Urban India   Vol. 32   No.1   Jan-Jun 2012

URBAN INDIA VOL. 32 NO. 1, JANUARY-JUNE 2012 *83*

Maximizing Non-tax Revenues: Property Assets as Revenue Sources of ULBs

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Municipal property assets are a relatively under-researched and under-utilized source of income among the various income sources of local governments in India. The non-tax revenue arising from these property assets, though significant, barely begins to reflect the considerable financial worth of this asset base held by local and state governments. This paper underscores the untapped revenue potential of these assets among the various income sources of state and local governments in India. It also highlights a few benchmark land management practices across the world to understand their relevance and applicability within the Indian context. Building on this data and related literature review, the paper presents a fundamental framework for maximizing revenue generation through property asset sources.

Keywords: Non-tax Revenue, Asset Management, Policy Framing, International Cases

Increasing municipal revenues is an area of considerable challenge for local governments across the world. In the past several decades, cities have been at the forefront of economic growth in most countries and have consequently witnessed a surge in urbanization with a corresponding demand for better infrastructure. Meeting this ballooning infrastructure needs have placed an enormous strain on local government budgets. In addition, rising expenditures in the form of salary overheads, maintenance and other operational costs place a recurring burden on the income of local governments. Contrast this against stringent regulatory policies, tax restrictions and controlled centre and state funding. What becomes apparent is that it is no longer enough for local governments to fulfill their primary mandate of public service delivery. They are equally obliged to generate revenues that will not only cover the cost of providing these services but will also generate a surplus to finance their growing infrastructure investment needs. They are compelled to run all their revenue sources through a fine-toothed comb and adopt prudent revenue policy decisions that will adequately balance public needs and current realities. Local governments face an imminent need to gain deeper insights into their various sources of revenue in order to maximize the revenue generating potential of each of these

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existing sources as well as explore newer sources of revenue.

Typically, the revenues of most municipalities in India fall under two broad categories – own revenues and income via grants, state and central transfers. Own revenues can be further broken down into tax-revenues (from sources such as property tax, professional tax, water & sewerage tax, etc.) or from non-tax revenues (sources include land & building rental and lease income, user fees, parking fees). The revenue composition of the major ULBs in India is largely skewed towards their tax revenue sources, and in particular property tax, followed by professional tax. The revenue pattern over a multi-year horizon indicates that tax revenues dominate the revenue receipts of ULBs at over 40%, followed by non-tax revenues at approximately 30%, closely trailed by loans and grants (Mohanty, 2007).

Given the high dependence of local governments on income from taxes, a number of in-depth policy research studies have been carried out into the various aspects of tax sources. These research studies have provided governments with advanced insights into the larger issues afflicting tax sources and how they can be addressed to maximize the revenue potential from these sources. On a comparative basis, the non-tax revenue sources of local governments haven't quite received the same attention from different levels of governments, the data on them remaining woefully inadequate.

Asset related non-tax revenues: Sources

A 2007 World Bank review of municipal budgets underscores that finances raised through land leases contribute between 50-100% of municipal infrastructure investment expenditure in several local governments across the world. In India, one of the primary sources of non-tax revenue is the immovable assets held by states and ULBs – in the form of land and buildings that can be leased or rented out or even sold in the open market. Most municipalities own properties in various parts of a city that are at the core of bustling economic activity. These include an array of unused land, leased land, shopping complexes, community halls, parks, playgrounds etc. These properties are typically utilized by the local governments for various purposes, ranging from their own use (state and local government zonal offices, etc.), leaseholds to private parties, shopping complexes as commercial rentals to private parties, community centers that provide civic services, vacant land on long term lease to private parties or organizations.

Owing to their strategic location within the urban localities, these assets are not only of considerable financial worth, but a majority of them are potentially revenue generating. Any income from these assets can be strategically utilized by local governments to finance other infrastructure projects or even into the redevelopment of the very same buildings and land which yielded the income in the first place. Reinvesting into these assets will not only help augment the potential revenues from these assets but will also improve property values in the localities surrounding it. Similarly, redirecting the revenues from these sources into infrastructure projects will bring an increased flow of business and human capital into these localities which now have improved infrastructure and other facilities. This will also cause an increase in valuations of properties within such localities, in turn attracting newer residential developments. Sale of unused land to external parties will result in construction of new buildings which will also bring in additional revenues to the city in the form of property tax.

The Kolkata Municipal Corporation is a recent case in point. In 2008, taking advantage of the boom in the real estate sector, the civic body auctioned the lease of 5 acre plot for a whopping Rs.276.2 crores. The success of this auction has propelled the municipal corporation to clear additional properties in and around the city for the purpose of sale or lease in the near to long term. The corporation intends to plough back the proceeds from these transactions into civic infrastructure.

