

Finance and Investment Plan

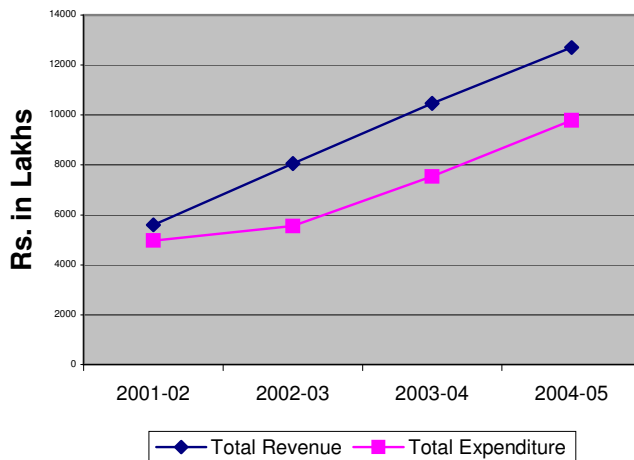
7.1 Financial performance

This chapter details the municipal finances of the municipal corporation and other following entities involved in the provision of services and outline the receipts and expenditure over the last five years.

- Vijayawada Municipal Corporation
- Mangalgiri Municipality.
- Vijayawada Guntur Tenali Mangalgiri Urban Development Authority (VGTMUDA).

7.2 Vijayawada Municipal Corporation

VMC Revenue Performance



Municipal finances of VMC have been reviewed for the last five years, commencing from the financial year 2000-01. Municipal finances of VMC have been consistent for the last five years. VMC getting finance from the various sources and the revenue inflow is dominated by the property tax.

For the purpose of analysis, the items of account have been categorized under the following major heads:

Revenue Account: All recurring items of income and expenditure are included under this head. These include taxes, charges, salaries, maintenance expenditure, etc.

Capital Account: Income and expenditure items under this account are primarily non-recurring in nature. Income items include loans, contributions by GoAP, other agencies and capital grants under various State and Central Government programmes. Expenditure items include expenses booked under developmental works and purchase of capital assets.

Deposits and Advances: Under the cash system of accounting, certain items are compiled under advances and deposits. These items are temporary in nature and are essentially adjustments for the purpose of recoveries and payments. Items under this head include library cess, income tax deductions, pension payments, provident fund, payment and recoveries of advances to employees and contractors, etc.

7.3 Financial Status

Revenue income of VMC has grown to a level of INR 1210.46 million in the FY 2000-2001 from INR 627.20 million in FY 2003-20004, at consistent annual growth of Revenue expenditure increased from INR 622.32 in the year 2000-2001 to 1281.640 in the year 2003-2004. During this period, VMC consistently maintained a revenue surplus.

Capital income of VMC comprises of loans, grants and contribution in the form of sale proceeds of assets and contribution (donations for water supply, sewerage connections and deposits works, etc.) A major share of capital income is in the form of grants. The capital account has witnessed a deficit – implying utilization of revenue surpluses to fund capital works. However, during FY 1994-95 the capital account witnessed a surplus – resulting from British Overseas Development Assistance (ODA) grant allocations towards slum improvement. Envisaged under the aforesaid assistance program were undertaken in the following year.

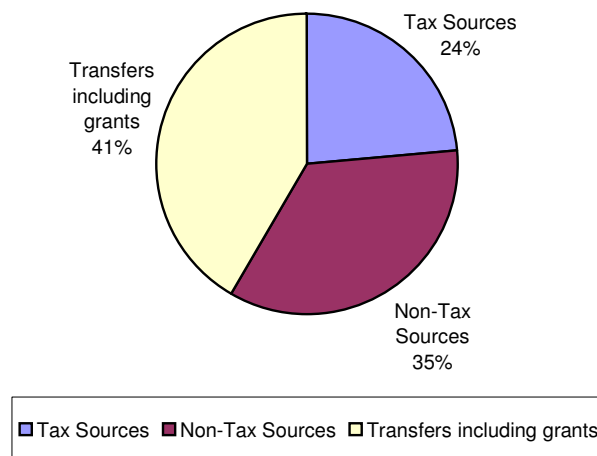
It is observed that capital expenditure has been inconsistent during the review period. During FY 1997-98, capital expenditure had risen to INR 350 million from INR 150 million in the previous FY. This rise was primarily attributed to higher allocation for road works, ODA works and the ongoing UGD project.

