



**Mr Kumar Pushkar**  
Special Commissioner, Finance  
Bruhat Bangalore Mahanagara Palike  
Bangalore.

August 17, 2015

Dear Mr Pushkar

**Sub: Recommendations on Resource Mobilisation for the Bruhat Bangalore Mahanagara Palike**

4th Floor, UNI Building,  
Thimmaiah Road  
Vasanth Nagar  
Bangalore 560052

It was a pleasure engaging with The Administrator, the Commissioner and you on 4 Aug 2015 on the reform blueprint for the Bruhat Bangalore Mahanagara Palike (BBMP). Thank you for the enthusiastic response to our recommendations.

Tel: 080 40790400

As required by you, we are enclosing herewith a note on our recommendations for transformative measures in the financial management of the BBMP, which require active support and engagement of the Government of Karnataka. We have focused on critical resource mobilization initiatives as well as institutionalization of best practices in accounting and auditing many of which are already being followed by other ULBs in Karnataka.

Fax: 080 41277104

e-mail: [info@janaagraha.org](mailto:info@janaagraha.org)  
[www.janaagraha.org](http://www.janaagraha.org)

We believe adoption of these measures will significantly enhance BBMP's ability to deliver better quality of infrastructure and services, build credibility among citizens of Bangalore, and emerge as a much stronger public institution in the medium and long-term, while providing much needed boost to revenue base in the short-term.

We hope you find this useful. We would be happy to provide any further information or clarification you may require in this regard.

Yours truly

**Srikanth Viswanathan**  
*Coordinator- Advocacy and Reforms*

Copy:

Mr Vijay Bhaskar, Administrator, BBMP; Mr Kumara Naik, Commissioner, BBMP

Encl:

- 1) Recommendations on Resource Mobilisation for BBMP
- 2) Karnataka Municipal Accounting and Budgeting Rules 2006
- 3) Notification from Union Ministry of Urban Development on Service Charges
- 4) Extract of Public Accounts Committee report on Defence Land



## **Recommendations on Resource Mobilisation for BBMP**

### **I. Background**

The BBMP Restructuring Committee (BBMP RC) has emphasized strongly on the poor financial sustainability of the BBMP's operations. Against outstanding debt and pending bills totaling to Rs 4,500 crores, BBMP's annual own revenue base is lesser than Rs 2,000 crores. Such a weak revenue base is grossly insufficient to service and eventually repay the debt, and to sustainably deliver quality infrastructure and services.

Even compared to other major Indian cities, BBMP's revenue streams are few and per capita own revenue low. This has resulted in successive years of low capital investments. Implementation of the below recommendations would be a strong beginning in strengthening the resource base of the BBMP.

### **II. Immediate measures**

#### **1. Assignment of Stamp duties and registration charges**

Bangalore contributed around Rs 4,300 crores to the state budget as Stamps and Registration fees and receives back only an insignificant portion of this as state government grants. Section 103(b) (vii) of the Karnataka Municipal Corporation Act, 1976 (KMCA 76) empowers the BBMP to levy a surcharge on stamp duties and registration charges but the BBMP has not utilized this provision. Further, a surcharge is likely to result only in a relatively marginal revenue stream.

**The Government of Karnataka should consider assigning a reasonable percentage of the city's contribution to stamp duties and registration charges, say 10-15%, back to the BBMP. This would be a buoyant and elastic source of revenue for the BBMP as it will be tied to the economic activity in its jurisdiction. This could add close to Rs 500 cr per annum to the BBMP's revenue base.**

Comparatives from certain other cities is given below.

City	Hyderabad (Surcharge on stamp duty)	Chennai (Duty on transfer of property)	Lucknow
Revenue Collected (in Rs Cr)	300	140	236
Source	Budget 2015-16	Budget 2015-16	Budget 2014-15
Year	BE 2015-16	Actuals 2013-14	Actuals 2012-13

#### **2. Implementation of Karnataka Municipal Accounting and Budgeting Rules 2006 (KMABR)**

The KMABR 2006 is applicable to ALL ULBs of Karnataka except the BBMP. It contains the following key provisions.

- Timeliness of Budget estimates [Chapter 24, 132]
- Systematic and time-bound citizen participation in budgeting [Chapter 24, 133 (2)]
- Empanelment of Chartered Accountants as independent auditors of annual accounts [Chapter 23, 129 (1)]



- Specified timelines for filing of auditor's report and audited financial statements [Chapter 21, 125 (5)]
- Standardised accounting and budgeting rules, and standardised formats of annual accounts supported by standardised information systems
- Timely disclosure of a comprehensive Annual Performance Report that contains [Chapter 22, 126]
  - City Management Report
  - Audited annual accounts
  - Cost and performance indicators and
  - A budget variance statement
- The City Management Report shall contain [Chapter 22,127]
  - Commentary on the financial performance and position,
  - Reasons for deviations from plan or any adverse performance
  - Current progress and future plans and
  - Management comments on adverse comments in the auditor's report

**We recommend that the Government of Karnataka bring the BBMP under the ambit of the KMABR 2006 with immediate effect. This will significantly improve the robustness of financial management in the BBMP. Services of the Karnataka Municipal Data Society (the erstwhile Municipal Reforms Cell) which operates under the aegis of the Department of Municipal Administration, Government of Karnataka can fast track the transition of the BBMP to KMABR 2006.**

### **3. Levy and collection of service charges from Government buildings**

Municipalities are permitted to levy service charges on state and central government properties in accordance with a circular of the Union Ministry of Urban Development, which was issued pursuant to the Supreme Court order in the Rajkot Municipal Corporation case.