Table 1 underscores the point that property assets constitute a considerable financial chunk of a municipality's total asset base.

Table 1 : Property asset holdings of selected municipalities

Municipal Corporation	Asset Value (Land, Buildings & Civil Structure Class I & II)	As a % of Total asset base
Chennai	Rs.1,97,40,49,990	34%
Madurai	Rs.4,80,21,59,255	68%
Erode	Rs.15,30,07,929	60%

Source: Budgets of Municipal Corporations (2007-08)

In light of the financial potential of this asset base, a rigorous asset management framework is warranted in order to maximize the income potential from these assets and generate a surplus that will finance other infrastructure investment needs. "Strategic asset management involves a deliberate strategy to treat a certain asset class, such as land and buildings, as an investment instrument whose economic value is to be extracted, to finance other assets, such as basic infrastructure, that are needed to service delivery, but cannot readily be financed." (McKellar, 2006)

Asset Mismanagement: Politics and Apathy

Property assets are yet another area of the public sector that is ridden with several kinds of political, institutional and management challenges which get in the way of extracting equitable income from these assets. Despite their financial merit, or maybe as a consequence of it, governments have not made a notable effort to introduce policy reforms to revamp the manner in which these assets as managed. While it is difficult to pinpoint an exact reason for the absence of reforms, it is fair to state that a number of factors, not the least of which is the total lack of political will, have collectively played a role in maintaining the status quo. Some of these challenges include budget constraints that deter ongoing maintenance, institutional apathy in managing assets for profit, lack of management foresight and financial perspective, and above all political interest that often supersedes public interest. To expound upon a few of these challenges:

Take the case of lease rentals of properties owned by local and state governments. Although local governments make substantial investments on these lease rentals, often times, the revenues generated from such rentals don't even break-even with their costs, leaving little, if any, surplus for reinvestment. This laissez-faire approach in managing assets appears to stem from a distinct absence of a profit-maximization view by governments. Local governments tend to be of the view that they exist as entities merely to provide civic services and are consequently not driven by profit-oriented goals that drive businesses. This perspective in turn propagates an overall outlook of apathy and negligence in the management of such valuable assets held in their possession. Secondly, as in all other spheres of public services, corruption pervades even such property leases, stunting the ability of governments to extract equitable income from these public properties. In fact, land assets in prime localities are also the prime targets for abuse in the form of corruption and connections, strongly warranting a concerted effort from all levels of governments towards checking such misuse.

The financial statements of a municipal body can throw up a number of indicators to help deduce if the revenues generated from land and building assets are proportionate to their financial worth or even if the own income of an ULB will adequately cover its operating costs. Table 2 shows the income generated and costs incurred from Land and Building asset sources, as extracted from the financial statements of Corporation of Chennai:

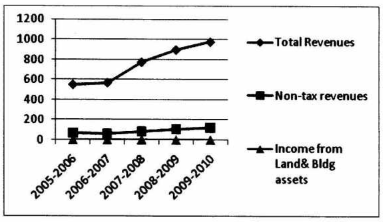
Table 2 and Figure 1show that the total revenues of a municipality have increased steadily over the past five years as have the non-tax revenues. However, the income from land and building assets do not show a corresponding increase during the same time period. This is particularly surprising given the spiraling property prices and rental values in urban areas over the same time period.

Table 2 : Growth Pattern of Revenues, Income and Costs

	2009-2010	2008-2009	2007-2008	2006-2007	2005-2006
Total Revenues	979.03	900.60	776.32	571.80	553.58
Non-tax revenues	121.46	107.15	85.67	61.36	69.93
Income from Land& Bldg. assets	3.99	.3.85	5.40	3.83	3.99
Revenue generating assets	n/a	n/a	197.40	187.11	n/a
Operating Costs (Land & Bldg.)	1.60	5.04	3.67	2.95	2.67

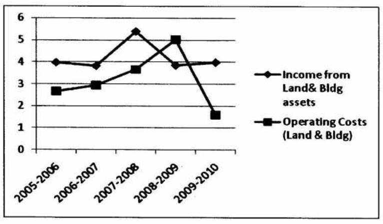
**All amounts are represented in crores*
Source: Annual Budget Statements of Chennai Corporation

Figure 1 : Growth pattern of Revenues vs. Income



Over this same period, it is also worth noting that the income generated from Land and building assets barely covers the operating costs incurred on these assets (refer Fig. 2). That holding property asset is merely a break-even proposition for the government should be a cause for concern, reflective of a gross negligence in managing properties as an income generating resource.

