situation, there is possibility of low budgetary transfers or grants. It is likely to affect the quality and quantity of the urban infrastructure services. The requirement of funds for the urban infrastructure is increasing faster than the revenues of the ULBs. This calls for reforms in the resources of the ULBs and explore avenues of resource mobilisation from non-budgetary sources i.e. capital market.

The technological upgradation is a must. Cost minimisation needs appropriate technology, proper attention to maintenance, curbing the misuse of services and efficient service provision. Also to promote cost effectiveness, different infrastructure projects may be packaged together such as water supply and drainage

projects. Coordination between departments providing different services will also reduce the overall cost and should be encouraged through appropriate institutional engineering (*IIR, 1996, p.28*).

There is need for a state level 'urban infrastructure policy' which could project demand and supply of infrastructure/services, monitor quality and quantity, suggest pricing and cost recovery, develop alternative sources and arrange financial resources for augmentation of the infrastructure and the services. Political will is necessary for pricing and cost recovery. The state should draw up a formula for cross subsidisation of municipal services. Since capital cost of the urban infrastructure is comparatively high in Himachal Pradesh, pricing and cost recovery should be improved to sustain the delivery of important basic urban environmental infrastructure to the growing urban population.

### Financing Urban Infrastructure in Himachal Pradesh: Need for Investment and Limitations of Traditional Sources

As at the national level, the investment needs of Himachal Pradesh for financing the urban infrastructure are huge as shown in Table 20.5.

The existing sources of ULBs and IPH are inadequate to meet this demand and the state government has been providing a nominal budgetary support for these urban infrastructure services which are treated as 'social goods' to be provided with or without nominal

TABLE 20.5  
Estimated Investment Needs for Financing Urban Infrastructure in Himachal Pradesh

(Rs. in crore)

Particulars	Coverage up to 2006-07 (%)	Estimated Investment Needs for Urban Infrastructure (time frame)					Total (2002-03 to 2006-07)
		2002-03	2003-04	2004-05	2005-06	2006-07	
Water supply	100	26.08	26.08	26.08	26.09	26.09	130.42
Sewerage including sewage treatment	100	76.46	76.46	76.46	76.46	76.47	382.31
Solid waste management							
a) Extension/augmentation of collection & transportation	100	4.00	4.00	4.00	4.00	4.00	20.00
b) Treatment and disposal	100	4.00	4.00	4.00	4.00	4.00	20.00
Municipal roads and streets	100	2.00	2.00	2.00	2.00	2.00	10.00
Parkings	100	2.00	2.00	2.00	2.00	2.00	10.00
Street lighting	100	1.00	1.00	1.00	1.00	1.00	5.00
Parks, gardens, railings, urban forestry, rain shelters, bus stands, guest houses, palika bhawans & shops etc.	100	6.00	6.00	6.00	6.00	6.00	30.00
Total		121.54	121.54	121.54	121.55	121.56	607.73

Source: Department of Irrigation and Public Health, Government of Himachal Pradesh.  
Department of Urban Development, Government of Himachal Pradesh.

charges. The political will has been against the rationalisation of user charges. Unwillingness of the consumers to pay, along with the unwillingness of the decision makers to charge has caused deterioration of the urban infrastructure and municipal services in Himachal Pradesh. The traditional financial sources are inadequate and have outlived their utility. This has been resulting in a low-level equilibrium trap.

#### *Limitations of Traditional Sources of Financing at Local Level*

Budgetary allocations, grants from the state and central governments and own sources of revenue are the traditional sources of income of the ULBs, which have been financing the urban infrastructure. Table 20.6 shows details of income of the ULBs from 1999-2000 to 2001-2002.

The traditional sources of income have been grossly inadequate due to a variety of reasons. According to the FSFC, there is a high degree of heterogeneity not only in the imposition of taxes or levies but also in the efforts to levy or collect these and there is no uniformity of taxes or rates of taxes in different ULBs. House tax/property tax and sanitation/*safai* taxes are not levied by all ULBs. Flow of funds under centrally sponsored schemes (CSSs) and externally aided projects vary from year to year. It leads to a wide variation in the quantum of their resources along with their fiscal dependence on the state government.

Before implementation of recommendations of the FSFC, about half the ULBs were getting octroi compensation grants and the rest were largely dependent on other grants from the state government to meet their staff liability. The ULBs were so dependent on octroi, that a majority of the municipal councils and *nagar panchayats* opined to the FSFC that the state government should re-impose octroi to provide them with a dynamic source of revenue, which can help them in the discharge of routine municipal functions.

One of the crucial limitations of the existing sources of income is apparent from the fact that when 'octroi grants' and 'other grants' decreased from Rs.18.49 crore and Rs. 12.09 crore in 2000-01 to Rs. 16.67 crore and Rs. 11.21 crore in 2001-02 respectively, the total income from taxes/fees and shops/stalls also decreased from Rs. 14.61 crore to Rs. 13.44 crore. Own revenues, which are non-buoyant due to the poor tax base, have been unable to finance the growing needs of the urban infrastructure and the cost of their maintenance expenditure.

Resource mobilisation efforts at the local level are totally missing. There is absolutely no change in the fiscal and functional domain of the ULBs after the 74th Constitutional Amendment and conformity legislation by the state government i.e. Himachal Pradesh Municipal Act, 1994 and Himachal Pradesh Municipal Corporation Act, 1994. The FSFC noted that the areas of revenue generation were regulated by the state government. Poor urban governance manifested in poor service delivery, growing wasteful expenditure on committed liabilities, weak fiscal and functional domain of the ULBs and their inability to recover even O&M cost of the municipal services is one of the key factors impinging on the development of urban infrastructure in the state. This section describes the limitations of the traditional sources of financing, particularly property tax and user charges, budgetary transfers, loans, grants and shared taxes. An effort has also been made to analyse issues relating to municipal expenditure and budgetary surplus/deficits, which are important in the context of financing the urban infrastructure.

#### **Own Sources of Revenue**

The past trend of own revenues shows that their growth and base have been poor to finance the growing needs of the urban infrastructure and services. There is no fiscal discipline among the ULBs and no state policy has been formulated to mobilise their own sources of

TABLE 20.6

**Total Income of Urban Local Bodies of Himachal Pradesh from 1999-00 to 2001-02**

(Rs. in crores)

Years	Taxes & Fees	Shops/Stalls	Interest	Misc.	Sub Total	Octroi Grants	Sub Total	Other Grants	Grand Total
(1)	(2)	(3)	(4)	(5)	(6) (2+3+4+5)	(7)	(8) (6+7)	(9)	(10) (8+9)
1999-00	8.03	3.81	0.98	5.21	18.03	16.25	34.28	12.93	47.21
2000-01	10.83	3.78	0.78	4.47	19.86	18.49	38.35	12.09	50.44
2001-02	9.02	4.42	0.97	5.38	19.79	16.67	36.46	11.21	47.67

Source: Department of Urban Development, Government of Himachal Pradesh.

revenue. The recommendations of the FSFC of Himachal Pradesh to mobilise own resources have not been considered seriously and there is a huge shortfall in the projections of own revenues and the actual income of the ULBs as is the case of the Shimla Municipal Corporation (Table 20.7).

TABLE 20.7

**Shortfall in the Own Revenues of Shimla  
Municipal Corporation**

(Rs. in crores)

Particulars	1996- 97	1997- 98	1998- 99	1999- 00	2000- 01	Total
Recommended by the FSFC	5.52	6.18	6.92	7.75	8.68	35.05
Actual income	4.89	4.77	5.10	6.58	7.39	28.73
Shortfall	0.63	1.41	1.82	1.17	1.29	6.32

Source: The First State Finance Commission of Himachal Pradesh. Municipal Corporation of Shimla.

With the poor base of own revenues coupled with decreasing grants, little or no funds are left with the ULBs for capital expenditure and asset creation. The memorandum submitted to the SSFC by the Department of Urban Development (2000) shows huge deficits in own income and expenditure of the ULBs of Himachal Pradesh though there is scope for exploiting the full potential of their own sources and to utilise the surplus for financing the urban infrastructure. Own sources can be classified as tax and non-tax revenue.

#### Tax Revenue

The sources of tax revenue are property tax, entertainment tax, electricity duty, water tax and advertisement tax. According to the FSFC, house or property tax is the major source of tax revenue. Despite its large share, property tax has not grown to its full potential. Other sources of tax revenue yield a negligible income due to the low tax rates. The tax revenue is less than the non-tax revenue. Table 20.8 shows the rates of various sources of tax revenue collected in the urban areas.

The rates of taxes are lower than in Punjab, Haryana and many other states. It is adversely affecting the fiscal position of the ULBs in the state. Since detailed information on the sources of tax revenue is not available at the state level, an effort has been made to analyse the trend of tax revenue of the Shimla Municipal Corporation as shown in Table 20.9.

TABLE 20.8

**Rates of Various Sources of Tax Revenue in Urban Areas  
of Himachal Pradesh**

Particulars	Rates
General tax*/property tax	7.5% to 15% of ARV
Show tax	Rs. 50/- per show
Tax on consumption of electricity duty	Rs. 0.01 to 0.02** per unit
Sale of liquor	Rs. 1.00 per bottle
Cess on transfer of immovable properties	2% of stamp duty
Tax on advertisements	Rs. 300 per sq. meter per annum

Source: Department of Urban Development, Government of Himachal Pradesh.

Note: \* In Shimla general tax is levied @ 15 per cent of ARV on land and buildings. In other ULBs the maximum limit of general tax is 12.5 per cent of ARV.

\*\* the rate limit of two paise per unit tax on consumption of energy is for municipal corporation only. In other towns the rate of tax on consumption of electricity to be transferred to ULBs has been fixed @paise one per unit.

TABLE 20.9

**Major Sources of Tax Revenue of  
Shimla Municipal Corporation (1997-98 to 2001-02)**

(Rs. in Lakh)

Sources of Tax Revenue	1997- 98	1998- 99	1999- 00	2000- 01	2001- 02
General tax/property tax	206.98	226.07	251.52	281.95	294.80
Show tax, stamp duty, electricity duty & excise duty	0.35	1.07	1.02	45.48	58.89
Sewerage tax*	-	-	-	16.97	20.83
Sanitation** and water tax***	3.72	0.45	0.63	0.47	0.64
Vehicle tax on cycles, animal tax and entry Tax****	0.02	0.02	0.01	14.11	0.09
<b>Total</b>	<b>211.07</b>	<b>227.61</b>	<b>253.18</b>	<b>358.98</b>	<b>375.25</b>

Source: Municipal Corporation of Shimla.

Note: \* Sewerage tax is charged on commercial buildings only @ 15 per cent of general tax on buildings.

\*\* Sanitation tax discontinued after 1997-98.

\*\*\* Water tax is levied @ 2.5 per cent of ARV on properties/lands without meter based water supply.

\*\*\*\* Entry tax was withdrawn from the SMC by the State Government of Himachal Pradesh.

There is considerable scope for improvement in show tax, water tax, share of stamp duty, electricity duty and excise duty etc. Though the share of property tax in the tax revenue of the SMC is good yet it is beset with a variety of problems, which are not different from the deficiencies in property tax in other ULBs of the state.

#### PROPERTY TAX

Property tax is a major source of tax revenue in the urban areas but it has a variety of problems as given below: -

- the annual rental value (ARV) system is outdated and has outlived its utility due to deficiencies in assessment, collection and administration of the tax
- many municipalities are not levying property tax
- no survey has been done to identify un-assessed properties and proper assessment of existing properties that could widen the tax net
- collection of property tax in most of the ULBs is far below the demand, achievable targets/standards resulting in accumulation of arrears
- a large proportion of properties are exempted from property tax
- the existing system does not have an in-built mechanism for periodic determination of ARV to cope with inflation
- billing and collection procedures are manual, time consuming and can be manipulated
- the fixation of ARV of any building or land leaves scope for manipulations and
- rates which are low and vary from municipality to municipality are further lowered with the intervention/discretion of the elected members of the municipalities

Due to these deficiencies, property tax collection remains meager in most of the ULBs and arrears are accumulating. Other sources of tax revenue also suffer from multiple deficiencies and income from these taxes is not enough even to finance their administration.