The BBMP however has not leveraged this provision. As a state capital and a major centre for various public institutions, Bangalore loses out a potentially significant source of revenue in the form of service charges. Given below is BBMP's track record in respect of service charges.

Year	Budget (Rs Cr)	Actual/RBE (Rs Cr)
2011-12	10	2
2012-13	40	1
2013-14	5	-
2014-15	0.5	-
2015-16	0.5	NA

The 14<sup>th</sup> FC too has recommended that urban local bodies be properly compensated for the civic services provided by them to government properties.

**We strongly recommend that the State Government take immediate steps to facilitate full levy and collection of service charges by the BBMP in respect of all eligible properties.** A list of state and central government buildings is attached for reference. However completeness of the same will need to be established in due course, including applicability to railway and defence establishments and public sector enterprises.



#### 4. Full assignment of Profession tax

Profession tax is a significant source of revenue for several cities including Chennai, Ahmedabad, Delhi and Jaipur. For a fast growing economy like Bangalore, receipts from profession tax can be a buoyant source of revenue, thanks to significant growth in services industry and related employment in the formal sector.

The 14<sup>th</sup> Finance Commission (14<sup>th</sup> FC) has recommended raising the ceiling of profession tax from Rs 2,500 per annum to Rs 12,000 per annum. In FY 2012-13, Karnataka collected Rs 692 crores as profession tax. Bangalore's 10 million population makes up around 40 per cent of the state's urban population of 26 million, and may be estimated to contribute to the tax receipts in the same proportion, amounting to approximately Rs 270 crores.

**We recommend that levy and collection of profession tax be wholly assigned to the BBMP by the state government.** Comparative collections of other cities from profession tax is given below.

City	Ahmedabad	Chennai	Surat	Trivandrum	Hyderabad
Revenue Collected (in Rs Cr)	91	222	75	26	100
Source	Budget 2014-15	Budget 2015-16	Budget 2014-15	Budget 2013-14	Budget 2015-16
Year	2012-13 Actuals	2013-14 Actuals	2012-13 Actuals	2011-12 Actuals	2013-14 Actuals

#### 5. Assignment of Entertainment tax

Bangalore has a large number of young professionals with significant disposable incomes who contribute to the Rs 136 crores collected by the state government as Entertainment Tax. The Greater Hyderabad Municipal Corporation is assigned 90 per cent of the entertainment tax collected in the city. Assigning a portion of the Entertainment tax collected from Bangalore to BBMP would provide a buoyant source of revenue to the city.

**We recommend that the State Government assign a significant percentage of Bangalore's share of entertainment tax to the BBMP, and also enhance the coverage of entertainment tax in accordance with 14<sup>th</sup> FC recommendations in this regard.**

City	Hyderabad	Trivandrum	Chennai	Kolkata
Revenue Collected (in Rs Cr)	100	3	18	17
Source	Budget 2015-16	Budget 2013-14	Budget 2015-16	Budget 2014-15
Year	2014-15 RBE	2011-12 Actuals	2013-14 Actuals	2012-13 Actuals



## **6. Levy of Infrastructure Cess and Urban Transport Cess under Sections 103B and 103C of KMC ACT 1976**

Section 103B of the KMC Act 1976 empowers the BBMP to levy and collect an infrastructure cess at a maximum rate of Rs 500 per annum on motor vehicles, in addition to the tax levied under the Karnataka Motor Vehicles Taxation Act 1957. Section 103C provides for levy and collection of Urban Transport Cess at maximum rate of 2% of property tax. Given that the BBMP is the entity charged with the onerous responsibility of building and maintaining city roads, footpaths and related infrastructure, these two provisions should be evaluated for implementation, if not already being done.

### **III. Medium-term measures**

#### **1. Allocation of a portion of revenues arising out of GST compensation**

The current GST framework has ignored the revenue needs of ULBs. A surcharge on GST to accommodate the revenue requirements of local governments is essential. Karnataka, like most other states has underestimated the revenue requirement of urban local bodies or under provided for fiscal transfers. The forthcoming GST Bill is an opportunity for the state to provide a significant revenue stream to Bangalore, so that it can finance its infrastructure requirements adequately.

#### **2. Utilisation of Defence and Railway Lands for Bangalore's development**

Bangalore is a major centre for defence establishments. Defence landholdings in Bangalore are spread over 5,330 acres. The Parliament's Public Accounts Committee on Defence Estates Management in its report of December 2013 points out that the Defense Ministry has excess land holdings of around 1,272 acres in Bangalore. Given that defence establishments are largely self-sufficient and have minimal engagement with the rest of the city, they can be relocated to outside city limits through strategic and collaborative land exchange mechanisms between the Centre, the State government and BBMP. This can yield significant funds to the city through monetization of the land in the central areas of the city. There will be enough funds available from such an exchange to also finance the building of state of the art facilities for defence establishments and personnel in new locations outside the city. The same is true of large pockets of railway land across Bangalore.

**The State Government should initiate discussions with the Union Ministries of Defence and Railways to tap the potential of defence and railway land in Bangalore for mutual benefit.**