

Unlock Mumbai's land revenue to upgrade the city

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Introduction

In early February, the Brihanmumbai Municipal Corporation (BMC) announced a budget of Rs 33,441 crore¹. The body has jurisdiction over 13 million people — and Mumbai requires significant capital expenditure to upgrade the public services and infrastructure that serve them. Thus, although the revenue components (see Figure 1) seem reasonable, India's richest municipal body [faces a revenue crunch](#).

Typically, the largest share of BMC's revenue income came from octroi, representing 35% of the total. This changed in 2017 when the central government introduced the Goods and Services Tax and abolished octroi. It decided to compensate state governments for loss of revenue for five years. The state government in turn compensates BMC to the tune of 35% of its budget. This comes to Rs 9,799 crore² in this year's budget. But there are two problems here. First, the clock is ticking on the compensation. Once the Centre turns off the tap, there is no certainty that the state government will be able to continue funding the BMC's octroi revenue loss. Second, the BMC started drawing funds from its reserves in the same year that the compensation started. In fact, this year's withdrawal is estimated to be three times the initial withdrawal of Rs 1,227 crore³. Clearly, even with the compensation, the BMC is in financial distress and needs to grow its revenue pool.

The Maharashtra government should thus encourage the BMC to build capacity for a new revenue structure – a lesson other state governments should also heed. The BMC should capitalise on its assets, i.e. aim for greater revenues from the land market, which is in a dysfunctional state. Currently, BMC's usage of land-based fiscal tools has led to unreliable, unsustainable revenue flows.

We break down the revenue problem by:

- Explaining why these tools aren't reliable
- Recommending how to stabilise revenue generation
 - Use Local Area Plans to stabilise and enhance revenue from land
 - Build a new revenue stream by unlocking the value of public land

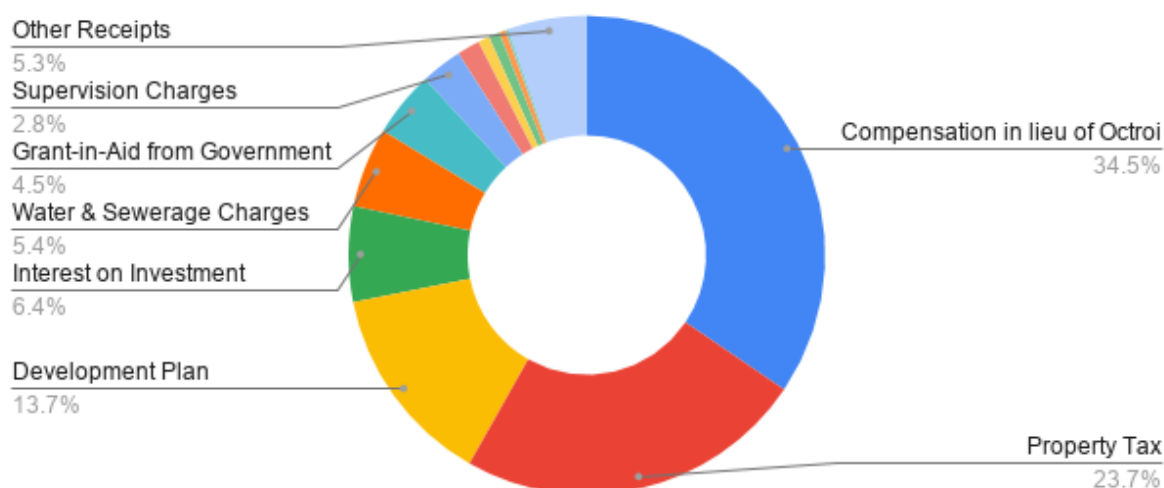
¹ BMC budget document, 2020-2021

² Ibid

³ BMC budget document, 2017-2018

- Increase revenue through property taxes

Figure 1: Budget estimates 2020-2021



Source: BMC budget documents

Unsustainable fiscal instruments

The BMC intends to raise revenue this year through the regularisation of unauthorised development. This sums up much of what is wrong with land-based fiscal measures in Mumbai. It requires resources and manpower to compare building permits with the construction rules in place at the time of issuance. It is a tedious, long-drawn process and may not generate the anticipated revenue in a timely manner. And it rests on the notion of raising revenue by fixing something that shouldn't have been allowed in the first place.