After visits to the ULBs of Shimla, Mandi, Kullu, Solan, Sundernagar, Manali and Rewalsar, and discussions with their elected and appointed members on various issues including their fiscal and functional domain, we found that tax compliance was poor as the ULBs did not have adequate powers to attach the immovable properties of defaulters. The process of recovery of arrears was lengthy and unfruitful with excessive interference of politicians, which affected collection efficiency of ULBs. During 2001-02, SMC was able to realise only 43.25 per cent of the total tax collection, 67.33 per cent of the current demand collection and only 17.01 per cent of arrears demand collection from tax revenues. On March 31, 2001, outstanding tax arrears of the SMC from taxes were Rs. 4.07 crore, that was almost equal to their demand of Rs. 4.43 crore during 2001-02.

#### *Non-tax Revenue*

Non-tax revenue consists mainly of grants in lieu of octroi, fees, fines, rents and user charges on water supply and sewerage. Fees and fines include the charges for licences, copying, permits and other municipal services while rents are collected on municipal properties and lands. Octroi grants have been contributing the major share and have been about half the total non-tax revenue of Shimla Municipal Corporation and even more in several ULBs. The non-tax revenue in Himachal Pradesh is not adequate to meet even the growing demand of O&M of the municipal services and the growing committed expenditure, leave aside the augmentation of urban

TABLE 20.10

**Non-tax Revenue of Shimla Municipal Corporation (1997-98 to 2001-02)**

(Rs. in lakh)

<i>Sources of Non-tax Revenue</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>
Grants in lieu of octroi	349.60	385.33	423.37	459.02	459.01
Sale of water, meter rent, recoveries, plugging charges etc.	147.11	156.63	173.88	170.57	172.32
Rent of municipal land/ buildings/ markets	55.48	45.22	121.37	92.97	93.28
Sale of municipal assets	—	—	—	29.56	21.08
License fees for trade and vehicles, copying and tehbazari fees etc.	7.15	4.75	7.53	10.78	9.62
Forest income	3.29	4.63	4.30	1.77	8.51
Library, laboratory, birth/death registration, removal of carcasses/ slaughter house fee, dak bungalow/rest house charges	2.69	2.83	3.07	4.01	5.65
Contribution towards pay of health staff	6.00	21.00	36.92	18.17	35.75
Interest	13.47	22.21	19.31	9.69	40.33
Miscellaneous unclassified receipts	30.66	24.87	38.50	42.21	75.04
<b>Total</b>	<b>615.45</b>	<b>667.47</b>	<b>828.25</b>	<b>838.75</b>	<b>920.59</b>

Source: Municipal Corporation of Shimla.

infrastructure. Table 20.10 indicates the trend in non-tax revenue of the Shimla Municipal Corporation.

There is almost stagnation in most of the sources of non-tax revenue. Income from the sale of water, meter rent and recoveries and income of rent from municipal lands/buildings and markets decreased during 1999-00 & 2001-02. On March 31, 2001, the arrears of rent of municipal properties in Shimla were Rs. 1.67 crore against the current demand of Rs. 1.15 crore for 2001-02 which could not be realised in full. Income from fees and fines is not growing. This is affecting the fiscal domain of the Shimla Municipal Corporation and its development works. The position of non-tax revenue in other ULBs is even worse and leaves tremendous scope for improvement. The user charges are negligible and are not growing enough to recover even a small portion of the O&M costs, not to speak of capital costs.

#### USER CHARGES

Cost recovery in urban environmental infrastructure is effected through user charges and taxes or a combination of both. Therefore, user charges should ideally be linked to recover the full cost of O&M and provision of infrastructure/services. At present, user charges are grossly inadequate in almost all the towns. None of the ULBs collects user charges for water supply and sewerage except those of Shimla, Solan and Palampur municipalities as this function is with the IPH Department of the state government. The income and expenditure on water supply and sewerage (WSS) in towns managed by the IPH Department are shown in Table 20.11.

Years	Income	Expenditure	Surplus(+)/ Deficit(-)	Ratio of expenditure to income
1	2	3	4(2-3)	5(3/2)
1997-98	1.86	25.03	-23.17	13.4
1998-99	1.99	40.40	-38.41	20.3
1999-00	1.01	35.00	-33.99	34.6
2000-01	1.05	31.90	-30.85	30.4
2001-02	3.75	29.66	-25.91	7.9
Total	9.66	161.99	-152.33	16.8

Source: Department of Irrigation and Public Health, Government of Himachal Pradesh.

As is obvious from the Table 20.11, there is a huge gap between the income and expenditure on water supply and sewerage. Sewerage is provided almost free and income from water tax/charges is not growing. It is largely due to lack of periodic revision of water rates, which are already low and non payment of water bills by ULBs. SMC alone has not paid water bills of Rs. 15.47 crore to IPH (as on March 31, 2002). At the same time the expenditure is huge and is growing fast. The rates of water supply are given in Table 20.12.

The rates of water supply were revised by the IPH Department in 2001, after nine years and that too nominally. In the latest revision (w.e.f. March 1, 2001), one of the good initiatives was to suggest volumetric (meter based) supply of water and fix penalties for not installing meters within a stipulated time. As a result

Particular	Rates Charged in Towns where Service is Maintained by the Irrigation and Public Health Department				Rates Charged by Shimla Municipal Corporation			
	Domestic		Commercial		Domestic		Commercial	
	1992	2001	1992	2001	1992	2003**	1992	2003**
Metered water supply (in Rs./kl/month)	0.20/kl= up to 4.5 kl 0.35/kl= 4.5 to 9.0 kl 0.55/kl = 9.0 kl and above	2.00/kl	1.35/kl	4.00/kl	1.80/kl= up to 100 KL 2.40/kl= More than 100 kl	No charges= upto 1kl 30/month= 1 to 6 kl; 3.5/kl= above 6 kl	6.00/kl	100/month= upto 6 kl 12.5/kl= above 6 kl
Un-metered flat rates (in Rs./month per connection)	40.00	NA	NA	NA	NA	NA	NA	NA

Source: Department of Irrigation and Public Health, Government of Himachal Pradesh.

Note: \* Bulk water rates charged by the IPH from i) ULBs & Housing Board (except SMC) = Rs. 1.50/KL ii) SMC = Rs.4.00/KL; NA= Not specified in Notifications i) IPH (3)-18/86-Vol.III dated August 6,1992 ii) LSG-C (I)-29/83-II dated August 11,1992 iii) IPH (3)/86-Vol.III dated February 28,2001 iv) IPH (3) 18/86-Vol.III dated July 13,2001.

\*\* SMC passed resolution on 16/07/03 but rates have yet to be notified by the State Government.

TABLE 20.13

**Pricing and Cost Recovery of Water Supply in Shimla: Some Crucial Aspects**

Particulars	Cost (Rs./kl)	Recovery (Rs./kl)
Cost of water produced by State Government for Shimla Municipal Corporation	Rs. 22/- kl	Negligible, as huge arrears are due at Shimla Municipal Corporation (Rs. 15.48 crore as on 31.3.2002)
Cost of water supplied by Shimla Municipal Corporation	i) O&M cost =Rs. 4.65/kl ii) Paid to IPH = Rs.4.00/kl Total cost = Rs. 8.65/kl	Rs. 1.80/kl-Domestic supply* Rs. 6.00/kl- Commercial supply* <u>Deficit</u> Rs. 6.85/kl-Domestic supply Rs. 2.65/kl-Commercial supply (Huge arrears are due at consumers)

Source: Annual Report of SMC, 2001-02.

Note: \* -These rates have been revised by SMC on 16.07.2003 @ Rs. 3.5/kl (above 6 kl) for domestic and Rs. 12.5/kl (above 6 kl) for commercial consumption, but have not been notified by the state government.

of increase in income from water supply, the revenue from WSS more than doubled between 2000-01 and 2001-02 (Table 20.11), the highest growth of income in the last five years. But this clause was withdrawn by another notification on July 13, 2001, and flat rates of water for domestic consumers were reintroduced and frozen at Rs. 40 per month. With this change, the income of the IPH from water supply and sewerage will decrease considerably.

The income of Shimla Municipal Corporation from water supply & sewerage has also been poor. It revised its water rates in January 2003 and then July 2003, after 11 years. This is a good initiative but even with the revised rates, the corporation is likely to bear the burden of deficits from domestic as well as commercial water supply. The pricing and cost recovery of water supply in Shimla has been poor as shown in Table 20.13.

Cost recovery is negligible and the arrears are growing. It is unfortunate that despite the growing per capita income of the people, user charges continue to be poor and there are no efforts to recover even O&M costs. Water rates are not in proportion to the consumption and paying capacity of the people. The rich and the poor pay the same rates and the higher income groups are drawing the maximum benefit from subsidisation. In the present system, the gap between income and expenditure on WSS is likely to increase if immediate steps are not taken to recover O&M costs. Table 20.14 shows income and expenditure of SMC on water supply (since O&M of water supply in Shimla is looked after by the corporation) from 1997-98 to 2001-02.

Table 20.14 shows that the growth of income from the sale of water has been poor while expenditure has increased considerably. The expenditure on establishment

and contingency, which was about Rs. 4 lakh less than the income of the SMC from the sale of water in 1997-98, overtook the income in 1998-99 and in 2001-02 it was Rs. 19 lakh above the income from water. One of the reasons for the slow increase in the income from water has been the lack of revision of water rates for a decade. With increasing deficits on revenue as well as capital accounts, the corporation has been depending on budgetary transfers and grants for works and O&M of the urban infrastructure and the municipal services. There are no monthly charges for sewerage by IPH except one-time connection charges, security and application fee which are nominal as shown in Table 20.15.

TABLE 20.14

**Income and Expenditure of Shimla Municipal Corporation on Water Supply**

(Rs. in lakh)

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
Income	129.30	141.90	159.98	156.18	159.52
Expenditure	153.78	189.67	206.04	228.98	209.04
i) On establishment	93.97	122.56	134.81	152.02	150.53
ii) Contingency/office expenses	31.19	29.60	28.70	39.67	27.87
iii) Works/maintenance	28.62	37.51	42.53	37.29	30.64

Source: Municipal Corporation of Shimla.

Note: Expenditure excludes bulk water charges paid to the IPH @ Rs. 4.00/kl.

Sewerage is a highly capital-intensive activity, and is more costly in Himachal Pradesh due to the difficult hilly terrain. Despite this, it is highly subsidised in comparison with other states. SMC has recently revised the rates of sewerage connection charges. These rates

TABLE 20.15  
**Connection Charges, Security and Application Fee for Sewerage in Urban Areas**

(In Rs. per connection)

Particulars	Connection Charges		Security		Application Fee	
	Domestic	Commercial	Domestic	Commercial	Domestic	Commercial
Towns under IPH	150	300	150	300	10	50
Shimla Municipal Corporation*	1000	1000	500	2000	10	10

Source: Department of Irrigation and Public Health, Government of Himachal Pradesh, Municipal Corporation of Shimla.

Note: \* Connection charges have been fixed by SMC @ Rs. 1000 per seat w.e.f. January 1, 2003.

are very poor in the towns under IPH. The rates of connection charges for sewerage should be revised by IPH and sewerage tax should be introduced in all the towns at the pattern of SMC for progressive recovery of O&M cost of this service.

Pricing and cost recovery of water supply and sewerage is totally unsustainable. The cost recovery of sewerage is almost negligible. Institutional arrangements are not favourable to cost recovery of water supply and sewerage as there is no interaction between the IPH department and the ULBs. IPH has been unable to formulate or implement a demand-based and cost-indexed pricing mechanism for water supply and sewerage. Similar is the fate of efforts of the ULBs, which have failed to recover even a part of O&M of user charges.