Figure 2: Income vs. Operating costs



The Report and Recommendations of the 3rd State Finance Commission, Tamil Nadu, for the period 2007-2012, released in September 2006 has this to say:

"Many shopping complexes constructed by Municipal bodies are kept idle for want of lessee or the occupier refuses to make payment by creating legal hurdles. One of the hurdles is that where the lease rent for the shops owned by Municipal bodies are not renewed two months before the end of the validity period, the Municipal bodies cannot vacate such shops for violation of the renewal agreement. In Trichi Corporation, a sum of Rs.7 crores is said to be pending for collection in view of the above reasons. Hence, there is need for amending the Act/Rule provisions for condonation of delay and also to levy penalty in such cases. It has also been brought to the notice of the Commission that many assets have been created in far-off places on the pressure exerted by elected representatives which fetched no revenue."

On the other hand, altruistic, service-delivery motives of the local governments have not paid off to their benefit as well. The management of community centers is a case in point. Community centers are large, sprawling buildings that take up a large square footage in prime locations across the breadth of the urban Indian city. Construction of these centers was woven into the urban architecture even during the setup of municipal corporations under the British era. The laws that governed the municipal corporation included provisions and even directives to build such venues of community service. Consequently, local governments across the country own a number of community halls in various locations of the city for the purpose of providing civic services. Individuals or organizations can rent these venues on a daily basis for a nominal fee to hold private functions or public events such as exhibitions. Local governments lease out these centers to private parties on an annual basis by holding auctions or issuing tenders. The bidder offering the maximum possible lease price is selected after also taking into consideration any other eligibility criteria set by the corporation and the property is handed over to the lessee for the duration of the lease. The lessee is then free to rent out the property and also assumes responsibility for the general upkeep and maintenance of the property during this period. Governments prefer to lease these properties to external parties rather than manage it themselves because they face severe labor constraints that prevent them from maintaining these properties in an acceptable condition.

Talking to Budget Officers at municipalities, it becomes apparent that the government's approach towards these properties is not one of profit-making; rather it is viewed only as a mode of community service, in particular for certain segments of the local community which cannot afford high priced private venues for their private functions. Consequently, the government even stipulates a nominal rental value for these venues which cannot be exceeded by the lessee. If the periodic inspections carried out by the zonal offices of local governments reveal that the lessee is charging rental amounts in excess of that stipulated by the government, the lease is cancelled without further notice and the lessee is blacklisted. However, the reality is quite different altogether. Most often, the lessees devise ways to get around this mandate, including charging extra for providing basic services such as seating

arrangements (chairs, tables, etc.), amenities such as stoves, gas and utensils for cooking purposes, electricity, waste disposal and others. The cost of these extra facilities adds up quickly, burdening the public who wish to use these facilities and considerably weakening the government's primary intent of extending this service to the public at nominal rates.

Another important aspect is that political ramifications very often subvert public interest when it comes to policy decisions. Politicians place a huge premium on the ability of the voting masses to sway election results. Consequently, any political decision impacting the vote bank is usually weighed with utmost deliberation so that favorable public opinion is not jeopardized. To cite an example, most municipalities have been loath to increase the property tax rates because of the direct impact of taxes on the income of the voting public. Municipalities are mandated to revise the property tax rates every 5 years but political and electoral pressures quite often supersede this mandate. There is no centre or independent oversight to ensure that such mandates are adhered to and it really seems up to the discretion of the state governments to decide the timing of these revisions.

It should also be noted that local governments are under tremendous strain just to deliver basic infrastructure services - roads, bridges, and water and sewerage facilities - and as a consequence, management of real estate assets falls very low on their order of priority. Growing and maximizing these assets have never assumed overarching attention among the myriad of issues faced by local governments. Consequently, most of these real estate assets show deplorable signs of deterioration and gross laxity in terms of continual upkeep.

To sum up, the current state of property asset management by the public sector seems to be fraught with deep-seated political, institutional and day-to-day management issues. The management challenges are more easily addressed with the help of technology and putting in place an effective asset management framework (detailed discussions about the aspects of effective property management follow in the subsequent paragraphs). Institutional change on the other hand is entirely a by-product of effective management at the local level and a strong, top-down political commitment from the centre and state. The toughest challenge by far is the creation of an enabling political environment by weeding out systemic inconsistencies in the form of corruption, connections and other political vested interests. However, it is not a very far-fetched possibility that such transparent and effective institutions would arise - even the 13th Finance Commissions recognizes that large-scale investments in infrastructure in the recent past is one of the most significant reasons behind the increase in the expenditure of local bodies. It consequently urges that "land should be leveraged as a resource by local bodies. Sale of proceeds of land by development authorities should be shared with the municipalities to the extent of at least 25 percent". Such shifts in bureaucratic focus toward better management of property assets better will go a long way in tapping the income potential of these latent sources of revenues to the government. Additionally, for such administrative shifts to gain momentum and yield measurable results, there needs to be in place an effective asset management framework that will serve as the foundation on which to ground optimal asset related policies and decisions.