On a broader scale, two regulatory decisions are primarily responsible for Mumbai's distorted land markets and misaligned incentives. The first is the BMC's misguided attempt to control density by keeping low caps on floor space index (FSI). This causes distortions which lead to land scarcity and high prices. Instead of relaxing policy to resolve the distortions, it regulates further, creating a snowball effect.

The second is the way Accommodation Reservation (AR) is implemented in the Development Plan. The BMC uses AR to provide a wide range of public amenities such as primary schools, police quarters and fire stations. In India, city authorities obey state-level rules and the planning authorities' prescriptions of Development Plan. In Mumbai, the plan defines the exact location and the amount of floor space required for each amenity at the plot level. These standards are dependent on a combination of complex and unclear regulations. Since the Development Plans are revised only once every 20

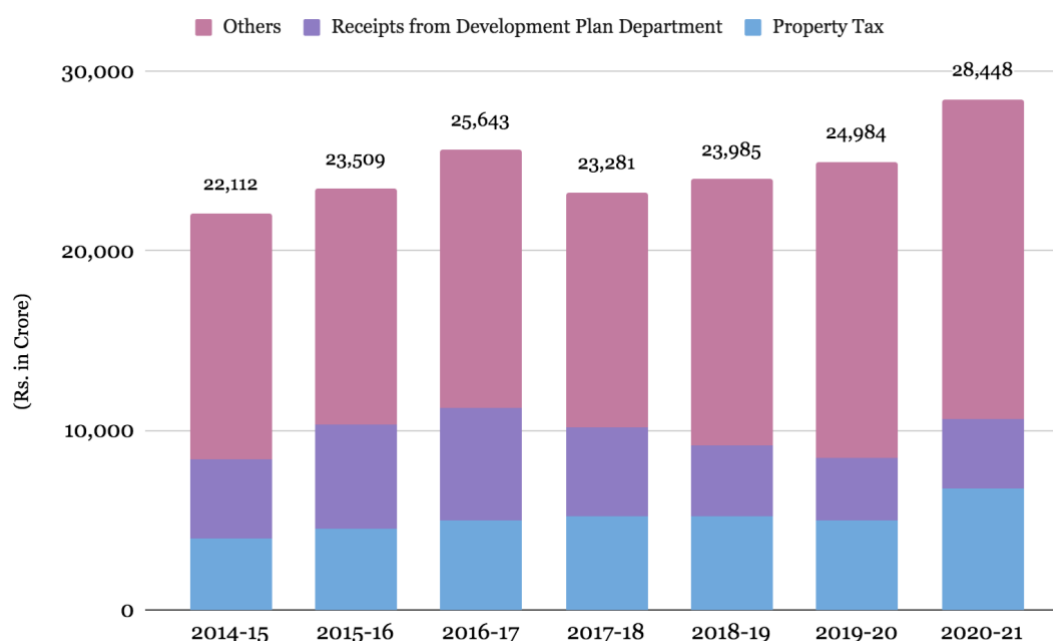
years, the land reservations are frozen. This arbitrary planning policy does not follow changes in the city’s economic base and demand variation in the land market.

Transferable Development Rights (TDR) are a prime example of land-based fiscal measures used in Mumbai that arise from those artificial constraints on land markets. This is unused FSI that people can transfer or sell from their original plot to other plots identified by city authorities. It’s been used in US cities since the 1990s to compensate private landowners for development restrictions in environmental or heritage protected areas. In Mumbai, it is used to compensate owners of plots reserved for amenities or road widening by letting them transfer FSI to other parts of the city. It is also given as additional FSI for developers to build low-income housing.

However, when authorities in Mumbai use discretion to relax the FSI rule, it further distorts already distorted land demand and supply. TDR revenue is thus the sum of uncoordinated transactions spread across the city at different times of the year. It is unclear if the BMC can foresee and account for these budgets accurately in its budget.

Unsurprisingly, the BMC has not been able to sustainably grow its revenue pool. Even though this budget is the largest of the past six years, the share of revenue raised from development plan receipts is only 14% as opposed to 25% in 2015-16 (See Figure 2)⁴.