Recovery of other sources of non-tax revenue is also negligible due to the low rates and poor administrative and management practices. The ULBs have been depending on budgetary transfers and grants to maintain even O&M, leave aside capital works.

### **Fiscal Transfers/Budgetary Allocations**

Historically, the revenue and capital account requirements of the ULBs have been met by the state government through budgetary allocations and fiscal transfers, which have been grossly inadequate to meet the growing investment needs of the ULBs. The mismatch in functional and fiscal position of ULBs is likely to grow with growth of urban population and expansion of the cities. At the same time, the state government may not be able to continue budgetary support to the ULBs in the same manner due to growing revenue and fiscal deficits of the state. The ULBs with poor institutional capacities do not bargain for fiscal autonomy with the state government, which has been using 'fiscal transfers' as a means of state control over the ULBs.

Though investment needs of the ULBs in the wake of growing urbanisation are likely to increase, yet public sector institutions (PSIs) with their limited financial resources may not be able to provide the desirable level and quality of services. Moreover there is a regime at central and state levels to reduce budgetary allocations and grants to the PSIs, i.e. local bodies and various urban development departments of the state. According to the *Report of the Committee on India Vision-2020* (Planning Commission, 2002), 'decentralisation of municipal governance has led to a substantial reduction in budgetary allocations for infrastructural development.'

The 74th amendment seeks to provide more fiscal powers to the ULBs through the State Finance Commission, which suggests fiscal devolution to them by assigning a share in state taxes, imposition of new taxes by the ULBs and devolution of grants-in-aid. Despite this, the ULBs are unable to function as powerful institutions of local self-government. It is largely due to inadequate transfers and irregular grants-in-aid (unpredictable and grossly inadequate) to meet the growing expenditure of the ULBs on wage bills, higher costs of O&M and new capital works.

### **Loans and Grants**

The ULBs have been raising institutional loans from HUDCO, which have been inadequate to finance the growing needs of the urban infrastructure. Moreover, the pattern of infrastructure financing through institutional loans is undergoing a change due to huge inflow of funds from the national and international capital markets at comparatively low interest rates and even without government guarantees. Private sector loans can now be raised directly from the financial institutions. *ESCROW* mechanism, a simple and transparent procedure, is increasingly used for assured loan repayments. In future, the government of Himachal Pradesh with its growing fiscal and financial burden may be reluctant to give guarantees on behalf of the

TABLE 20.16  
State and Central Government Grants to Shimla Municipal Corporation

(Rs. in lakh)

Source of Grants	1997-98	1998-99	1999-00	2000-01	2001-02
NORAD	5.74	141.00	40.00	226.50	292.50
TFC/EFC grants	17.94	13.31	12.21	14.71	26.20
GIA for committed liabilities (amount received for payment of arrears of revised pay scale)	418.12	128.00	—	—	—
EIUS/ NSDP	20.95	75.82	69.36	39.63	—
SJSRY	12.03	14.39	62.14	8.57	—
GIA for payments of cost of water to IPH department	100.00	100.00	34.56	—	—
GIA for maintenance of roads, salary of safai karamcharis Land repair of revoli tunnel	145.58	—	—	25.21	—
Urban development, roads and buildings, rain damages, toilets and street lights	128.88	—	—	—	—
GIA for rain damages and different schemes (DC Shimla)	65.90	93.60	61.70	74.03	36.05
GIA for different schemes (Tourism Deptt)	43.75	24.79	3.60	—	—
GIA received from the Governor of Himachal Pradesh	—	—	—	—	1.00
Modern slaughterhouse	0.00	75.00	—	0.00	0.00
<b>Total</b>	<b>958.89</b>	<b>665.91</b>	<b>283.57</b>	<b>388.65</b>	<b>355.75</b>

Source: Municipal Corporation of Shimla.

ULBs to raise loans for urban infrastructure projects. This is the right time for ULBs to go for loans for commercially viable infrastructure projects, which are now available without government guarantees.

As far as grants are concerned, the ULBs cannot rely on these unpredictable and inadequate sources. This has been one of the major limitations of the ULBs as they cannot plan their future strategy in the absence of a clear, regular and growth-oriented source of finance. Table 20.16 shows the trend of grants (central as well as state) to SMC. The grants declined nearly three times between 1997-98 and 2002-02 and were the lowest in 1999-2000, in the five years under consideration. The Tenth/Eleventh Finance Commission (TFC/EFC) grants have been irregular as these come through the state government. The same is the fate of other grants for centrally sponsored schemes such as the National Slum Development Programme (NSDP), Swarna Jayanti Shahri Rojgar Yojana (SJSRY), and grants-in-aid from the state government for the maintenance and creation of assets and meeting other liabilities.

Grants to other ULBs, have also been irregular and inadequate. The grants in lieu of abolition of octroi, has been poor. The octroi grants recommended by the FSFC have not been transferred in full as shown in Table 20.17.

A large number of ULBs (25 out of 53) have been the victim of non-devolution of octroi grants, as 11

TABLE 20.17  
Grants-in-Lieu of Abolition of Octroi Recommended by the First State Finance Commission

(Rs. in crore)

Year	Amount Recommended	Amount Released	Shortfall
1996-97 to 2000-01	74.55	64.61	9.94

Source: Department of Urban Development, Government of Himachal Pradesh.

ULBs were not levying octroi at the time of its abolition and 14 ULBs came into existence after the abolition of octroi (1.4.1982). These ULBs are fiscally weak and unable to maintain even the minimum level of services. The FSFC recommended allocation of octroi grants to all ULBs to meet their expenditure on establishment, development and maintenance in proportion to their population. But this has not solved the problems of the small ULBs with huge liabilities due to poor growth of own resources and the heavy influx of tourists. Capital costs in some of the ULBs are also high due to climatic and topographic factors. The effects of poor urban infrastructure and municipal services on ecology are serious not only for these municipalities but for other rural and urban settlements. In the light of these facts, it is suggested that higher share of octroi grants should be transferred to the ULBs not on the basis of population alone. The

factors like area, committed expenditure on wages and salaries, the funds required for important and commercially viable projects sensitive from the point of view of environmental infrastructure development and growth of tourism should also be taken into account.

Recently the Second State Finance Commission (SSFC) of Himachal Pradesh has renamed “grants-in-lieu of octroi” as “developmental grants”, as department of urban development (DUD) could not apprehend the basic issue which was taken care of while fixing the base year figure and mistook this grant only as the ‘grant-in-lieu of octroi’, whereas it covered grants required to perform delegated functions by ULBs as recommended by the FSFC. Still, the scheme of distribution of grants and base amount has not been changed much and therefore the fate of ULBs seems to be uncertain.

### **Receipts from Taxes Shared with the State Government**

It has been observed that the ULBs are not receiving adequate funds in the form of shared taxes such as electricity duty, excise duty, entertainment duty and stamp duty. After visiting a large number of ULBs we found that the share of electricity duty which goes to the ULBs at the rate of Rs. 0.01 to Rs. 0.02 per unit on consumption of electricity in the urban areas does not go to them in full and hence huge arrears have accumulated with the HPSEB. The share of the ULBs in electricity duty in HP is negligible in comparison with Punjab and many other states. There is scope for enhancing the income of the municipalities from electricity duty by revising the rates and collecting arrears.

Excise duty on sale of the liquor in the urban areas, which is transferred to the ULBs @ Rs. 1 per bottle is negligible in comparison with the share of excise duty transferred to the ULBs in other states such as Punjab. In Punjab, an additional excise duty of 7 per cent of the auction money of country made liquor and 16 per cent of the Indian made foreign liquor is collected by the state government in lieu of octroi on the import of liquor to municipal areas and reimbursed to the municipalities. The government of Himachal Pradesh must enhance the share of ULBs in excise duty and transfer the due amount to these bodies.

Show tax which is charged @ Rs. 50 per show is also negligible against the burden on the ULBs of maintaining cleanliness around the cinema halls. The rates of show tax are as low as Rs. 5 in some of the

ULBs. It is suggested that show tax should be revised immediately and at least Rs. 2 to 3 per ticket should be imposed on the cinema halls instead of a flat rate per show.

The share of the ULBs in stamp duty collected by the state government on the sale or transfer of property is only 2 per cent. In Punjab, the FSFC recommended 20 per cent of net proceeds of stamp duty to be shared by the ULBs and panchayats on derivative principles. To improve the fiscal health of the ULBs, Himachal Pradesh can also transfer a higher share of stamp duty to the ULBs and PRIs, on the basis of derivative principles.

The trend of revenue receipts from shared taxes indicates near stagnation. It is largely due to the low rates and non-payment of arrears by the departments concerned. The state government has not been taking it seriously and the ULBs continue to suffer on this account. The DUD in its memorandums to the First and Second State Finance Commissions of Himachal Pradesh sought share for the ULBs in some major state taxes such as general sales tax, passenger and goods tax, excise duty on liquor, entertainment duty/tax (cinematography) etc. The DUD has requested the commissions that luxury tax on hotels, tax on professions/trades/callings and employment, stamp duty on transfer of properties and tax on vehicles should be exclusively collected and utilised by the ULBs or can be collected by the state and transferred to ULBs. Since about 80 per cent of the major state taxes are collected in municipal areas, the ULBs have the rights to a higher share in these taxes.

### *Limitations of Traditional Sources of Financing at Central Level*

Grants through the Central Finance Commission and development grants for centrally sponsored schemes such as Accelerated Urban Water Supply Programme (AUWSP), National Slum Development Programme (NSDP), Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and Integrated Development of Small and Medium Towns (IDSMT), Low Cost Sanitation etc. have been irregular and inadequate to meet the growing need for the urban infrastructure.

There is a need for enhancing the grants for centrally sponsored schemes for the development of the urban infrastructure and improvement of the municipal services. Efforts should be made to transfer these grants directly to the ULBs so that they can prioritise the development activities according to the needs of the people. The following section describes the shortfalls in

the amounts recommended and released for centrally sponsored schemes and problems relating to grants recommended by the Central Finance Commissions.

### Shortfalls in Amounts Recommended and Released for Centrally Sponsored Schemes

Amounts recommended for implementing centrally sponsored schemes (CSSs) are not released in full. Table 20.18 shows the shortfall in the amount recommended and released for centrally sponsored schemes.

Year	Amount Recommended	Amount Released	Shortfall
1996-97 to 2000-01	13.75	7.25	6.50

Source: Department of Urban Development, Government of Himachal Pradesh.

There is a huge gap between the central government grants recommended by the FSFC and the amount released. The impact of CSSs on infrastructure development in the urban areas has not been good. It is largely due to the poor control of the ULBs as well as the state government on implementation of the schemes. The non-receipt of the recommended grants aggravates the situation. One of the factors for the shortfall in grants for CSSs is that the state government does not contribute its matching share and the unutilised central government grants go back. Another problem is that the central government does not release adequate grants regularly. This aspect needs to be tackled seriously and 100 per cent grants should be utilised by the state by contributing its due share. Strict monitoring and regular evaluation/assessment of the CSSs are necessary for their effective implementation, better utilisation of grants and greater quantitative and qualitative impact on the quality of life in the urban areas.

### Grants to ULBs based on Recommendations of the Central Finance Commissions

Article 280(3)(c) of the Constitution empowers the Central Finance Commission (CFC) to make recommendations on the measures needed to augment the consolidated fund of the state to supplement the resources of the municipalities. After the implementation of the 74th Amendment, the ULBs of Himachal Pradesh

have received grants recommended by the TFC, which were very nominal. The share of the ULBs of Himachal Pradesh in the grants recommended by the EFC is shown in Table 20.19.

2000-01	2001-02	2002-03	2003-04	2004-05	Total
0.78	0.78	0.78	0.78	0.78	3.90

Source: Report of the Eleventh Finance Commission (2000), Government of India.