Principles of an effective land asset management framework

Adopting a good framework for municipal real estate management is crucial to ensure that valuable public resources are managed efficiently, and the interests of the tax-paying public are safeguarded. Municipal property makes up a formidable asset base, as is apparent from the financial statements of any municipality in India. Addition to or disposal from this land asset base requires careful consideration and must take into account several implications ranging from the fiscal to the political.

For the past few decades, real estate asset management as a practice has been honed to reflect a reasonable measure of success in the private sector. In the private sector, property management is viewed solely through a profit-making lens and the strategies adopted to manage property are geared towards maximizing value for the investor. Consequently, there is a continual adjustment of risk against return and opportunities are constantly sought to lock in higher gains from owned properties. The public sector, on the other hand, exists more for the purpose of enabling social and economic development than creating wealth. Its threshold for risk tolerance is higher, while its demand for a return is not always immediate. Also, in order to maximize profits, the private sector has to continually seek ways in which to improve their efficiencies; such efficiency drives are integral to asset management as well. The public sector, on the other hand, is required to place a greater emphasis on transparency in order to ensure accountability. However, despite these inherent differences in the driving goals of these two sectors, the private sector can indeed throw up a lot of lessons and success stories that can help model asset management practices in the public sector. For instance, a number of financial models for real estate portfolio management that are used by the private sector can be adopted in the public sector as well.

Typical steps that govern sound asset management practices in the private sector incorporate: (a) a broader strategy for purchase/disposal/deployment of assets, (b) detailed procedures that help implement the strategy, (c) a benchmarking system that completes the feedback loop essential for measuring performance and future goal-setting. Going by the resource level decision-making experiences in the private or public sector, these three institutional capabilities encompass the broader prerequisites that enable a programmatic design and management of public sector assets as well (John J Hentschel, 2007).

Sound and relevant policies, legislative and regulatory structures constitute the institutional bedrock for decision-making in any form; this holds particularly true in matters involving public wealth. It is also worthwhile to note here that successful property management experiences in countries such as China, Russia, and United Kingdom, etc. were first preceded by overhauling traditional policies that were not amenable to reform. Secondly, a sound operational environment in the form of process and technology needs to exist for any ground-level decision to be effectively delivered. In the absence of such an environment, it would be difficult to even identify assets that require management or address any other key breaks within the system. The operational environment thus facilitates access to and analysis of information, which is integral to a well-designed asset management system. And lastly, the effectiveness of any decision cannot be validated unless it is measured, reported and compared against established standards. This last step not only addresses the issue of public accountability but also paves the way for creating improvements in existing processes and procedures in the form of efficiency or cost reductions or adopting better strategies, etc. Taken collectively, these three capabilities offer a holistic approach in addressing all the aspects involving public sector assets.

Consequently, a recommended framework for land asset management needs to be broadly modeled around three core institutional capabilities:

- Policy (including legal, regulatory) planning framework (Strategic)
- Systems and procedures for implementation (Tactical/operational)
- Public Performance measurement and benchmarking (Standard-setting and performance measurement to enable transparency/accountability)

Policy Framing

Property holdings can be deployed in a number of different ways so as to be beneficial to the municipal body and its constituents. Hence, a thorough and clear policy framework is crucial to provide focus and direction to the planning and management of property assets. The paper has thus far discussed the potential of increasing property related revenues of local governments. However, from an institutional perspective, it is worth noting that the property assets held by local governments in India are marginal compared to those held by urban development authorities (UDAs). Each state has its own Town Planning Act and Municipal Act which largely govern the acquisition and sale of land both by the municipal corporation and the UDA. Additionally, these acts also govern the institutional arrangements for land use and the sharing of revenues between the municipal corporation and the UDA. In most states, the UDA (bodies responsible for town planning and development) holds responsibilities for most matters relating to land. Often, municipal authorities do not have financial or taxation powers and fall under the purview of the state. Additionally, there exist revenue sharing arrangements between the municipality and the UDA (bodies responsible for town planning and development), which are not always favorable to the municipality. For instance, the Gujarat Town Planning Act mandates payment by the Ahmedabad Municipal Corporation to the Ahmedabad Urban Development Authority for its services. Given that municipalities are saddled with the cost burdens of continued maintenance of infrastructure and service delivery in the face of growing urbanization, it is imperative that land related policies are framed so as to enable municipalities to maximize their income from these sources. In addition to land related policies, the state and centre should work together with local bodies to lay clear guidelines for the effective management of building assets that are owned by local bodies. In this process, policymakers should seek answers for certain fundamental questions that underpin a sound asset management and policy planning framework:

To what extent are local authorities empowered to manage their property assets? And do they have the right incentives to manage these property assets well? For instance, what extent of the property sale and management proceeds can the local authorities retain for purposes of their own reinvestment? Are local authorities equipped with the appropriate skills, systems, benchmarks and resources to manage their assets well? How can any asset management policy be institutionalized such that there is consistency in implementation and practice across municipalities? How can the relevance of an asset to the strategic and operational goals of a municipality be ascertained? What is a good time to dispose of an asset? Or accrue a new asset to the existing portfolio? How can effective partnerships be established with the private sector in the disposal or management of assets? What framework can be adopted to evaluate varied options (such as lease, sale, rental, etc.) in managing an asset? How do we structure policies so as to ensure transparency and public accountability? How can policies be structured such that political clout is minimized in property related decisions? What is the nature of regulatory policies that will ensure that public assets are not compromised; can audit practices be tailored to accomplish this? Policies should be framed such that these larger questions related to the governance of assets are adequately addressed.

Policy implementation

Deploying effective systems and procedures for implementation of the policy is the next critical step in ensuring that policy is effectively translated to practice. Systems that make the most operational sense and policy impact would include:

- setting up a committee/taskforce at the centre to draw on public and private sector expertise in property asset management, to enable knowledge transfer, to explore new avenues for property deployment and management, to actively involve private sector in contributing to efficiency gains in the public sector
- gaining an exhaustive knowledge of the current property asset base, identify core assets that are crucial for public service delivery and those that are surplus, ensure that core assets are put to their most productive use and explore avenues for disposal or redeployment of surplus
- adopting software tools for lifecycle management of property assets (exhaustive inventorying and categorizing of assets and maintenance of asset registers, establishing financial values for the assets, calculating depreciation rates, accounting for capital improvements)
- consistent and continual valuation of assets and corresponding depreciation rates
- operational controls to audit and measure performance
- identifying comparable benchmarks (both from private & public sectors)
- reporting tools to compare performance against established benchmarks
- periodic evaluation of tax rates or lease/rental rates and provision to adjust rates to reflect market requirements
- transparency and accountability in the form of extending access of asset databases to

policymakers, administrators, civil society and the citizen; in all stages of the bidding process/public auction and/or tendered lease of municipal property; full and fair disclosure of all financial terms associated with rentals/leases; independent appraisals and market valuations of property in case of purchase or sale

Plug for computerized asset databases and record-keeping

"ULBs generally hold a significant amount of fixed assets in real estate. But very few local bodies have exploited the commercial potential of these properties to generate non-tax revenues. Most ULBs do not have a proper inventory of assets nor do they update them regularly. Often villages on the periphery are brought into municipal limits as the city expands and panchayat land then comes under municipal ownership" (Vaidya, 2008). There is growing evidence worldwide that municipalities that have been able to thoroughly identify their stock of urban landholdings and maintain an inventory of the same, have been in a better position to generate better revenues from such assets.

Owing to various reasons, municipalities in India have maintained a very poor record of physical and financial data on property assets. Table 3 illustrates how fixed assets such as land and buildings are represented in municipal financial statements. Land as an asset is valued at Rs.4.41 crores, an amount that includes all the land owned by the municipal corporation, namely parks, playgrounds, agricultural land, uncovered parking spaces or any vacant site that hasn't been constructed upon.

Table 3 : Fixed Asset Schedule from the 2007 Financial Statements of Chennai Corporation

Asset Type	Gross Amount	Depreciation	Net Amount
Land	Rs.4,41,60,990	-	Rs.4,41,60,990
Buildings & Civil Structure Class I	Rs.2,44,56,54,005	Rs.80,81,86,322	Rs.1,63,74,67,683
Buildings & Civil Structure Class II	Rs.35,58,29,499	Rs.6,34,08,182	Rs.29,24,21,317

A ULB might have a list of all properties that make up the asset land as part of their asset registers. However, under the current accounting system, the value for land cannot be further broken down and apportioned to the various properties that are present in the asset registers. It is hence near impossible (under the existing accounting records) to establish the current value of any specific asset even for internal purposes.

This is true for the asset classification of buildings as well. Referring back to Table 3, the net asset value of Rs.193 crores for buildings includes a list of assets ranging from office-buildings, school-buildings, public conveniences, hospitals, dispensaries, shopping complexes, community centers, maternity and child welfare centers. It is simply not possible to split up this Rs.193 crores further and peg a financial value to a specific building, let alone a subset of similar buildings. Under these circumstances, it would not be a feasible exercise to calculate if the costs incurred by a specific asset source justify the investments directed into it. Nor is it simple to make objective revenue projections from an asset or even to calculate if the return on investment from an asset is optimal.