Figure 2: Trend of Municipal Corporation Revenue Income: 2014-2021



Source: BMC budget documents

Note: The numbers are budget estimates

4 BMC budget documents

Recommendations

a) Use Local Area Plans to stabilise and enhance revenue from land

BMC plans to levy fees at the time of redevelopment. However, these are uncoordinated, individual transactions because the city lacks a consolidated land management tool to ensure a systematic collection of these revenues. Fortunately, such a mechanism already exists in India. It is a statutory land pooling method called Local Area Plan (LAP). It has two objectives. One is to optimise land utilisation when the city redevelops, and the second is to raise resources to pay for infrastructure by charging for increased development rights such as additional FSI in redeveloped areas.

Through this method, the authority consolidates all individual parcels of land within a defined area. It draws a new layout of private plot boundaries according to the area's infrastructure needs. For example, this can be used for road widening in already built-up areas. In this process, land is redistributed, not acquired. The authorities levy betterment charges on landowners based on anticipated increase in property value. This pays for the development of infrastructure in the area. In turn, people benefit from access to new services, such as wider roads that can support new modes of transportation, or better access to parks and public services. It's a win-win situation for the authorities and people. The authorities avoid acquiring land and are able to raise revenues. They can plan and implement redevelopment projects in a quasi self-financed manner.

LAP has been used successfully by the Ahmedabad Municipal Corporation. It helped monitor the redevelopment of the Central Business District and to its large-scale infrastructure projects. If the BMC wants to increase its financial and technical capacities, LAP can be used as a base and improved upon. It helps gather reliable data and plan redevelopment projects in a systematic way. Such a transparent system creates trust between developers, citizens and authorities, contributing to a well-functioning land market. This creates a favourable environment for the authority to capitalise on its assets.

b) Unlocking the value of public land

Does BMC currently have the capacity to do this? First, it needs to create an inventory of all lands owned by the authorities. These public lands must be priced at market rates to give an accurate picture of the revenue. Leasing public land, as announced in the BMC's 2020-21 budget, is also an attractive option as it guarantees a revenue stream as opposed to a windfall gain to authorities from a sale. Publicly

available land records help authorities to plan capital expenditure for large scale investments as well as keeping potential buyers informed.

A similar exercise was done in Ahmedabad. Ballaney et.al (2013) developed a GIS-based methodology to assess how much of the city's land is public and its value. The researchers estimated that the city authority could raise between Rs 20,000 crore and Rs 54,000 crore through the sale of these parcels, much more than the capital investments required.

c) Increasing revenue through property taxes

Property tax is another land-based revenue mechanism that makes up a large share of BMC's income. Though its share has increased lately (see Figure 2), BMC fails to collect it efficiently. Rs 15,000 crore is outstanding from non-payment and disputes; the municipal authority hopes to get only 10% back in the coming years. Plainly, property tax collection needs to be strengthened.

Mumbai is not an isolated case; property tax is under-collected across the country. India lies very low on the list of countries that charge property taxes as a source of revenue generation. Its property tax-to-GDP ratio at 0.48% is one of the lowest in the world. In comparison, peers like South Africa and Brazil have ratios of 1.39% and 1.25% respectively. The major reasons for this are weak assessment and collection mechanisms, arbitrary exemptions. However, city authorities can develop systematic ways to ensure consistent collection and transparent assessment. Geospatial Information Systems can improve maintenance of property records. India's Economic Survey 2016-2017 showcases it can also help to assess tax potential across the city of Jaipur and Bangalore. Property tax collection could thus be much higher if property is accurately enumerated and objectively valued. As mentioned in a report by IDFC Institute, [Reforming Urban India](#), raising revenues from property taxes and reforming the municipal taxation system will require increasing the tax rate, widening the revenue base and improving collection efficiency.

Most of the fiscal instruments presented in the BMC's budget for 2020-2021 stem from arbitrary planning, convoluted regulations and inefficient administration. The country's largest municipality deserves better. Its revenue streams must be planned and sustainable. Being more transparent will also encourage investment – and develop trust among external donors and lending agencies when it comes to complementing municipal finances.

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