

TRACING TAX: Bangalore began to expand and covered an area of 47sqkm by 1889. The same year saw the constitution of a town improvement committee. How did the governing bodies mop up revenue a century ago? It was through property tax, though it was not called so. The Bangalore Town Municipal Regulation of 1871 authorized the municipality to levy octroi and taxes on buildings and land, trade etc. Records talk of other taxes too, like the one on looms in the 14th century.

DATE WITH LOCAL GOVERNANCE	1688	1726	1870	1882	1919
	First municipal corporation established in Madras	Corporations set up in Bombay and Calcutta	Lord Mayo realizes need for popular association in civic functions	Lord Ripon increases scope of local governance	With the passage of Government of India Act, local government is state subject

FROM THE FILES	2005-06 to 2011-12	Total loan availed	Principal repaid	Estimated debt stock
		Rs 4,716 Cr	Rs 1,121 Cr	Rs 3,682 Cr

DIFFERENT STROKES



Taxing serviced apartments?

Emergency fund? What's that?
What is the definition of emergency? One which requires immediate action. But our mayors don't seem to think so. Take the case of the Emergency Reserves. The money is meant to be used during emergencies. But in 2011-12, funds allocated from the Emergency Reserves saw Rs 9 crore going towards payment of pending bills and Rs 49 crore for taking up the spillover works. These spillover works were the emergency works supposed to have been taken up in the previous year!

Starting trouble for BBMP
When a residential plot is used only for commercial purpose, it must be considered as a commercial property and must be made to cough up revenue like any other trading centre. BBMP, on its part, has been mulling on this aspect: it has been considering treating hostels, paying guest accommodations and serviced apartments as commercial properties so that the tax collection can be escalated. However, so far no concrete decision has been taken in this regard.



Network error--OFC tax drive can help

OFCs can bring revenue
Bangalore has an Optic Fiber Cable (OFC) network for more than 5,000 km across the city, but BBMP is not able to realise the service tax amount that matches the extent of the OFC network. The Karnataka Municipal Council (KMC) Act 1976 empowers BBMP to levy the fee and the move helps it to garner at least Rs 600 crore per annum. Though BBMP has been planning to mobilize funds by levying tax on internet service providers through OFC for utilizing BBMP's land for laying the network, the response from the OFC companies is lukewarm. Only strict implementation of laws will help.

VIEW FROM THE TOP

BBMP needs to address two independent issues on the financial front very urgently: one, spend whatever money it raises very effectively; and two, be capable of raising more funds for infrastructure and social services. This is like a family that earns Rs 10,000 a month, but wants to plan for Rs1 lakh of expenses. The only way to make ends meet is to spend the earnings wisely, while simultaneously increasing the earning power. It will need to use innovative means of raising funds. This will require financial discipline—both to spend more wisely, and also to earn more intelligently. The starting point of such financial discipline is timely and audited financial statements. It is astonishing that BBMP doesn't have audited financial statements that provide an accurate and complete picture of its financial status, despite handling over Rs 9,000 crore of public funds. It is unfortunate that public interest in matters like budgets, finances and BBMP's performance is so limited. When there is such little pressure from citizens, we are bound to see little financial discipline."
— Ramesh Ramanathan | CO-FOUNDER, JANAAGRAHA CENTRE FOR CITIZENSHIP AND DEMOCRACY

BBMP should adopt professionalism in financial management and if required consult experts outside the corporation framework. E-governance is a must in all works of BBMP; this ensures plugging of revenue leakages to a great extent and it will also clean up the property tax collection mess. However, BBMP should do away with licensing of trade and commercial buildings as it has become an outdated mode of collecting revenue. It must rather effectively collect commercial rents and regularize and manage their assets. They should rationalize non-revenue tax collection systems.
— JR Bangera | PRESIDENT, FKCCI

What BBMP needs is reforms. When it is incapable of charting out a realistic budget, it should take guidance from civic experts and involve groups like Janaagraha to plan such tasks for them. BCIC also has given several suggestions; they listen but beyond that, nothing happens. Also there is a political apathy. Things may improve if the mayor's term is extended. I have interacted with several mayors in Gujarat and other states, who are very proactive. Political apathy and bureaucratic helplessness hinders progress."
— Sumitra Iyengar | CHAIRMAN, INFRASTRUCTURE EXPERT COMMITTEE, BCIC

There are certain white elephants in BBMP. Those deputed from other departments are some among them. They are paid more for the little work they do. Cost cutting must begin from there. Besides, bringing about financial discipline is a must, for which BBMP must table its budget in time and it must be 'realistic'.
— Padmanabha Reddy | JD(S) LEADER, BBMP COUNCIL

Please send your suggestions and comments to speakoutbangalore@timesgroup.com with "Times Civic Audit" in the subject

BBMP spent money it didn't have, borrowed crazily. Now it must climb out of the debt hole. And for that it must tap the full potential of its revenue sources

BBMP DEBT BOMB IS TICKING

Sunitha Rao R & Aparajita Ray | TNM

Can the city finance itself? The answer is no – we are told BBMP is broke. Where does all the money go? On servicing debt. Actually it is not lack of money but poor financial management and unrealistic expectations that have brought BBMP to the brink, say experts.