The following sections provide an in-depth review of the revenue and capital account, primarily aimed at assessing the municipal fiscal status and to provide a base for determining the ability of VMC to sustain planned investments.

7.3.1 Revenue Account:

The revenue account comprises of two components – revenue income and revenue expenditure. Revenue income comprises of internal resources in the form of tax and non-tax items. External resources are in the form of shared taxes / transfers and revenue grants from the State Government. Revenue expenditure comprises of expenditure incurred on salaries, operation & maintenance expenditure and debt servicing.

Revenue Receipts by Source - 2004-05



Revenue Income: The revenue sources of VMC can be broadly categorized as own sources, assigned revenues and grants. The source-wise income generated during the last four years period is presented. The base and basis of each income source has been further elaborated in the following section.

Own Sources: Own source income includes income from resource mobilisation activities of VMC in the form of taxes, charges for water and sewer and fees for building permission, trade licences, etc. The own revenue sources are further classified as tax revenue and non-tax revenue sources that are generated by various sections of the VMC. The salient features of this revenue head is detailed below:

Tax sources: The sections contributing tax income include – General Taxation, General Administration, Communication and Engineering, Education, Town Planning, Public Health, Remunerative Enterprises, Water Supply and Underground Drainage. The General Taxation section is the largest revenue generating section and collects among other taxes, property tax and advertisement tax. Other sections collect charges and fees, as per the rules, towards services rendered by VMC.

Non Tax Sources: Non-Tax sources include all non-tax revenues such as fees and charges levied as per the Municipal Act. Such revenue sources include income from special services, etc. The major sections/departments contributing non-tax income include: General Administration, Income from Town Planning Section, Dangerous & Offensive Trade Licence Fee, Births and Death Certificate, Income from Remunerative Enterprises, Water Supply and Under Ground Drainage.

General Administration: Income from general administration is in the form of magisterial fines; warrant & distraint fees; lapsed deposits and other sundry income. It also includes income through interest on investment and realisation of past investment during the financial year.

Property tax: Income through property tax is based on the Annual Rental Value (ARV) of the property and is the single largest and most elastic source of revenue. VMC has witnessed an increase in number of assessments (greater than the number of building permission sanctioned), a clear indication that efforts are being made to include unassessed properties into the demand net.

Advertisement Tax: Another major tax source – advertisement tax, contributes about one percent of the revenue income. This tax is levied on hoarding, slides in cinema halls, advertisements on buses, and bus shelters. This source has grown considerably over the assessment period.

Town Planning: The income from town planning section includes layout fees, building permission fee, compounding fees, betterment charges, development charges, change of landuse and impact fee. The income from town planning section, excluding building regularisation fee, accounts for about 5 percent of the revenue income. Due to the implementation of the Building Regularisation Scheme (BRS) for all unauthorised constructions, VMC realised INR 456 Lakhs and INR 630 Lakh during FY 1998-99 and FY 1999-00, respectively – this was a major initiative undertaken by VMC to increase the revenue.

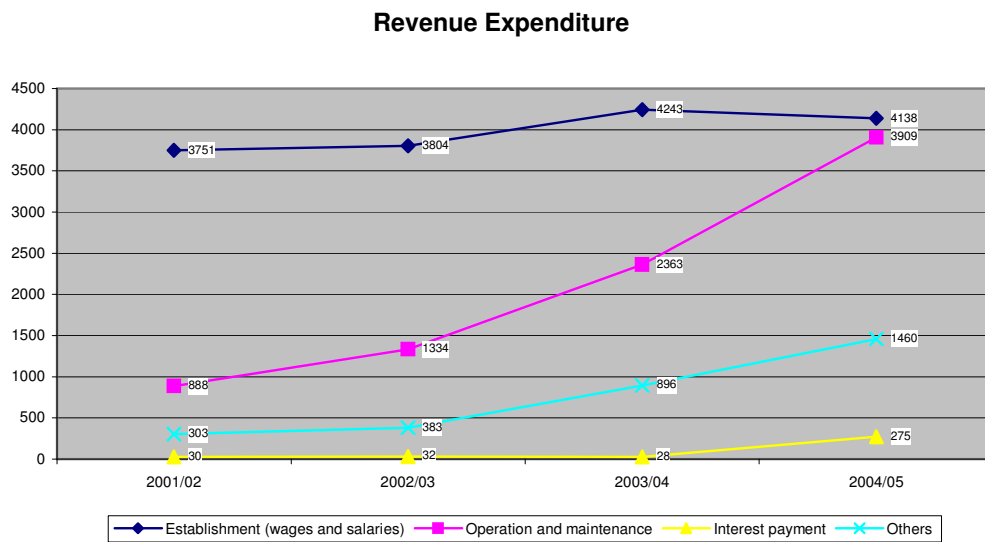
Public Health: The Public Health section of VMC generates income by way of dangerous and offensive (D&O) trades licence fee, birth & death certificates. Income under this head contributes over two percent to the revenue income.