Local governments in India typically maintain only manual records of their assets, liabilities and even their transactions. Extracting information from these manual records for any useful purpose is a concerted exercise, not to mention the likelihood that the data thus derived is highly unreliable. For example, even estimation of tax outstanding dues in order to improve revenues is a highly tedious task because of the maintenance of manual registers. A changeover from this manual methodology to a computerized system for purposes of tax billing, payments and receipts is certain to have a positive influence on the local governments' municipal revenues as well as effectiveness in service delivery.

In the case of property assets, as illustrated in the example above, municipalities are quite often unable to maximize the revenue generating potential of the assets because they clearly lack exhaustive information on their holdings (such as location, original cost, age of property, current value, depreciation, capital improvement needs and market value of comparable leases). In the absence of such information, local governments are in no position to accurately allocate their existing revenues from these sources, much less forecast revenues into the future. Decision-making becomes difficult and asset management as an issue falls by the wayside. However, while ICT systems hold the key to effective delivery of policy into practice, these systems should not be geared just for internal management and reporting purposes. Given that transparency and accountability are mandates of the public sector, it is important that ICT systems designed for this sector fulfill information dissemination responsibilities to the public as well.

One recent example is the case of Brihanmumbai Municipal Corporation which was unable to produce details of land lease data which was sought under the Right to Information Act (Shukla, 2010). BMC was asked to provide information under the RTI Act on the total number of plots in the Mumbai area whose leases had expired. However, it was unable to comply with this request because it was difficult to extract the relevant information from the manual files where they were maintained. This case further brought to light the fact that the leases on many of the large tracts of land had expired, with the local government failing to take timely action on them. The state has subsequently ordered BMC to computerize the entire land lease data within a mandated time period, stating that the inability to track if leases have even expired can lead to losses worth several thousand crores to the city and to the state governments.

Additionally, under the manual practice, records pertaining to buildings or land are typically maintained across various registers. Any attempt to extract complete information on a specific asset is not only futile, but the effort also throws up several disconnects in how the asset is recorded in the manual registers and how it is ultimately reported in the financial and budget statements. To explain this further with an example, the financial statements of a specific corporation reported the income from rentals/leases of building for the year ending 2008 to be Rs. 3.86 crores. A complete list of buildings/shops rented out by the corporation and their approximate rental values were subsequently

sought from the corporation. Table 4 shows the rental income that was projected from all the shops owned by the corporation. The projected income results underscore the significant disconnect between the income that is reported on the financial statements and the income that can actually be derived from the manual records.

Table 4 : Projected income from shopping complexes on lease

Zone	Shops*	Rental Value**	Months	Projected Annual Rent
1	25	2000	12	6,00,000
2	835	2000	12	2,00,40,000
3	2750	2000	12	6,60,00,000
4	64	2000	12	15,36,000
5	277	2000	12	66,48,000
6	80	2000	12	19,20,000
7	159	2000	12	38,16,000
8	723	2000	12	1,73,52,000
9	362	2000	12	86,88,000
10	369	2000	12	88,56,000
	5644			13,54,56,000.00

(All amounts are represented in rupees)
*Source: *Asset records of Corporation of Chennai (2009-10)*
*** Rental Values based on estimated minimum commercial rental values*

From this table, it would seem that municipalities have not paid particular attention to the maintenance of a clean record of physical assets, particularly given the size and scale of the other public service delivery issues on their manifesto. For the most part, this laxity can be attributed to capacity constraints, which is quite often the bane of most public sector operations. Capacity constraints assume the form of lack of skilled manpower, financial resource constraints, absence of appropriate investments in technology. Manual codification of asset data has propagated the systemic inability to track and manage these assets easily and effectively. Periodic audit of asset records and of the physical assets (similar to audits in the private sector) are virtually absent in the public domain. In the absence of operational controls, it becomes difficult to establish accountability. Such systemic inconsistencies are bound to create opportunities for misuse and misappropriation and this malaise has become endemic to the management of public sector assets.

Recent central government efforts mandating e-governance initiatives at local government level should go a long way in addressing some of these issues. The 12th Finance Commission report strongly promotes the adoption of e-governance systems and applications across the entire range of ULB operations. The 13th Finance Commission Report takes this recommendation a step further to emphasize that "FC grants be released to local bodies only after State Governments accept the

technical guidance and supervision of the C&AG over maintenance of accounts and audit". The Ministry of Urban Development, with the assistance of C&AG and NIUA, has developed the Model National Asset Valuation Methodology Manual for reference by ULBs in the valuation of their assets and preparation of financial statements. This comprehensive manual covers all aspects of municipal asset management and its level of detail is comparable to prevailing practices in the private sector. E-governance applications that are developed based on such manuals will not only be able to address most of the issues plaguing the existing process, but the MIS reporting will also simplify decision-making and help in the better tracking and management of assets. In addition to strengthening the revenue from these sources, the ease in obtaining data will also enable the cities and states to examine and tighten their land lease policy framework.