It is no solace that BBMP commissioner MK Shankarling Gowda himself openly admitted on December 27, 2011 that the civic body was pushed to the wall. In his own words: "Because we have failed to repay the loan and interest amount in time, the financial institutions have threatened to declare BBMP as one of the Non-performing assets."

It was the state government which bailed out the Palike at the last minute. Instead of depending on the state every time it is in a crisis, BBMP should look at its own resources. The slow growth in civic revenues is a cause for concern. Its major source of revenue is property tax collection and advertisement tax and other sources include non-tax revenues like trade licence fee, building violation penalty, rents from buildings and assigned revenues like entertainment tax and profession tax.

If you look at advertisement revenues, it is clear that the revenues don't add up, thanks to defaulters. In the action taken report on 2010-11, BBMP has said that only Rs 17 crore was realised through advertisement tax during 2009-10. In 2010-11, the Palike estimated to collect Rs 100 crore, however, ended up netting only Rs 9 crore. The revenue collection was better under the administrator. The year the council was formed, the revenue collection dipped by Rs 8 crore. BBMP is yet to make new policies to enhance its advertisement revenue collection, but went ahead and made an unrealistic estimation yet again. In the budget 2011-12, BBMP expected Rs 150 crore from auctioning advertisement hoardings. Yet another unrealistic expectation is the revenue from the Akrama-Sakrama scheme



REVENUE AVENUE: The real estate boom too didn't spur the city corporation into garnering revenue from its primary source – the property tax

which is yet to get the governor's nod. The corporation estimated to collect Rs 750 crore from this scheme which gets revenue by regularizing the properties that have violated BBMP's building norms and land usage. The other revenue source is licence fee. Budget 2011-12 expected Rs 85 crore from issuing fresh trade licences. However, about 3,000 traders in Peenya industrial area are operating without a trade licence. Peenya is one of the major industrial hubs. According to BBMP, trade licence is a must as per the KMC Act. But about 3.5 lakh of traders in Bangalore are operating without trade licence. The right thing for BBMP is to hold a meeting with the traders' associations and organise trade licence registration which can mop up revenue. However, such efforts are yet to be made. Here is another example of Palike's lethargy. According to Yediur corporator NR Ramesh who gave the council details on feasible revenue collection from star hotels in BBMP area: "There are 374 star hotels in the IT capital, but BBMP gets tax only from 67. BBMP collects Rs 21.20 crore from the hotels, but there has been revenue leakage of a minimum of Rs

225 crore." Besides, BBMP has its history of scams. For instance, the work code misappropriation had led to the fake bill scam amounting to Rs 1,539 crore in Rajarajeshwari Nagar, Gandhi Nagar and Malleswaram sub-divisions in January 2012. Preventing scams and thereby revenue loss is a major challenge for the civic body. What BBMP needs to get some financial breathing space is the political will to revamp its functioning and bring about administrative reforms. Palike can take the help of prominent B-schools in this regard.

Time to go beyond tom-tom tactics



TOWN CRIERS: The Palike's tactic is to drum home a point and embarrass property tax defaulters into paying up

Greater Bangalore is spread over 800 sqkm of area and has about 17 lakh properties, including more than a lakh properties in the newly added 110 villages. In terms of cost of living, Bangalore tops all other metros. Then why is the city administration poor and ever in debt? One reason: The civic body loses hundreds of crores of rupees in property tax revenue. As per a market research, Whitefield has over 25 million sqft operational IT office space, of which 10 million sqft is vacant. In comparison, Electronic City has over 8.2 million sq ft operational IT office space and 3.3 million sqft is vacant. But the IT hub of Electronic City does

not fall under the ambit of BBMP. Though the companies on the other outlying areas come under BBMP tax framework, tax collected from them is not on par with the development that has taken place. Reason: many private companies have done an under declaration of their operational areas while BBMP is too slack to inspect the properties in its own boundaries and generate