Remunerative Enterprises: Income from remunerative enterprises is in the form of rental income from assets like shopping complexes, market fees, parking fee and income from other real assets owned by the Corporation.

Assigned Revenue: Assigned Revenues include revenues transferred to VMC by the State Government (Govt. of A.P.) under special Acts. Transfers are in the form of VMC's share of taxes levied and collected by GoAP from establishments/operations within municipal limits. Surcharge on transfer of immovable properties, entertainment tax, and professional taxes are items under which these revenues are realised by VMC.

Income through assigned revenues contributes 51 percent of revenue income for the year 2004-05 and has increased at an average rate of 41 percent per annum. Professional tax is a fixed transfer amount per annum and other transfers are as per actual realization.

Income through assigned revenue heads that contribute substantially towards revenue income include:



Entertainment Tax: The Commercial Tax (CT) Department collects entertainment tax from all Cinema Halls functioning within VMC limits. The CT Department transfers 90 percent of the total tax collection to VMC, and retains 10 percent towards management charges.

Professional Tax: The Commercial Tax Department also collects Professional Tax.

Stamp Duty: Surcharge on stamp duty is a major assigned revenue source. It is levied in the form of a surcharge on stamp duty applicable on all properties registered or transferred within VMC limits. The Registration Department had been collecting this tax since 1986 and the collections made were transferred to VMC.

Revenue Grants and Contribution: The Corporation receives revenue grants and compensations from the State Government under various heads. The regular capital grants of which the first five items are fixed and are transferred on a quarterly basis. Other grant heads are for specific purposes; hence adhoc in nature. The revenue and capital receipts for the year 2004-2005 is as follows:

Table 7.1: Revenue Account Receipts (Rs. in Lakhs)

Year	Tax	Non-Tax	Transfers	Total
2001/02	1940	1080	2581	5601
2002/03	3047	1953	3048	8048
2003/04	3198	3256	4007	10461
2004/05	3722	5430	6543	12695

Table 7.2: Municipal Capital Receipts (Rs. in Lakhs)

Year	State government Rs.lakh)		Financing Institutions	Market	Total
	Loans	Grants			
2001/02	--	253	--	--	253
2002/03	--	79	--	--	79
2003/04	1000	644	--	--	1644
2004/05	2747	543	--	--	3290

Revenue expenditure

Revenue expenditure of VMC has been analysed based on expenditure heads broadly classified under the following department/sections of VMC. General Administration, Street Lighting, Revenue Section, Education, His Worshipful Mayors Office, Public Health – Preventive Medicine, Pension Contribution, Public Health – Conservancy, Communication, Engineering Section, Remunerative Enterprises, Town Planning & Urban Community Development (UCD).

Revenue expenditure is further classified under establishment and contingencies (O&M). Besides the above items of expenditure, pension contribution and debt servicing constitute a substantial proportion of revenue expenditure. The revenue expenditure of VMC is as follows:

Table 7.3.: Municipal Revenue Expenditure (Rs. in Lakhs)

Year	Establishment (wages and salaries)	Operation and Maintenance	Interest payment	Others	Total
2001/02	3751	888	30	303	4972
2002/03	3804	1334	32	383	5553
2003/04	4243	2363	28	896	7530
2004/05	4138	3909	275	1460	9782

Establishment expenditure alone accounts for 42 percent of revenue expenditure. In comparison with revenue income, over 32.5 percent is utilized for payment of salaries and pensions. Debt servicing accounts for a major share of about 2.8 percent of the revenue expenditure. For the assessment period, revenue expenditure grew at an average rate of 30 percent, while the corresponding growth in revenue income was 21.3 percent. Further, while

expenditure on establishment increased at annual average rate of 3.20 per cent, expenditure on O&M grew at an average rate of 64 percent per annum. Analysis of heads under revenue expenditure has been carried out with regard to establishment, operation & maintenance, and debt servicing. The following sections detail the same.