Several ULBs across the country are in various stages of adoption of the Geographical Information System technology which enables satellite mapping of municipal areas. This mapping technology is crucial to identifying properties that fall outside the ambit of municipal property tax net, thereby significantly increasing the tax coverage ratios of municipalities. This technology lends a geographic perspective to the management of public properties. The ability to view properties based on their geographic location helps municipal officials to make better decisions regarding acquisition or disposition of properties. ULBs can adopt this technology not just for purposes of residential and commercial property tax collection but also for strengthening the inventory of rental and lease properties. Unused and unidentified municipal land is commonly subject to issues such as encroachment. GIS mapping can address such issues by helping locate previously unidentified buildings and unused parcels of land.

Public Performance Benchmarking

Benchmarking is a tool that helps assess the performance of any process or operation by measuring its effectiveness and efficiency and comparing the data against established standards within the similar industry. This tool provides a detailed understanding into how well a target is performing and offers insights into what adjustments can be made to better its future performance. While the approach is prevalent in the private sector, its core principles hold considerable merit and are transferable to the public sector as well, specifically in bringing about private sector-like efficiency gains in the area of property asset management. Additionally, such tools are relevant in the public sector, particularly to foster an environment of transparency and accountability, two inter-dependent values that are becoming integral to public service delivery.

One of the first steps in creating a performance benchmarking tool for the property assets of local governments is the identification of *key performance indicators*. Some of the recommended KPIs for property assets are cost per square meter of property, cost per person, workplace productivity, workplace condition, environmental sustainability, space allocation and utilization ratios (Occupiers, 2006). Once the KPIs are established, appropriate procedures must be put in place to ensure that key indicators are measured on an ongoing basis. It should also be ensured that the data that is being captured is of reliable quality. Once KPIs are captured over a period of time, the data can highlight interesting facts about the property being measured. When this data is contrasted with agreed standards for the same measure, any variances can indicate if the property is over or under performing and why. Performance based incentives can be put in place to recognize, reward and encourage the zones managing properties.

To explain this further with an example: space utilization ratio is an indicator that will point out to whether a property is over or under populated. This information can throw up a number of interesting questions and will be useful for decision making purposes in multiple ways. Does an under populated building simply mean that there is availability of lease space in a building or vice versa? What factors could be driving the over or under population of buildings? If the property cannot be populated, is it a good target for disposal? Or is it merely a maintenance issue? Conversely, can a high space utilization ratio indicate that a property is much in demand and can therefore command a higher rental or lease value?

These benchmarking tools are used widely in the private sector and certain developed economies such as the UK have adopted them even in the public sector. In India, several factors such as archaic accounting systems still practiced in certain ULBs, questionable data quality compounded by a lack of entity wide e-governance systems, lack of skilled personnel, etc., hamper easy adoption of advanced benchmarking practices into the public sector. However, recommended early steps in the right direction include: a steadfast top-down commitment to measuring performance which is percolated to all levels of the government, enabling an administrative environment (such as accrual based accounting systems, state-of-the-art e-governance systems) conducive to performance measurement and performance-based decision making, adoption of measures those are relevant and plausible in the Indian sub-context, and a concerted follow-through on the data gathered. Follow-through would involve making management and administrative decision-making as a logical next step to measuring performance. This would mean that performance would drive: budget allocations for property management, decisions regarding sale or disposal or lease of properties, incentivizing effective property management at zonal levels, identifying opportunities for cost and space rationalization.

Lessons from Successful International Cases (Peterson, 2009; McKellar, 2006)

China

China is a good example where the local governments have most efficiently tapped into the potential of their land assets to finance their urban infrastructure. Recent studies reveal that land assets have financed at least half of the entire municipal infrastructure investment in China over the past 15 year period (Peterson, 2009). Several factors have played a favorable role in the local governments' ability to carry out effective land asset management. China's rapid economic growth over the past 15 years

coupled with the government's strategy to promote urbanization as a means of ensuring economic growth drove urban property values upward during this period. These growing property values spurred the demand for urban land and consequently, also increased the market value of all the land assets owned by local governments. Secondly, Chinese state governments have traditionally owned large parcels of unutilized land in prime localities of urban areas.