revenue from them. The civic body is supposed to impose penalty on those who delay or default on tax payment. But it did little to identify defaulters. However, one fine day, it woke up. It may be recalled that it resorted to the drum-beating exercise in front of IT parks and commercial complexes last year to make the property owners cough up their dues of property tax. But such an exercise was of little help as it had not brought awareness among other defaulters. As per the budget book of 2010-11, it is said that the revised estimate of penalty collected in 2009-10 on delayed payment of property tax was Rs 20.65 crore. This was seven times higher than the estimate. However, the same was not reflected in the property tax receipts, as the revised estimate was Rs 30 crore lesser than the estimated amount. Only BBMP can explain this muddle. BBMP collected Rs 1,210 crore as property tax for 2011-12. It is expected to collect Rs 1,850 for the current financial year. According to BBMP officials themselves, thousands of property owners have under declared the extent of property thus leading to revenue leakage. Cross checking of what is the actual property as against the tax declared by the property owners is yet to be taken up by BBMP.

NYC vs BBMP

New York City has a budget of \$ 66 bn (Rs 350,000 crore) for a population only 3% lesser than that of Bangalore. NYC's budget is therefore 3.5 times the size of Karnataka's state budget (for over 60 million people). That it handles several additional functions than the BBMP is hardly any consolation given the extent of difference in financial outlays. The per capita budget of NYC is Rs 430,000; 19 times larger than BBMP's per capita of Rs 22,500. NYC's own funds constitute over 70% of its budget against BBMP's target of 44%. BBMP's own funds as per Revised Estimate in 2010-11 as % of Budgeted expenditure for 2011-12 is a dismal 14%.

MCGM vs BBMP

MCGM's (Municipal Corporation of Greater Mumbai) property tax budget for 2011-12 on per capita basis was lower than BBMP's at Rs 1,600. However, in 2012-13, they have more than doubled it to Rs 3,400 through specific measures. MCGM's collection efficiency also appears to be significantly better with Budget documents indicating that targets for 2009-10 and 2010-11 were met. BBMP's collection of property tax against budget has been consistently lower by 30-40% in the last 4 years. Will the BBMP also show the same resolve as the MCGM?
Source: PROOF, Janaagraha

The cause, the consequence and the cure

Debt is a double-edged sword for public institutions as it is for people. Debt helps common people buy cars and homes and helps public institutions build valuable infrastructure assets but if abused can drive both to despair. BBMP clearly finds itself standing at the wrong edge of this sword with estimated liabilities of close to Rs 6,000 crore, and scanty own sources to repay them. Its 602 bank accounts have run dry. Now is the time to introspect seriously on the 3Cs of BBMP's debt trap— cause, consequence and cure.



THEY DON'T ADD UP: BBMP must collect all dues like advertisement tax to boost its revenues

THE CAUSE
BBMP does not produce or review its annual audited balance sheet, income statement and cash flows. The balance sheet is a statement of wealth that shows the financial position of an entity. The cash flow statement reflects the liquidity position of an entity which in turn also determines solvency. Both balance sheet and cash flows need to be managed closely by any

entity across short, medium and long tenors to avoid falling into a debt trap, more so by a public entity accountable for every rupee that it spends. BBMP's failure to do so has been the

- SOME LESSONS**
- Produce annual audited balance sheet, income statement and cash flows
 - Manage balance sheet and cash flows across medium and long-term
 - Build capacities for strategic financial management to shore up own revenues, manage debt and long term capital expenditure

THE CONSEQUENCE
BBMP will now focus on servicing Rs 4,000 crore of loans and paying pending vendor bills possibly exceeding Rs 2,000 crore, by itself a Herculean task, more than it would on improving the Quality of Life of Bangaloreans. The pressing urgency to fix potholes, clean polluted lakes and clear storm water drains will therefore be sacrificed at the altar of burdensome debt. It would be reasonable to surmise that it would take BBMP at least 2-3 years before it can get back to business as usual.

THE CURE
In the new economy, loans are tools of leverage used prudently by borrowers who have the propensity to repay, to scale new heights in their realms of activity. It is suicidal for the financially weak to borrow without having sight of future sources of earnings from which they can service such borrowings. BBMP needs a strong balance sheet built on robust own sources of revenues and held together by prudent financial management. It needs to begin by collecting all amounts due to it as taxes, fee and fines and also explore avenues to shore them up further. This involves extensive stakeholder engagement and imaginative leadership. More reason why BBMP needs to act swiftly. The irony is that citizens neither know how much BBMP owes nor its true financial position. Hopefully, BBMP knows.

The writer is manager, Public Record of Operations and Finance (PROOF), the public disclosure and accountability initiative of Janaagraha