The EFC grants allocated to ULBs of the Himachal Pradesh are grossly inadequate. It is largely due to the methodology adopted by the commission for determining the allocation to the ULBs of Himachal Pradesh. The state has not yet benefited from the EFC allocations for ULBs due to the poor composite weightage (w), decided on the basis of percentage of urban population (w=40 per cent), urban areas (w=10 per cent), distance from highest per capita income (w=20 per cent), own revenue efforts of ULBs (w=10 per cent) and index of decentralisation (w=20 per cent). On the basis of this methodology, the composite index for the state's share comes to only 0.195 per cent against 15.813 per cent for Maharashtra, 12.582 per cent for UP, 9.874 per cent for West Bengal and 9.668 per cent for Tamil Nadu. The EFC allocation to the ULBs of Himachal Pradesh for five years comes to only Rs. 3.9 crore against Rs. 316.2 crore for Maharashtra. Himachal Pradesh, no doubt has a small urban population but the size of their problems is very big. The towns of Himachal Pradesh have proportionately larger areas to cover, which results in higher costs. Their obligations to protect the ecology and natural resources are important in comparison with those of the ULBs in plains. Hence many aspects of the EFC formula become irrelevant for allocations to the ULBs in Himachal Pradesh. Being a special category state, Himachal Pradesh has been receiving huge amounts of central assistance from the Government of India but its ULBs are suffering for want of funds in the form of grants, which come through the CFCs or the Government of India. The ULBs should be allocated higher share by the Twelfth Finance Commission for protecting natural resources i.e. river water, forests and air, conserve environment and preserve the heritage of tourist spots. Any discussion on the limitations of traditional sources of financing is incomplete without

**TABLE 20.20**  
**Total Expenditure of Urban Local Bodies in Himachal Pradesh**

<i>(Rs. in crore)</i>					
Year	Establishment	Development Grants	Development/Maintenance from Own Income	Centrally/State Sponsored Schemes	Total
1	2	3	4	5	6 (2+3+4+5)
1999-00	26.13	8.80	6.04	6.80	47.77
2000-01	26.76	10.45	4.96	7.57	50.44
2001-02	28.14	16.91	11.83	—	56.88

Source: Department of Urban Development, Government of Himachal Pradesh.

discussing the limitations of the municipal expenditure pattern and its effects on urban infrastructure.

### *Municipal Expenditure*

Municipal expenditure comprises revenue and capital expenditure, apart from various financial and banking-related expenditure such as deposits, advances and employees compensation etc. Table 20.20 shows the expenditure of the ULBs on establishment, development through grants from the state and central governments and own revenues and expenditure on the creation of assets under the centrally sponsored schemes.

Revenue expenditure on establishment accounts for a major share of municipal expenditure in Himachal Pradesh. The main source of capital expenditure for the creation of assets, is state and central government development grants. Development and maintenance from own income is nominal due to lack of buoyancy in tax and non-tax revenues. The ULBs have been financing their capital investments through institutional loans which have been nominal and have been routed through lengthy procedures backed by state government guarantees. This is resulting in deficiencies in the urban infrastructure and services. No efforts have been made to mobilise additional sources to finance the growing needs of developmental works and reduce wasteful expenditure. Establishment expenditure is growing unabatedly. The committed expenditure of SMC on salary and contingency has increased considerably between 1997-98 and 2001-02 as shown in Table 20.21.

The salary and contingencies in Shimla and other ULBs are eating up a major share of the total income and are much higher than their own income. This is despite the fact that some of the ULBs like Rewalsar and Banjar do not have adequate regular staff. The situation is grim, as developmental activities have been

suffering due to less availability of funds for urban infrastructure.

**TABLE 20.21**  
**Share of Salary and Contingencies in Total Expenditure and Revenue Income of Shimla Municipal Corporation**

<i>(Rs in crore)</i>					
Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
Salary and contingencies	7.29	9.68	9.92	10.83	10.71
Expenditure(excluding SA*)	11.16	12.79	12.39	12.33	12.41
Income (Excluding SA)	8.27	8.95	10.81	11.98	12.96
Own income (excluding grants)	4.77	5.10	4.23	4.59	4.60
%age of salary/contingencies to expenditure	65.3	75.6	80.0	87.8	86.3
%age of salary/contingencies to income	88.2	108.1	91.7	90.4	82.6
%age of salary/contingencies to own income	152.83	189.8	243.5	236.0	232.8

Source: Municipal Corporation of Shimla.

Note: \* SA= Suspense Account.

According to the SSFC, present system of centralised cadre of employees merits (except Secretary/Executive Officers) to be reviewed and status-quo-ante restored as it will lead to reduction in expenditure and better local control. The smaller local bodies should not have any permanent staff except Secretary, as system of engaging staff on part time or contractual basis would lead to reduction in expenditure.

### *The Trend of Budgetary Surplus/Deficit of Urban Local Bodies*

An analysis of the budgetary surplus or deficit of the ULBs is necessary. The growth of income and expenditure depends on the tax base and its effective exploitation, effective use of resources, transfer from

higher levels of the government and the expenditure on revenue and capital obligations. The income and expenditure of the ULBs in last three years is in shown Table 20.22.

TABLE 20.22

**Trend of Budgetary Position of Urban Local Bodies in Himachal Pradesh**

(Rs. in crore)

Year	Income	Expenditure	Surplus (+)/ Deficit(-)
1	2	3	4 (2-3)
1999-00	47.21	47.77	(-0.56)
2000-01	50.44	49.75	(+ 0.69)
2001-02	47.66	56.87	(-9.21)

Source: Department of Urban Development, Government of Himachal Pradesh.

The trend of budgetary surplus or deficit is unpredictable and unimpressive. Budgetary deficit has grown considerably due to a shortfall in the octroi grants, taxes, fees and higher expenditure on establishment and maintenance. It is also due to variation in the flow of funds under CSSs and externally aided projects. One of the major aspects of this budgetary trend is that GIA decided at the end of financial year are released to ULBs during next financial year and are accommodated in the year of receipt. The ULBs of Himachal depend heavily on grants in lieu of octroi and other grants, which have been declining and are not likely to increase. The deficit in 2001-02 is not realistic as data regarding the carry forward amount was not available with the department. Moreover, arrears of water charges and electricity dues payable to IPH and HPSEB were cleared recently.

A review of the performance of plan outlays, programmes and policies during the five year plans of Himachal Pradesh indicate that the urban infrastructure has been one of the most neglected areas for investment. Urban infrastructure activities were determined by the availability of funds, which has been a major problem in this resource scarce state. Himachal Pradesh government has largely been depending on central government assistance, which is higher than the own resources of the state. The fiscal over dependence of Himachal Pradesh on central government has affected urban infrastructure development in the state, as plan outlays for urban development have been inadequate. This has resulted in backlog of urban infrastructure and services and promoted top-down

approach with or without nominal role of local institutions i.e. ULBs in prioritising infrastructure development works. Multiple programmes, targeting the development of urban infrastructure, municipal services and poverty alleviation have been initiated by the central and state governments during various five year plans, but not much progress is visible because of inadequate outlays, lack of convergence to avoid duplication and poor participation of the local people.

With the 74th Amendment, there is a good opportunity for the state government to adopt people oriented planning and change the policy framework with an active role of grass root level institutions in the development of urban infrastructure. Strict and regular monitoring of centrally sponsored infrastructure development programmes is necessary. Plan outlays for financing urban water supply, sewerage, urban development and housing for the poor should be enhanced for sustainable development of urban areas.

*Limitations of Municipal Financial Reporting, Budgeting and Accounting System*

The cash based single entry system of accounting prevalent in the ULBs of Himachal Pradesh does not guarantee any management information/financial disclosures and has several deficiencies. It has failed to achieve accountability in the municipal financial reporting and accounting system. The cash basis of accounting has been unable to meet most of the financial reporting objectives. Measures of performance, which depend on this system, are altered by postponing the payment of certain bills to conceal budgetary deficit and separate information about receipts or payments on capital and revenue account cannot be prepared. One of the major deficiencies of this system is that most of the time, measurement of performance and financial position yield incorrect results. The 'single entry accounting system lacks self-balancing mechanism. This system is susceptible to error propagation, which affects the credibility of the financial statement' (Joshi, 2003).

The financial reporting system in the ULBs is not proper even for internal users at the local level and also at the level of the Directorate, leave aside external users such as lending agencies or private sector service organisations. Only a few municipalities prepare their annual administrative reports. The annual budgets prepared by the ULBs have several structural deficiencies. There is no system to prepare exclusive annual financial reports comprising a meaningful annual budget, an administrative report and an audit report.

The budgeting system in the ULBs has a defective structure and improper classification. Preference is given to incremental approach based on the income and expenditure of the previous year. The system of making expenditure conditional on actual receipt or resource mobilisation in a particular year does not exist in the ULBs. They use their allocations irrespective of their revenue receipts or availability of funds.

The relevance of revised budget estimates in reviewing the income and controlling the expenditure to correct deficits of the original budget passed on the experience of the last few months is ignored to enhance the budget allocations. There is no tradition in the ULBs to discuss revised budgets. The ULBs in Himachal Pradesh do not prepare long-term city development plans, which can be the basis of annual budgets. Therefore, there is no continuity of development activities and several times there is no co-relation between the present and past budgets. In most of the ULBs, in-house services are not charged and therefore, there is wasteful expenditure on several municipal activities.

The present financial reporting and budgeting system in the ULBs is ad hoc in nature and does not contain monitorable targets to measure performance indicators. Therefore, most of the practices in financial reporting, accounting and budgeting become roadblocks to cost analysis which leaves hardly any scope for cost reduction, improvement of efficiency and productivity. The larger municipalities, such as the Shimla Municipal Corporation, excessively depend on 'suspense account' by incurring expenditure and drawing advances against budget allocations. This is not considered a good practice in financial management.

### **Alternative Funding Mechanism for Financing Urban Infrastructure**

As discussed in Section III, the fiscal health of the urban local bodies has deteriorated due to the mismatch between the sources of revenue devolved to them and functional responsibilities, increasing concentration of population in the urban areas, control of the state on pricing and cost recovery of urban infrastructure services and parastatal involvement in municipal affairs. This has been affecting the development of urban infrastructure and civic services.

The new economic policy has given a boost to commercial, industrial and trade-related activities in towns of all major states, but the urban centres of Himachal Pradesh have not experienced any significant change. There is a competitive environment between

the states and the ULBs to attract investment from the domestic and international capital markets but Himachal Pradesh has not benefited from these new trends and the major chunk of investment has gone to Tamil Nadu, Gujarat, Maharashtra, Andhra Pradesh and West Bengal. Economic competitiveness of the state depends on the level and quality of its infrastructure, specially the urban infrastructure as it plays an important role in economic development. In a recent study on *Infrastructure and Economic Development in Himachal Pradesh*, Tiwari (2000) has summarised that "there is a positive association between infrastructure and economic development in almost all the districts of the state".

The changing urban scenario in post 74th Amendment era and the also post- economic reforms scenario demand a change in the existing financing mechanism. There is need for diversification of revenue sources of the ULBs and for mobilising non-budgetary resources for urban infrastructure. The new orientation, emphasising demand-based provision of services and market-based financing mechanism is important to mobilise non-budgetary financial resources and bring in private sector participation. Commercial orientation, institutional restructuring and fiscal reforms are required to attract funds from the capital market. Improved fiscal and financial management, project development and implementation capabilities of the ULBs should be promoted. Decentralisation of the decision-making process will improve the willingness of the ULBs to introduce institutional changes and manage urban reforms.

Considering the inability of the ULBs to mobilise adequate revenue from their own sources and their increasing dependence on plan and non-plan grants/ allocations from the state, there is a need to devise alternative mechanism for financing urban infrastructure comprising additional resource mobilisation from their own sources, market borrowings, partnership with the private sector, and access to the capital market as discussed in this section.

