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A tool to raise additional infrastructure funds

The following five steps can be part of a long-term urban strategy to create, capture and recycle increments in land values.

Systematic adoption of value capture finance (VCF) tools can help urban local bodies (ULBs) mobilise the additional funds they need to make infrastructure enhancements amid rapid urbanisation.

In April 2015, the then Union minister launching the Smart Cities Mission had articulated the need for a minimum investment of Rs 2 lakh crore in next five years for development of urban areas. The mission has an outlay of Rs 1 lakh crore, while the other half has to come from states and ULBs.

This is not enough for the ULBs, for obvious reasons. Octroi is gone after the advent of Goods and Services Tax, and traditional revenue sources such as taxes and user charges are far from buoyant. The tax base is narrow and exemptions take away a big chunk, too.

In 2016, the Ministry of Housing and Urban Affairs brought out India's first value capture finance (VCF) policy. Since then, there has been much discussion on enabling state and city governments to VCF tools that can help raise resources by taking a share of the increase in the value of land and other properties such as buildings that results from public investments, and policy initiatives in the identified area of influence. In the context, the following five steps can be part of a long-term urban strategy to create, capture and recycle increments in land values.

Uniform framework

While the central government ministries/departments are yet to systematically use VCF as a revenue generation tool, several states/ULBs have developed and are using some VCF methods. One reason for this is that land is a state subject and VCF policies have to be made by the state governments concerned. Therefore, a promising way would be to link the location and construction of the projects by the central government ministries and their agencies with the existing VCF policy of the state and then share the revenue generated within the area of influence of the projects. Alternatively, the state VCF policy could be revised whenever new projects are being planned in order to capture the full value being generated.

Transaction-based tools for value capture

A large variety of value capture tools used across the country are transaction-based. One advantage of using transaction-based tools is that they face less resistance and are accommodated easily by the citizens.

For example, in Uttar Pradesh, development fee is levied when the application for building permission process is made. Similarly, surcharge on stamp duty is paid by an individual while executing a property sale or purchase deed.

In Punjab, development charge is levied by both municipal corporations and development authorities in their respective jurisdictions (fixed charge per acre of land area). Similarly, land use conversion charges are also levied by both authorities based on zone, land use type, road abatement and classification of property.

Tools that reflect change in prices

There is increasing focus on creation of infrastructure by the central government ministries/ departments and their agencies. For example, the AMRUT programme spans 500 cities, while the Smart Cities work has begun in 99 cities and many cities have conceptualised metro rail projects. All these projects have areas of influence in which these lead to increase in the value of land and buildings, creating opportunities for using value capture methods to mop up additional resources. A strategy to link the tools with market prices or circle rates would be useful.

Synchronise value capture at the project inception stage

Property tax hikes for urban infrastructure projects typically evoke resistance from citizens and political bodies. Non-tax revenues such as user fees seldom meet the requirements for capital intensive water, sanitation or transit projects. Therefore, conceptualising value capture mechanisms at the project inception stage makes sense.

Create revenue sharing mechanisms

The legislative framework supporting the relevant tools varies across geography and finds mention in the Municipal Corporation Acts, Town Planning Acts, Metro rail and Water & Sanitation related legislations, etc. Similarly, institutions that impose value capture levy have not evolved a critical revenue sharing framework.

In case of Uttar Pradesh, an infrastructure development fund has been created in all development authorities and the housing and development board. A fixed percentage of income from certain identified value capture sources (such as fees received for change of land use, development fee, city development charges, compounding charges and impact fee) levied by development authorities is being regularly credited to this fund to ensure contribution of these authorities towards development of infrastructure such as roads, drainage, sewerage, water supply and development of parks, etc. Although the fund is used for infrastructure development, there is no practice of revenue sharing in case of this income.

Thus, it is important that revenue sharing arrangements between institutions evolve as per larger strategic framework for institutions working in the urban landscape.

Vijayawada Municipal Corporation proposes Rs 1,441-crore budget

The cash-strapped Vijayawada Municipal Corporation (VMC) has drafted a proposal to introduce a budget of `1,441 crore for the financial year 2018-19. A meeting in this regard was held at Mayor Koneru Sreedhar's chamber recently. The drafted budget proposal would be submitted before the standing committee in the next few days.According to the VMC officials, for the fourth consecutive year, the corporation got `1,000 crore-plus budget after the TDP-ruled council came to power. In the year before, the civic body had approved a budget of `1,327.65 crore for the fiscal 2017-18.

The main source of income for the corporation is the tax collected from property owners in the city; other minor sources include vacant land tax, water and sewerage charges, advertising revenue, fee from car parking and from mobile phone towers.

Keeping in view the budget drafted for 2017-18, this year, officials have reduced allocations to the Engineering Department and instead have focused on allocating more budget for the Public Health Department and the Urban Community Development wing to implement various welfare schemes for the benefit of residents. In addition, the officials have also accorded top priority in allocating enough funds for the completion of ongoing infrastructure projects such as developing internal roads, establishing underground drainage connections and water supply.

The members of the standing committee also proposed to increase the corporators' annual development fund to `20 lakh from the present `10 lakh. "The drafted budget proposals submitted by the officials are public-friendly and there is no chance of tax revision. Discussions will be conducted in the standing committee meeting and the council before submitting it to the State government,'' the Mayor said.

Greater Hyderabad Municipal Corporation collects more tax

The Greater Hyderabad Municipal Corporation has collected Rs 50 crore more in property tax in 2017 than last year. Officials said the civic body has collected Rs 808 crore property tax compared to Rs 746 crore by December last year.

A revenue official said that if the trend continued, the corporation would achieve its target of Rs 1,400 crore property tax collections for the current financial year.

As regards trade licence fee, the corporation has collected Rs 35 crore, against the overall collection under this head during financial year 2016-17 of Rs 41.87 crore. The increase of revenue from advertisements for the current year is about 74 per cent over last year.

The revenue from advertisements as on December 22 was Rs 17.24 crore as against `9.18 crore collected all of last year. Besides, the GHMC mopped up Rs 368.30 crore in April from the Early Bird Scheme through which tax payers availed a five per cent discount on the total property tax payable.