Recognizing the financial potential behind such properties, the government amended the Constitution to assign landowning rights to local governments, who were empowered to transfer rights of land use to private users through leasing arrangements. The revenues generated from these leases were divested into urban infrastructure investments, as part of a deliberate national and local government strategy to rearrange the assets in the balance sheets of local governments such that unused assets are put to productive use. Thus one form of assets (unutilized land) in the balance sheet was converted to another, infrastructure assets (bridges, roads, water, sewerage etc.). This strategy proved so effective that between 1990 and 2002, the sale of land-use rights alone yielded Shanghai $12.1 billion which was entirely directed to investments in water, roads, and wastewater systems to strengthen urban growth (McKellar, 2006).

In the initial years, this process of transfer to private users was carried out strictly behind closed-doors and was mired in corruption and political connections. However, in 2002, the central government suspended the practice of closed-door negotiations and mandated that the leasing is done in a more transparent, public platform, in the form of a formal competitive bidding process. This has further bolstered the growth of infrastructure in China, while strengthening the fiscal situation of local governments.

Cairo, Egypt

Egypt launched a Public Asset Management Initiative in 2004, managed by the Ministry of Investment (Peterson, 2009). This program sought to take stock of all assets held in the portfolios of different ministries and assess their economic role in helping the ministry perform its core functions. Those assets that failed to contribute to the ministry's core functions were required to be rationalized, and sale was required to be conducted in a transparent manner, via public auctions. Under this program, the Ministry of Housing, Utilities, and Urban Development accelerated the sale in May 2007 of significant desert land parcels approved for development under the new city development plan for East Cairo. These land parcels were sold to land development entities from United Arab Emirates and Saudi Arabia and were held responsible for all internal infrastructure development. The Ministry in turn divested the proceeds from the sale of almost $3.12 billion into infrastructure investment, including construction of access highways and as housing subsidies for low-income households.

Istanbul, Turkey

Difficulties in managing its municipal debt impelled state and municipal governments in Turkey to

view their property resources as a means of infrastructure financing. The government undertook concerted efforts to identify excess asset holdings; the income obtained the strategic disposal or reallocation of these assets helped reduce municipal borrowing, strengthen its credit rating, while generating enough surplus that could be divested into transportation and other infrastructure investments.

United States, Australia, United Kingdom

Among developed countries, the above countries take the lead in recognizing the importance of managing property assets as a viable economic resource at all levels of the government. While asset management is still an evolving discipline in these governments, the countries are largely comparable in their readiness to adopting innovative and entrepreneurial solutions to managing public sector assets. The United Kingdom in particular throws up several approaches and best practices to extracting the highest performance out of properties owned by the public sector. Government properties are typically viewed and exploited as a corporate asset would, with newer ways continually sought to maximize the asset portfolio of governments and to compare performance against industry benchmarks.

The lessons than can be learned from these experiences are quite varied. While these experiences underscore the premise that strategic management of property assets will help maximize their economic potential, they also feed into the asset management framework outlined earlier in several different forms: the examples from Turkey and Egypt emphasize the need for information on assets to facilitate strategic disposal of excess assets. The China example serves as a model for the role of appropriate policy interventions in spurring the productivity of static assets held by governments. United Kingdom offers several best practices in the state-of-art management of assets; performance benchmarking of public assets is high on the list of government's priorities and their benchmarking practices closely mirror those adopted in the private sector. Almost all of these experiences also underscore the need for transparency and accountability in the management of public assets.

This is not to argue that effective property management, leasing and sales is a sustainable and buoyant form of municipal revenue generation. It will certainly generate recurring revenues for the local government in the form of property taxes. However, once the land resources available for lease or sale are exhausted, the ability to generate additional revenues will reduce and governments will have to explore alternative revenue streams to fund their expenses. However, in India, municipal and state owned properties remain an untapped resource among ULBs; with strategic management, they can prove to be a lucrative income source as has been proven in the example of China.

Conclusions

As a first step in achieving some of the core recommendations of this paper, it is imperative that the acts/policies/procedures and other legislation governing the management of property assets across all government departments are thoroughly reviewed and streamlined. The objective is to strengthen the legal and regulatory environment by plugging any institutional loopholes that allow for political capture and mismanagement of public properties. Secondly, a panel of experts should be set up to review the entire gamut of existing asset management practices, procedures and draft a comprehensive asset management plan that will serve as a handbook for property asset related decision-making purposes. These guidelines should be disseminated across all government departments which should also be actively encouraged to develop a thorough understanding of all assets under their management and make decisions regarding these assets in keeping with their relevance to the department's overall mission. Bureaucrats and public officials should receive adequate training in implementing sound asset management principles, especially in measuring the performance of assets that they own. A detailed and consistent approach to managing public properties will slowly dilute the politics surrounding these high value assets and will pave the way for better management of public wealth in the public sector.

The author wishes to acknowledge the valuable comments from Dr. Jessica Seddon, ex-Director, Centre for Development Finance.

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