#### *Additional Resource Mobilisation for Financing Urban Infrastructure*

To meet the growing need for funds for urban infrastructure and O&M needs of municipal services, the ULBs need to maximise their internal resource mobilisation from tax and non-tax sources. It is possible if the ULBs are entrusted with adequate powers to fix the rate of taxes subject to the maximum laid down in the municipal acts/laws of the state. The

power to grant exemption from the taxes should be given to the ULBs. The financial targets of urban infrastructure and municipal services could be met by reforming property tax, rationalising user charges and introducing innovations in municipal management.

### Tax Reforms

Tax reforms through the revision of tax rates, corrective measures in the tax administration and reduction of exemptions should be central to additional resource mobilisation. Imposition of all taxes provided in the *Himachal Pradesh Municipal Act, 1994* and *Himachal Pradesh Municipal Corporation Act, 1994* will strengthen the fiscal base of the ULBs.

#### Property Tax Reforms

Property tax reform is the need of the hour in Himachal Pradesh as “this tax is a premier local tax and a very buoyant and elastic source of municipal finance. It is not affected by economic boom or slowdowns” (Teotia, 2001). The ULBs in HP have been following the annual rental value (ARV) system of property tax, which has outlived its utility. According to Jha (2001) “tax on annual rental value of land and buildings (property tax) has lost its buoyancy and elasticity due to a host of administrative, legal and behavioral reasons (discretionary considerations and corrupt practices)”. The position of property tax in Himachal Pradesh is worse. A sizeable proportion of property tax is not collected and arrears are accumulating. Exemptions have worsened the position. The following initiatives are suggested to improve collections from property tax in Himachal:

- a) Area based property tax system should be adopted as it has been found transparent and simple and has stood the scrutiny of the courts. Property tax reforms initiated by Bihar (Patna Municipal Corporation), Andhra Pradesh, Tamil Nadu, Gujarat and Kerala are worth looking at for reforms in this tax in Himachal Pradesh. Several other states and municipal corporations have followed this system. In a recent judgement on the Andhra Pradesh property tax system, the Supreme Court upheld the area detail system of property tax, provided the methodology and procedure of valuation and assessment of rental value are stipulated in the municipal laws.
- b) The Himachal Pradesh Government should follow ‘*Guidelines for Property Tax Reforms*’ prepared by the Ministry of Urban Development, Government of India, which suggests that a

good property tax structure should be based on the following principles:

- low rate of property tax so as to make it acceptable by the public at large
  - minimise the discretion on the part of the assessors in tax levy
  - make the process of assessment, levy and collection transparent and simple
  - ensure equity between classes of tax payers/property owners
  - facilitate self-assessment of property by property owners/occupiers
- c) West Bengal and some other states have initiated reforms in the system of property taxation with provisions for self-assessment, mandatory periodic revision, dispensing with the demand notice for the tax and putting the onus on property owners for timely tax payment etc. Such measures have yielded good results and need to be pursued by all states. The property tax/house tax legislation should be suitably modified to overcome the impediments in the growth of property tax due to rent control laws (Eleventh Finance Commission, 2000).
  - d) Innovative practices in valuation, assessment and collection of property tax as given below have been found suitable in Ludhiana and several other municipalities (Gupta & Teotia, 2002). The ULBs of Himachal Pradesh can also initiate these practices:
    - mapping of properties and developing geographical information system (GIS) to enhance the property tax net and to improve its administration
    - computerisation of property tax records for effective billing and collection
    - reducing wasteful expenditure through privatisation of billing and collection procedures
    - a scheme of penalties and incentives for tax payers
    - transparency in administration and up-to-date records on computer for public view
  - e) To improve house tax collections, the grant-in-aid recommended by the SSFC have been linked with collection of house tax by ULBs as below:

- 75 per cent of the grants be released provided the local body imposes and collects house tax on a minimum of 7.5 per cent of ARV.
  - 25 per cent of the grant, will be released provided the local body commits to raise the rate of house tax by a percentage point each year so that it reaches 12.5 per cent of ARV by the end of 2006-07.
- f) For rationalisation of existing house tax structure, the SSFC has recommended following zonation scheme for urban areas based on the principle of equity and justice:
- a) Commercial
  - b) Residential
  - c) Peripheral slum area

If the rate of house tax is at a flat rate of Rs. 2 per unit of area in zone “a”, then in zone “b” it could be 0.5 of the zone “a” and in zone “c” it could be 0.1 of the zone “b” or say Rs. 2, Re.1 and paise 10 respectively.

With these reform initiatives, the ULBs of Himachal Pradesh should be able to generate in the next five years additional revenue of about Rs. 2 crore per annum.

There is good scope for mobilising additional revenue from other sources of tax revenue i.e. shared taxes such as stamp duty, excise duty, electricity duty and show tax, water/sewerage tax, conservancy/sanitation tax, profession tax and advertisement tax to strengthen the fiscal base of the ULBs. As discussed in the previous section, the government of Himachal Pradesh should consider steps for enhancing the share of the ULBs in state taxes. The sources of tax revenue, other than property tax should be able to generate about Rs. 1 crore per annum.

### **Non-Tax Reforms**

The major initiatives/reforms in non-tax sources are necessary to generate additional resources for the urban local bodies.

#### *Rationalisation of User Charges*

User charges are used to finance the growing needs of the urban infrastructure. One time deposits (Rs. 500 to 1000) and monthly sewerage maintenance charges (Rs. 150 to 750) by Alandur, annual sewerage charges of Rs. 2,019 per household by Amrawati, Government of Karnataka’s order for ULBs to set water charges in line with actual costs (minimum O&M costs and debt

services), parking fee and eco fee for using municipal garden by Bangalore, fees for ‘tattkal’ (quick) delivery of services by some ULBs of Tamilnadu and West Bengal, cable charges by ULBs of Tamil Nadu and street tax by Pune municipality helped them to mobilise their income from user charges for financing urban infrastructure (Vaidya and Vaidya, 2003).

In Himachal Pradesh, there is tremendous scope for mobilising resources from user charges. The state government should prepare a strategy for pricing and cost recovery of user charges. According to the EFC (2000), the rate structure of user charges should be revised regularly to keep pace with inflation and to recover as far as possible, the full O&M cost of providing these services. The ULBs should have the power to fix the rate of user charges. The people would be willing to pay, if they get better service. The EFC has also given its perception on the maintenance of civic services including water and sanitation and has recommended that the transfer of these responsibilities to the local bodies should be speeded up, accompanied by transfer of funds and staff. The cost of O&M of services should be met by raising user charges and by the devolution of funds from the state. The SSFC (2002) has suggested that “cost of services being provided to the people should invariably cover at least running and maintenance cost of the services”.

To generate additional funds, through rationalisation of pricing and cost recovery of water supply and sewerage the following steps can be initiated: -

- rationalisation of water tariffs linked with electricity tariffs, labour and maintenance costs
- volumetric supply for all types of consumption
- sewerage charges based on water consumption and sewerage tax, as charged by Shimla Municipal Corporation (at the rate of 15 per cent of the general tax/property tax) should be introduced by all ULBs
- extension of user charges to all civic services that qualify for user charges
- collection of arrears through incentives and penalties. The SSFC has decided to reward ULBs who will hike water rates. For every additional rupee raised, the ULBs will be entitled to an incentive grant of Rs. 2 and this will apply to the ULBs having no arrears.
- computerisation of billing and collection procedures and records for improving efficiency in

identifying arrears, preparation of bills and collection of charges

- creation of a strong database to plan for the future demands of services and resources
- adoption of suitable technology to save wasteful expenditure on electricity, material and staff
- off-loading some of the activities to the private sector to check the growth of expenditure of the ULBs on establishment/contingencies
- ensuring involvement of the citizens in fixing tariffs, checking misuse of the services and detecting wastage or theft

A strong political will backed by local support is needed to rationalise the user charges. The transfer of O&M of water supply and sewerage to the ULBs is necessary as their active participation in prioritising augmentation schemes; mobilising resources and ensuring pricing and cost recovery will help in implementing these reforms.

#### *Cross Subsidisation of User Charges through Slab System*

Water rates in some selected towns of India as given in Table 20.23 may be looked into while finalising the

pricing mechanism and administering a subsidy scheme for economically weaker sections.

Introduction of the slab system is recommended as it is found equitable and takes care of the poor who consume less and have a low paying capacity.

#### *Service Charges/Taxation on Central Government Properties*

The debate on taxation of central government properties, being subject to the provisions in the constitution, has now ended with the decision of the Government of India to allow the ULBs to levy service charges on central government properties. The EFC (2000) has recommended that 'all government properties whether they belong to the central or the state governments, should be subject to the levy of user charges and should be regulated by a suitable legislation'. The Government of Himachal Pradesh should consider this recommendation and direct all ULBs to levy service charges on central/state government properties.

With the reforms in user charges and introduction of service charges, it should be possible to generate additional resources worth Rs. 3 crore per annum. The sources of non-tax revenue such as rent from municipal

TABLE 20.23  
Water Tariffs in Selected Cities of India\* (1998-99)

Cities	Metered Rates (non-slab) (in Rs./kl/month)			Unmetered Flat Rates			Metered Slab Rates (in Rs./kl/ month)		
	Domestic	Non-domestic	Industrial	Domestic	Non-domestic	Industrial	Domestic	Non-domestic	Industrial
Bangalore	—	—	60.00	—	—	—	65.00 (minimum) 3.50 upto 25 kl 7.00-25-50 kl 19.00-50-75 kl 26.00-75-100 kl	33.00 upto 10 kl 39.00-10-20 kl 44.00-20-40 kl 51.00-40-60 kl 57.00-60-100 kl 60.00 above 100 kl	—
Chennai	—	—	—	600.00 per annum	—	4800.00 per annum	2.50 upto 10kl 10.00-10-15 kl 15.00-15-25 kl 25.00-above 25 kl	—	25.00 upto 500 kl 40.00-above 500 kl
Jaipur	—	—	—	—	—	—	1.56 upto 15 kl 3.00-15-40 kl 4.00 above 40 kl	4.68- upto 15 kl 8.25-15-40 kl 11.00- above 40 kl	11.00- upto 15 kl 13.75-15-40 kl 16.50 above 40 kl
Chandigarh**	2.5 (drinking water consumed for lawn irrigation)	9.00 (Institutional 12.00) (Govt. offices)	11.00#	3.25 per sq. feet##	1% of total cost of construction###	—	1.75 upto 15 kl 3.50- 15 -30 kl 5.00-30-60 kl 6.00 above 60 kl	—	—

Source: 1) \* National Institute of Urban Affairs (2001), *Urban Water Supply and Sanitation: Status and Investment Implications*, NIUA, New Delhi.  
2) \*\*Municipal Corporation of Chandigarh (December 2002).

Note: # Also for semi industrial and commercial consumptions.

## For new private residential/non-residential constructions.

### For government construction work.

properties, fair fees, map approval fees, *adda* fees, entry fees and other sources of fees, fines and miscellaneous revenues should also grow and contribute an additional income of Rs. 1 crore per annum.

### **Internal Revenue Efforts and Management Innovations for Resource Mobilisation**

There is need for devolving buoyant fiscal sources of revenue to the ULBs to reduce the existing mismatch between functions and finances. Despite the 74th Amendment, the functional and fiscal domain of the ULBs indicate a status quo and nothing concrete has been done to improve the fiscal base of the ULBs through internal resource mobilisation. The rates of most of the taxes and charges were fixed long time ago and remain the same, and all powers to fix the rates and charges vest in the state government. This subject was not dealt comprehensively even by the FSFC which recommended devolution of grants only and did not suggest share in major state taxes. Water supply and sewerage, the major urban infrastructure/municipal services having multiple deficiencies, were not dealt by the FSFC as well as by the SSFC. The SSFC observed that ULBs were not levying the statutory taxes in a uniform manner. It was also seen that the exemptions and concessions were a matter of rule than rare exceptions. The next SFC should look into the matter and devolve adequate share of the major state taxes to the ULBs, recommend introduction of buoyant taxes, cover all major services for assessing revenue and capital account requirements and suggest measures to reduce state control in municipal affairs.

The ULBs are opting for management innovations to improve efficiency and strengthen municipal resource base. For example self assessment system (SAS) in property tax by Hyderabad, periodic revision of ARV and introduction of optional SAS by Bangalore, introduction of SAS by Chennai, Indore and Vishakhapatnam, computerised information system by Chennai, Indore and Ludhiana, outsourcing of bill distribution and municipal asset management by Ludhiana, Surat and Vijayawada, identification and collection of arrears through computerisation of records by Ludhiana, Indore and Mirzapur, online service by Vishakhapatnam and Guntur Municipalities helped these ULBs to mobilise their resources considerably (Vaidya and Vaidya, 2003; Gupta & Teotia, 2002; Planning Commission, 2003).

Management innovations can be introduced by the ULBs of Himachal Pradesh to strengthen their fiscal base and to become a stable and vibrant unit of local self-government.

### **Using Land as a Resource and Property and Asset Management**

The importance of land as a resource has not been considered seriously by the ULBs in Himachal Pradesh. The ULBs should identify all scattered municipal lands including encroached lands and prepare an inventory of their locations and value. It will be a great asset with municipalities, which can be used for raising resources from the capital market. The potential of properly identified and inventorised land in urban areas to generate revenue can be worth several crores. This technique was used by the Ludhiana Municipal Corporation (LMC) and according to Gupta & Teotia (2001), the LMC identified 865 additional properties with a total value of Rs. 350 crore. According to the authors 'the mapping, survey of properties and inventory of old and newly identified assets was a distinctive achievement of the corporation towards tightening control on taxable properties and its own assets'. The municipalities of Himachal Pradesh can adopt the same practice for strengthening their fiscal domain.

Property and asset management by the ULBs in Himachal Pradesh is poor and valuable buildings, rest houses, community halls and shops are deteriorating due to carelessness and lack of proper maintenance. Illegal encroachments and unauthorised occupation of municipal land and buildings are depriving the ULBs of considerable income. Computerised management and information about municipal properties and assets can help ULBs to preserve, maintain and compute the orderly growth of municipal assets and use them for resource generation.

### **Raising of External Aid from International Agencies**

External aid is becoming an important source of financing urban infrastructure in India. The World Bank, Asian Development Bank, Organisation of Petroleum Exporting Countries (OPEC), Norwegian Agency for International Development (NORAD), Australian Agency for Development (AUSAD), European Commission, Department for International Development (DFID), United States Agency for International Development (USAID), European Union (EU) and several other international agencies have been providing grants for financing urban infrastructure, preserving urban environment and reducing urban poverty. Large number of projects in Maharashtra, Gujrat, Tamil Nadu, Rajasthan, Uttar Pradesh, Punjab, Kerala, Hyderabad, Kerala and Karnataka have been financed by international agencies.

Except the Integrated Waste Management Project, Shimla (initiated in 1997-98, with a financial assistance of Rs. 5 crore from NORAD) and Kullu-Manali (initiated in 1997-98, with a financial assistance of Rs. 2.73 crore from NORAD) both under the Indo-Norwegian Environment Cooperation Programme, and Sewerage Augmentation Project in Shimla (initiated in 1997-98 with a financial assistance of Rs. 36 crore from OPEC), and some small projects on environment conservation with a financial assistance of Rs. 3.5 crore, no external assistance has been raised for financing a major urban infrastructure project in Himachal Pradesh.

There is no doubt that Himachal Pradesh has serious deficiencies in urban infrastructure and services and needs huge funds to remove these deficiencies. Funds are unlikely to come from budgetary sources. Therefore, it is necessary that the Himachal Pradesh government should explore the possibility of external aid for financing its urban infrastructure projects. Matching contribution from the central government in several important areas such as solid waste management, sewerage and water supply etc. can give a boost to infrastructure development in the state.

### Urban Reform Incentive Fund

In the budget of 2002-03, the Government of India announced an 'urban reform incentive fund' (URIF) with an allocation of Rs. 500 crore to provide reform-linked assistance to the states. The purpose of this fund is to promote urban infrastructure development through public-private partnerships and provide incentives to the states to initiate reforms in urban development i.e. pricing and cost recovery through rationalisation of user charges, introduction of new taxes, better tax administration and improvement in service delivery etc. During the current financial year Rs. 1.05 crore has been allocated to Himachal Pradesh for this purpose. The state government should raise more resources under URIF by implementing financial and institutional reforms in the urban areas. The ULBs showing good reforms should be encouraged by providing adequate special financial incentives out of URIF. The base of this fund can be strengthened through special grant by the state government and equal matching grant by the Government of India.

### City Challenge Fund

A 'city challenge fund' (CCF) was also announced by the Government of India in the budget of 2002-03. It was established to support cities by funding transitional cost of moving towards sustainable and

creditworthy institutional system of municipal management and service delivery. The fund will assist in partially financing development and economic reform programme and financially viable projects to be undertaken by the ULBs with the help of the private sector. The state government should take advantage of this programme for upgrading its urban infrastructure and municipal services and provide matching share from state exchequer.

With the mobilisation of external aid from international agencies, using land as a resource, and funds raised under URIF and CCF, the state government should be able to generate at least Rs. 3 crore to Rs. 4 crore per annum for the development of its urban infrastructure.

### *Estimated Additional Resource Mobilisation and Proposed Financing of Urban Infrastructure*

The projected financial targets of urban infrastructure and municipal services could be achieved by implementing the above recommendations. O&M cost of user charges should be recovered in the next five years to create confidence among the investors. Revision of user charges, especially for water supply and sewerage, will generate an additional annual revenue of Rs. 3 crore. Himachal Pradesh could take the cue from the water and sewerage tariffs in Chandigarh, Bangalore, Madurai, Vishakhapatnam, Hyderabad and Chennai etc. The break up of additional resource mobilisation from major sources is given in Table 20.24.

TABLE 20.24

#### Estimated Income through Additional Resource Mobilisation

<i>Particulars</i>	<i>Amount</i>
Additional income from property tax	Rs. 2.00 crore per annum
Pricing and cost recovery of user charges including service charges on central government properties	Rs. 3.00 crore per annum
Recovery from other sources of tax and non-tax revenue	Rs. 2.00 crore per annum
Internal revenue efforts and management innovations for resource mobilisation	Rs. 1.00 crore per annum
Using land as a resource and property and asset management	Rs. 1.00 crore per annum
Funds raised under urban reform incentive fund and city challenge fund and external aid from international agencies	Rs. 3.00 crore per annum
<b>TOTAL</b>	<b>Rs. 12.00 crore per annum</b>

The additional resource mobilisation will strengthen the fiscal capability of the ULBs to raise finances from non-budgetary sources. The proposed financing of

urban infrastructure and municipal services is given in Table 20.25.

<i>Particulars</i>	<i>Amount</i>
Contribution by ULBs and IPH	Rs. 10.00 crore per annum
Transfers from Himachal Pradesh Infrastructure Development Board or proposed Himachal Pradesh Urban Development Fund (HPUDF)	Rs. 8.00 crore per annum
Earmarked contribution by the state government for water supply, sewerage and urban development	Rs. 32.00 crore per annum
<b>TOTAL</b>	<b>Rs. 50.00 crore per annum</b>

Himachal Pradesh will need Rs. 607.73 crore i.e. Rs. 121.54 crore per annum for financing its urban infrastructure in the next five years. With the proposed annual availability of Rs. 50 crore, it should be possible to raise Rs.71.5 crore per annum from the capital market or the banking institutions. On generation of additional resources, the ULBs will receive a good rating to raise funds. Financial institutions will also support commercially viable infrastructure projects and a part of the assured income of the ULBs can be dedicated to the ESCROW account to assure timely repayment of loans.

On the basis of these parameters, an expert group should prepare a 'project report' to meet the requirements of rating agencies and investors. The report should be acceptable to investors for subscribing loans/bonds in suitable tranches. The aims and objectives of raising funds should be attractive, being developmental, covering all sections of society.

### *Capital Market*

There is consensus on mobilisation of resources from the capital market and financial institutions. The access of funds from the capital markets requires the ULBs and PSIs responsible for urban development to prepare commercially viable and bankable infrastructure projects and also to mobilise additional resources through tax reforms, rationalisation of user charges and improved fiscal discipline. According to the *India Infrastructure Report* (1996) 'it is high time that a commercial approach is adopted'. It is desirable in view of 'the fact that infrastructure services do not pay for themselves and the government does not have the financial capacity to continue to subsidise the beneficiaries'. The report

further adds that 'commercialisation of infrastructure projects basically means sufficient provision of services to the consumers' satisfaction on cost recovery basis'. Accessing the capital market to raise non-budgetary resources for financing urban infrastructure and services would necessitate rationalisation of user charges and progressive recovery of costs.

The equity market and the debt market are two streams of the capital market and these new concepts are becoming popular for raising resources through non-budgetary sources i.e. municipal bonds.

### **Financing Urban Infrastructure through Municipal Bonds**

To improve the urban infrastructure in Himachal Pradesh, the ULBs need huge funds, which are unlikely to come through budgetary sources. After the abolition of octroi, the tax base of the ULBs has been poor and they have depended largely on central and state government grants. In this situation, raising funds from the capital market in the form of municipal bonds is a viable alternative for financing urban infrastructure and municipal services.

Municipal Bonds are a primary source of finance for the ULBs in the United States and many other developed and developing countries. The municipal bond market is now emerging as an important source of financing urban infrastructure in several Indian cities. So far, eight municipal corporations, Ahmedabad, Ludhiana, Bangalore, Nasik, Nagpur, Madurai, Hyderabad and Indore, have raised about Rs. 615.3 crore for selected urban infrastructure projects as shown in Table 20.26.

The Municipal bonds were largely raised through private placements and were mainly subscribed by commercial/cooperative banks, financial institutions and public enterprises. The most important aspect of these issues except Bangalore and Indore Municipal Corporations has been that these bonds were raised without guarantees of the government. Investment grade credit rating of municipal corporations enabled them to raise bonds as it attracted large number of investors.

The cost of raising funds through municipal bonds depends upon the internal financial strength of the ULBs, which is necessary for the repayment of loans through the ESCROW mechanism. The funds raised by these municipalities were 'structured obligation' and a specified source of municipal revenue was dedicated to the ESCROW account for repayments, as shown in Table 20.27.

TABLE 20.26  
Accessing Municipal Bonds for Financing Urban Infrastructure

Cities	Amount (Rs. in crore)	Year of Issue	Placement	Government Guarantee	Assigned Rating	Urban Infrastructure Projects
Bangalore	125	1997	Private	Yes	A-(SO)	City roads/street drains
Ahmedabad-I	100	1998	Private/public	No	AA-(SO)	WSS** projects
Ludhiana	17.8	1998	Private	No	LAA-(SO)	WSS projects
Nashik	100	1999	Private	No	AA-(SO)	WSS projects
Nagpur	50	2000	Private	No	LAA-(SO)	Water supply project
Madurai	30	2001	Private	No	LA+ (SO)	Madurai inner ring road project
Indore	10	2001	Private	Yes	A (SO)	Improvement of city roads
Hyderabad*	82.5	2002	Private	No	LAA+ (SO)	Road construction and widening
Ahmedabad-II	100	2002	Private	No	AA (SO)	WSS projects

Source: Bagchi, Saumen and Anirban Kundu, 2003, 'Development of Municipal Bond Market in India', *Economic & Political Weekly*, (Feb. 22-28, 2003). Jha, Gangadhar (2002), 'Development of Municipal Bond Market in India', NIUA, New Delhi.

Note: \*Hyderabad Municipal Corporation has gone for a double rating AA+ (SO) from CRISIL.

\*\*WSS = Water Supply and Sewerage.

The municipal corporation of Shimla, municipal councils of Solan, Kullu, Hamirpur, Nahan, Bilaspur, Mandi and some other municipalities of Himachal Pradesh should go for credit rating, prepare commercially viable or bankable projects and finance them through municipal bonds. A cluster of smaller municipalities can also raise municipal bonds by pooling their resources and ensuring repayments through the ESCROW mechanism.

The credit rating for raising funds through municipal bonds calls for reforms comprising financial reporting and accounting reforms (accrual based double entry accounting system from cash based single entry

accounting system), tax reforms (property tax and non property taxes), rationalisation of user charges (water supply and sewerage), introduction of new municipal taxes like sanitation cess and environment tax, effective tax administration and improvement in billing and collection procedures.

### Tax-Free Municipal Bonds

The Central Government has announced tax exemption on bonds issued by municipal/local governments and guidelines were issued in February 2001 to regulate the issue of tax-free municipal bonds. The guidelines suggest that the bonds will be issued

TABLE 20.27  
Revenue Sources Escrowed by Municipal Bodies

Cities	Revenue Source Escrowed	ER to TR# (%)
Bangalore	Property tax and grants from the state government	65.3
Ahmedabad-I	Octroi from 10 major octroi <i>nakas</i>	45.7
Ludhiana	Revenue from water supply and sewerage	6.3
Nashik	Octroi from four major octroi <i>nakas</i>	59.1
Nagpur	Property tax and water charges	27.6
Madurai	Toll tax collection from the newly constructed toll road	25.1
Indore	Na*	Na*
Hyderabad	Non-residential property tax, advertisement tax, profession tax, surcharge on transfer of immovable properties and town planning charges	50.2
Ahmedabad-II	Property taxes of north and central zones	6.2

Source: Bagchi and Kundu (as in Table 20.26).

Notes: # - Share of ER (Escrowed Revenues) of TR (Total Revenue) is the average of last three years, that is 1998-99, 1999-2000 and 2000-01.

Na\*- Revenue of the Indore Municipal Corporation is not known.

for raising resources for capital investment in creation of new infrastructure as well as augmentation of existing systems. Ahmedabad and Hyderabad Municipal Corporations have been permitted to issue tax-free municipal bonds worth Rs. 100 crore and Rs. 82.5 crore respectively for improving urban infrastructure. The Municipal Corporation of Shimla and other municipalities can raise tax-free municipal bonds for augmenting their infrastructure and services.

#### *Loan Financing*

Loan financing through banks or specialised financial intermediaries is becoming popular for raising resources for urban infrastructure services in many states. The ULBs of Himachal Pradesh should go for loan financing either from general purpose/commercial/infrastructure banks like IDBI, ICICI and IDFC or Urban Development Funds (special purpose funds) like TNUDF. On the pattern of TNUDF, Himachal Pradesh can create an Himachal Pradesh Urban Development Fund to raise loans for financing urban infrastructure services in the state.

#### *Private Sector Participation*

With growing fiscal and financial problems at the central, state and local levels, involving the private sector in urban infrastructure development and delivery in the municipalities is becoming a major necessity. Private sector participation may be in the form of complete privatisation or public-private partnership. Now a growing pool of resources is available to finance commercially viable infrastructure projects.

It is expected that the private sector will help the ULBs in offloading the financial, functional, administrative and managerial burdens. It will help the local communities by introducing management efficiency, quick decision-making and trained skilled manpower for efficient delivery of the services, leading to higher consumer satisfaction.

Private sector participation (PSP) experiences of several ULBs in India particularly Ludhiana, Hyderabad, Tirupur, Alandur, Rajkot, CIDCO (New Mumbai) and Surat have been good and ULBs were able to upgrade quantity and quality of their services and save fiscal resources. ULBs of many other states have also introduced PSP in O&M and augmentation of urban infrastructure.

Himachal Pradesh may introduce private sector participation in urban infrastructure and major activities and projects of the municipalities. The

Finance Minister of India in the *Budget 2002-03* announced that 'public-private partnership will be encouraged for the provision of infrastructure facilities, the modalities of which are being worked out by a Task Force'. The central government will develop guidelines for involvement of the private sector in infrastructure, which will ensure competitive bidding process in transparent manner. These guidelines will not only protect the consumers but also ensure integrity of the process.

The World Bank (WB) and the Asian Development Bank have initiated guarantee schemes (IHS-India, 2002) to promote international capital for financing urban infrastructure projects in India. Since the access by lengthening the maturity of related borrowings is facilitated by the WB, it provides good opportunity for the ULBs of Himachal Pradesh to go for infrastructure/service related projects by accessing funds from international financial institutions, that too without state government guarantee.

#### *People's Participation*

The increasing demand for urban infrastructure due to growing urbanisation and the inability of the ULBs to provide these facilities call for promoting people's participation in the augmentation of the urban infrastructure and municipal services. The government of Himachal Pradesh introduced an innovative programme i.e. '*Vikas Mein Jan Sahyog*' (VMJS) in 1994 as part of its strategy for decentralised planning. The share of the government and the local community is 75:25 in the construction of drinking water and sewerage schemes including installation of handpumps. But due to poor response from the urban people, a major share of the funds have gone to rural areas. To maintain the assets created under various programmes, a scheme '*Rakh Rakhav Mein Jan Sahyog*', was introduced by the state government in 1995-96 on 50:50 basis between the local community and the government. Departmental charges of 17 per cent charged by the Irrigation & Public Health and the Public Works Departments under decentralised planning were waived. There is need for sensitising the local people to contribute their share in small urban infrastructure development projects in their localities and take advantage of these programmes of the state government.

Several towns i.e. Ludhiana (mohalla sanitation committees), Baroda (citizens council), Chennai (EXNORA), Lucknow (muskan jyoti samiti) and Ahmedabad (SEWA) have involved local people in the management of municipal services and mobilisation of

resources for infrastructure development (Gupta & Teotia, 2001; Planning Commission and United Nations Development Programme, India, 2003; NIUA, 2001). Sanitary conditions in Chandigarh have improved considerably with the introduction of 'Garbage Bin Free Sector/Sehaj Safai Kendra Scheme' by involving local community through resident welfare associations (Gupta, J.P. and Manoj K. Teotia, 2003). These successful experiments with people's participation in selected areas of infrastructure development, poverty alleviation and municipal service delivery can be replicated in the urban areas of Himachal Pradesh to offload some of the functional and fiscal responsibilities of the ULBs and the IPH department, and mobilise resources for infrastructure development.

### **Prerequisites for Initiating Alternative Funding Mechanism**

To raise funds from alternative sources for achieving financial viability, it is desirable to go for pricing and cost recovery of urban infrastructure and municipal services. In principle, the full O&M cost should be recovered from service users and at the most, the vulnerable sections can be cross-subsidised. In this section, an effort has been made to discuss the major pre-requisites for promoting alternative funding mechanism for financing urban infrastructure in Himachal Pradesh.

#### *Institutional Restructuring and Reform Perspective*

Institutional inefficiencies at the policy level have been a constraint on the augmentation of the urban infrastructure and municipal services and the pace of private sector participation in this sector. The suitable institutional and management environment should be created to promote rationalisation of user charges, accessing the capital market and maintaining the services with a greater role for the private sector. ULBs in Tamil Nadu, Gujarat, Karnataka, Maharashtra and West Bengal have demonstrated greater institutional restructuring, reforms in functional and fiscal domain and regulatory mechanism to raise external funding, improve financial management and urban governance. The ULBs of Himachal can go for similar experiments.

### **Pooled Financing Mechanism for Development of Urban Infrastructure**

In the changing financing scenario, access to the capital market has become a necessity and several municipalities are accessing funds from financial institutions directly. Only large municipal corporations

and councils have taken advantage of this and the small and medium municipalities have been deprived of it due to their poor financial position and the lack of capacity to prepare viable projects. For the small and medium municipalities, the Government of India has initiated a Pooled Finance Development Scheme and a state level pooled financing mechanism is proposed to be set up. The scheme will provide credit enhancement to access market borrowings on a creditworthy basis. The main objectives of the state level mechanism will be to facilitate:

- small and medium ULBs to access the capital market for investment in essential municipal infrastructure
- the development of bankable urban infrastructure projects
- the introduction of necessary reforms (e.g. tariff and financial) in the ULBs
- development of the municipal bond market

A tentative allocation of Rs. 400 crore under the Tenth Five Year Plan has been made for this scheme and a provision of Rs. 80 crore has been proposed in the 2003-04 annual plan. This is an important scheme for the small and medium municipalities of Himachal Pradesh to raise funds for financing their urban infrastructure.

### **The Himachal Pradesh Urban Development Fund (HPUDF)**

A special purpose vehicle i.e. the HPUDF can be created to help the ULBs to raise funds for infrastructure development. It will be useful for smaller ULBs, which do not have a sound financial base but need funds. Groups of municipalities can access the debt market on the strength of their collective financial wherewithal. Large and medium municipalities like Shimla, Solan, Kullu, Bilaspur, Mandi, Chamba, Una and Hamirpur can also raise municipal bonds under this scheme.

The ESCROW account is an essential component of the scheme which will be created from general funds (current account) to cover at least one to two years of debt service. A financial intermediary, preferably at the national level, will provide 100 per cent guarantee of the debt service reserve fund, which will be established by separate funds of state government and managed by a special purpose vehicle or an asset management company i.e. Himachal Pradesh Urban Development Fund. This will advise ULBs about

various important projects, help them raising resources, preparing project reports and work as a nodal agency right from the stage of formulation of the project, its management, operation and monitoring during different phases.

For this purpose, revenue income of ULBs will have to be enhanced for assured repayments of principal and interest. It is possible to attract national level financial intermediaries such as IDFC, IL&FS and ICICI to contribute to the fund on agreed sharing basis. This type of fund is already functional in Tamil Nadu, Maharashtra and Gujarat.

### **Functional Decentralisation**

The 74th Amendment has provided an illustrative, legal and constitutional framework for devolution of functions to the ULBs. The SSFC (2002) noticed that ULBs were not performing requisite functions as notified in August 1994 in conformity with 12th Schedule of 74th Amendment. But it was largely due to apathy of the state government which did not transfer the delegated functions to ULBs. The government of Himachal Pradesh should take this amendment seriously and go in for functional decentralisation to empower the ULBs. There is need for legislative changes both at the state and the local government levels to achieve functional decentralisation. The empowered institutions of local government will be able to generate funds from internal and external sources, involve private sector and local communities for efficient delivery and management of services.

The functioning of local self-government institutions at various levels should be strengthened. The district planning committees, which are required to consolidate the plans prepared by the ULBs and Panchayati Raj Institutions should be made functional and effective in all respects. They will help to bring about development at the grassroot level. The major functions listed in the Twelfth Schedule should be transferred to the ULBs along with funds and functionaries. Parastatal involvement in the development of urban infrastructure should be reduced as urban local bodies after two elections in post 74th Amendment period have become mature to perform these functions. If the functions of parastatals cannot be transferred immediately they can work as subordinate to the ULBs or as consultants till their abolition. The present Mayoral system in Shimla municipal corporation and President system in municipal councils should be replaced by 'Mayor-in-council and 'President-in-council system' as in West Bengal. "The present Mayoral

system is weak and ineffective as the Mayor has limited autonomy for discharging functional and financial obligations. The powers of Mayor and other councilors are not adequate" (Teotia, 2001; 2002).

### **Devolution of Funds as Recommended by the State Finance Commission**

The state finance commission is mandated to recommend devolution of funds to match functional decentralisation. But the SSFC observed that "actual average per capita receipts remained below the forecast made by the FSFC". The transfers recommended for delegated functions were not in toto and this resulted in accumulation of arrears of electricity and water bills to be paid by ULBs to HPSEB and IPH respectively. The SSFC has now recommended to give grants of Rs. 27.52 crore to ULBs to liquidate arrears of electricity charges of street lights (Rs. 10.39 crore) and arrear of bulk water supply (Rs. 17.13 crore). The transfer of these grants and other devolution recommended by the SSFC will pave way for strengthening fiscal domain of ULBs and hence financing urban infrastructure in the State.

### **Legislative Reforms for Market Borrowings**

The market borrowing powers of the ULBs are governed by Local Authorities Act of 1914, amended in 1917 and 1935. This Act has become meaningless with the onset of second generation fiscal reforms as it inhibits the borrowing powers of the ULBs. The state government is empowered to enact legislation under Section 4(i) and 7. The government of Himachal Pradesh should pass legislation to enhance the limits set by the state government on municipal borrowings and a clear strategy, preferably with a single window system should be chalked out to enhance the market borrowing capacity of the ULBs.

### **Reforms in Financial Management, Creation of Database and Quality of Urban Governance**

The ULBs should restructure their tariffs and increase own revenues by initiating reforms in their fiscal and financial management. To become capable of raising funds to finance the growing requirements of infrastructure, the ULBs will have to introduce transparency in their financial management, improve their creditworthiness and generate clear time-series data on various aspects of municipal finances, infrastructure and services. The EFC has initiated reforms to create a database by providing grants to the ULBs for this purpose. The Central Ministry of Urban Development is also interested in improving the information base of the municipalities. The Department

of Urban Development (Himachal Pradesh) can take advantage of these reforms and create a sound database not only at the municipal level but also at the directorate level, which at present has serious deficiencies.

Improvement in the quality of urban governance is necessary not only to have citizen-friendly services but also to develop an environment-friendly infrastructure for sustainable development of the urban areas. The political will should support fiscal reforms, as it will help the ULBs to provide adequate and quality service to the people. Smooth coordination between the deliberative and executive wings is necessary to implement reform initiatives and to manage urban affairs efficiently.

### **Municipal Financial Reporting, Budgeting and Accounting Reforms**

It is recommended to introduce the double entry system of accounting to address the deficiencies in financial reporting and budgeting practices in Himachal Pradesh. The ULBs in Himachal Pradesh may adopt the double entry system of accounting, successfully adopted in Tamil Nadu, Gujarat and Karnataka, to install accounting transparency and efficiency in financial reporting, accounting and budgeting procedures. The Directorate of Urban Development can involve a specialised institution to prepare and implement a double entry accrual based accounting manuals in the ULBs. This system will enable the ULBs to prepare information that would reflect their financial position and their capacity to service debts. This system will also help them to attract investment for financing urban infrastructure and municipal services.

Institute of Chartered Accountants of India (ICAI) has prepared a technical guide on accounting and financial reporting by the ULBs. The municipalities of Himachal Pradesh should comply with the accounting standards set by the ICAI to provide the users with a broader and complete understanding of the local government and the trends in their financial affairs. For development, standardisation and regularisation of the new accounting system in the ULBs, the standard model of accounting (accrual type) should be prepared by the Government of India. Recommendations of the Task Force constituted by the Ministry of Urban Development on Municipal Accounting Reforms should be circulated to all state governments and implemented on priority basis. The state government should revise the municipal accounting and budgeting code, using the national model of municipal accounting and

budgeting code and manual for upgrading the accounting and budgeting systems of the ULBs.

### **Regulatory Framework**

The state government should set up a regulatory authority for urban infrastructure 'to monitor quality of services provided and price charged' (*India Infrastructure Report, 1996*). It would help to promote the private sector participation in project development, financing, rationalisation of user charges and quality control. Such a body should be free from populist political interference and take care of the interests of investors as well as the consumers, particularly the underprivileged sections through cross subsidisation.

### *Commercial Viability of Projects*

Private sector investment largely depends on the commercial viability of the project which means that the project should be able to generate project-specific costs including debt service obligations.

The Planning Commission, in response to the problems of less developed states, which are unable to prepare projects of the requisite standard to attract institutional and external funding, has set up a Project Preparation Facility to finance the preparation of development projects by the states for external funding. Himachal Pradesh can utilise this facility for preparing urban infrastructure development projects with the help of professional consultants selected by the Planning Commission through open competitive bidding. Andhra and Maharashtra state governments have been able to access financing for their projects.

### *Institutional Development through Capacity Building/ Training of Elected and Appointed Representatives of Urban Local Bodies*

The training of about 2960 functionaries i.e., 430 elected and 2530 appointed persons of the ULBs is important for efficient delivery of services and municipal management. Urban infrastructure is a technical and complex subject and therefore, the municipal staff should be adequately trained to understand efficient municipal management and to act accordingly. Though elected and appointed representatives of ULBs are trained by Himachal Pradesh Institute of Public Administration (HIPA), Shimla and Centre for Research in Rural and Industrial Development (CRRID), Chandigarh, the state government is of the view that a new Institute specialising in capacity building for urban development may be opened and funded by the Government of India and state government on sharing basis.

The state government should prepare a strategy for capacity building of urban managers, which should be based on realistic assessment of human, financial and technical resources required by the urban local bodies. The elected or appointed members should be aware of various provisions of the Act, the organisational and institutional set-up, the budgeting and accounting practices and also the practices of municipal management. A trained staff will be able to prepare projects, raise funds, attract private sector, involve local community in service delivery and infrastructure development and improve urban governance for sustainable development of urban areas in Himachal Pradesh.

### Action Plan

There is need for addressing issues relating to the negative impact of urbanisation and evolving an “urbanisation strategy” and “urban development policy” comprising area/region specific economic frameworks, rural urban continuum/connectiveness/interdependence, backward and forward linkages and inter-sectoral as well as spatial and environmental dimensions of infrastructure development. Emphasis should be put on localisation so that the urban areas are able to meet the needs of the residents without affecting the interests of the future generations. The strategy/policy should comprise long-term city/environment friendly goals such as empowerment of the ULBs by transferring funds, functions and functionaries and adequate urban infrastructure/services like water supply, sewerage, solid waste management, roads, street lights, land use/development, housing and transport facilities.

There is need for a state level ‘urban infrastructure policy’ which could project demand and supply, monitor quality and quantity, suggest pricing and cost recovery, develop alternative sources and arrange financial resources for augmentation of the infrastructure and the services. Political will is necessary for pricing and cost recovery. The state should draw up a formula for cross subsidisation of municipal services. Since capital cost of the urban infrastructure is comparatively high in Himachal Pradesh, pricing and cost recovery should be improved to sustain the delivery of important basic urban environmental infrastructure to the growing urban population.

There is a need to formulate effective ‘land use/land development policy’ to promote eco-friendly sustainable development of urban areas. Housing and urban development plans/policies should be formulated in

such a manner that they do not pose threat to the ecosystem in the state. The development of commercial areas, industrial focal points and other establishments should be allowed to grow in harmony with surrounding environments and ecologically sensitive areas should not be affected by their activities. The state policy on development of new townships should take care of environmental implications and to the extent possible new emerging towns should be planned and developed rather than developing new towns which will be highly capital intensive and ecologically dangerous. The active participation of local people and institutions including urban local bodies should be secured for planned development and management of land and other resources in urban areas.

The functioning of local self-government institutions at various levels should be strengthened. The major functions listed in the Twelfth Schedule should be transferred to the ULBs along with funds and functionaries. Parastatal involvement in the development of urban infrastructure should be reduced as urban local bodies after two elections in post 74th Amendment period have become mature to perform these functions. Considering that the resources of the ULBs are poor and budgetary support from the state government and transfers/grants from the central government are unlikely to increase, the strategy should suggest ways and means of resource mobilisation from capital markets/non budgetary sources for financing the urban infrastructure.

The suitable institutional and management environment should be created to promote rationalisation of user charges, accessing the capital market and maintaining the services with a greater role for the private sector. Himachal Pradesh Urban Development Fund (HPUDF) may be created to help the ULBs to raise funds for infrastructure development. It will be useful for smaller ULBs, which do not have a sound financial base but need funds. This will advise ULBs about various important projects, help them in raising resources, preparing project reports and work as a nodal agency right from the stage of formulation of the project, its management, operation and monitoring during different phases.

It is suggested that specific purpose funds raised by the HPIDB should not be diverted to the budget account and the HPIDB should be allowed to work independently and invest funds in identified critical sectors of infrastructure including the urban infrastructure. The state government should set up a

regulatory authority for urban infrastructure 'to monitor quality of services provided and price charged'.

Reform in financial management, information and data management is a must for improving quality of urban governance. Municipal financial reporting, budgeting and accounting practices should be upgraded to promote better urban management in the state. It is recommended to introduce the double entry system of accounting to address the deficiencies in financial reporting and budgeting practices in Himachal Pradesh.

Environment conservation should be a major thrust area for the urban policymakers and stakeholders in infrastructure development. Creation of an enabling legal, financial and regulatory framework for infrastructure development should be the immediate policy initiative of the state government. Urban development policy must emphasise on capacity building of the elected and appointed functionaries of local self-governments and other officers responsible for urban governance/infrastructure development.

### **Vision for the Future**

'As Indian cities continue to swell, the challenge of improving the urban infrastructure will be magnified' (Planning Commission, 2002). With the growing level of urbanisation, the challenge of upgradation of urban infrastructure and improvement of urban environment will be major challenges for Himachal Pradesh. The disparities between infrastructure and services of the urban and rural areas should not be allowed to widen in future in this ecologically sensitive state. This demands acceleration of development process for overall improvement of infrastructure services and quality of life in rural as well as urban areas. The trend of urbanisation in Himachal Pradesh is indicative of concentration of population and resources in a few larger towns only. The future population and economic growth is likely to concentrate in and around six to seven towns in Himachal Pradesh. 'The demographic trends towards urbanisation are accompanied by a change in the management and financing of urban development, as a result of liberalisation' (Planning Commission, 2002). The large towns, with strong economy due to growth of tourism, industry and strong fiscal base of ULBs can upgrade their infrastructure and services but small and medium towns with poor economic base and weak fiscal health of ULBs are likely to grow with serious deficiencies in infrastructure development, municipal management and environmental conservation. Towns in difficult hilly terrain and

backward regions are unlikely to grow as towns in better terrain and developed regions. Therefore, innovative efforts for infrastructure development, resource mobilisation and urban management as discussed in the previous sections should be initiated so that towns can grow in a sustainable manner.

The 'urbanisation strategy/urban development policy' should be formulated to improve institutional, fiscal, functional and administrative capacities of urban development institutions in the state. Decentralisation of powers by transfer of funds, functions and functionaries, to ULBs is a must for strengthening these institutions of local self-government. Existing policies regarding land development, urban and rural planning and environmental conservation should be suitably modified for sustainable development of urban areas. The new towns should not be allowed to grow in a haphazard manner. Some growth corridors can be identified and developed to meet requirements of rural population in remote and backward areas, with emphasis on employment, education, health and municipal services.

Creation of enabling legal, financial and regulatory frameworks for infrastructure development should be important thrust areas for urban policy makers. Pricing and cost recovery of municipal services and commercialisation of urban infrastructure are important requirements to sustain delivery of municipal services. Additional resource mobilisation from exiting sources i.e. property tax and user charges will help to strengthen fiscal base of ULBs and reduce dependency on higher level of governments. With constraints of budgetary transfers and grants, ULBs should access funds from non-budgetary sources for financing urban infrastructure and meet growing demand of municipal services. Tourism infrastructure must be upgraded in tune with growing number of tourists. Private sector participation and people's involvement in development, delivery and operation and maintenance of infrastructure and services should be promoted through institutional restructuring and legislative reforms. Reform in accounting, budgeting, financial management, data base/management information system and wasteful revenue expenditure is important pre-requisite for improving quality of urban governance in Himachal Pradesh.

Last but not least, capacity building of urban policymakers (elected and appointed representatives of ULBs) and implementers of infrastructure development programmes is necessary for institutional development and sustainable management and use of resources in urban areas.

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