Establishment Expenditure

Establishment expenditure of all sections accounts for over 45 per cent of total revenue expenditure (include debt servicing). The salary bill alone of MCH, during financial year 2004-05, was INR 41.38 crores. Details of establishment expenditure have been indicated in [Table 7.3](#).

Operation and Maintenance Expenditure

Operation and maintenance expenditure of all section together accounts for 40 percent of revenue expenditure. The total O&M expenditure during financial year 2004-05 was INR 39.09 crores [Table 7.3](#). O&M expenditure registered an average growth of 64 percent during the assessment period, with a maximum of 77 percent during financial year 2003-04. The increase in O&M expenditure is attributed to high allocations towards road maintenance.

Debt Servicing

A review of the loan statement of VMC reveals that as on 31st March 2005 VMC HAS 2747 lakhs as loans from state government and has paid Rs. 275 lakhs as interest payment on the loans.

7.3.2 Capital account

Capital Receipts

Capital income comprises loans, grants and own contributions. The detailed components of capital income are enumerated in [Table 7.4](#). An analysis of this account indicates that 17 percent of capital income is in the form grants and 83 percent by way of loans from state government. It also reveals that during the review period capital income was inconsistent due to irregular flow of scheme specific grants.

Table 7.4: Municipal Capital Receipts (Rs. in Lakhs)

Year	State government (Rs.lakh)		Financing Institutions	Market	Total
	Loans	Grants			
2001/02	--	253	--	--	253
2002/03	--	79	--	--	79
2003/04	1000	644	--	--	1644
2004/05	2747	543	--	--	3290

Capital Expenditure

Capital expenditure (**Table 8.1.10 – ref. Annexure**) has been directed towards roads, special works and other grant works for improvement of slums. The overall status of the capital account indicates a net deficit. Which is positive sign that revenue surplus have been transferred to capital account

Analysis of capital income and capital expenditure indicates regular transfer of funds from the revenue account to the capital account. This transfer, towards capital investments, constitutes 38 percent of capital expenditure.

Table 7.5: Capital Expenditure (Rs. in Lakhs)

Year	State government (Rs.lakh)		Financing Institutions	Market	Total
	Loans	Grants			
2001/02	870.88	--	--	--	870.88
2002/03	2281.51	--	--	--	2281.51
2003/04	5477.75	--	--	--	5477.75
2004/05	5704.77	--	--	--	5704.77

7.4 Analysis of VMC Finances

Revenue income

VMC has generated over 66 percent of revenue income through its own sources, which is a commendable feat. Dependency on grants is only to the extent of 1 percent. The balance 33 percent is by way of assignments or transfers from GoAP, which is an indirect form of own-source revenues. However, realization of these amounts is dependent on timely transfers from GoAP.

Though property tax is the single largest own-source revenue income, in comparison with other major cities, there is scope for improvement by expanding the base by way of covering unassessed properties.

Revenue expenditure

It is observed that about 45 percent of revenue income is spent on salaries, which is well above the average when compared to other local bodies-the range being 30-40 percent of revenue income.

Capital account status

While the capital account has consistently indicated a deficit, indicating revenue surplus has been utilized to fund the capital works.

7.5 Mangalgiri Municipality

VMC comprises of Mangalgiri municipality. The finances of Mangalgiri Municipality is assessed to understand their financial status at the aggregate level. The combined financial status of the surrounding municipalities is presented in [Table 7.6](#)

Revenue Account

The total Revenue income of Mangalgiri Municipality has grown to Rs. 585.72 Lakhs in the financial year 2003-04 from Rs. 171.3 Lakh in financial year 2001-02, at a high average annual growth of 86 percent. Revenue expenditure increased at an average annual rate of 76 percent from Rs. 544.75 Lakh in 2001-02 to Rs. 128.47 Lakh during 2003-04. The revenue account maintains surplus during the entire assessment period.

Capital Account

Capital income comprises of loans, grants and contribution in the form of initial deposit for water supply connections and sale proceeds of assets. The capital account has witnessed deficit during the entire assessment period, implying revenue surplus is being used for asset creation.

Table 7.6: Financial performance of Mangalagiri municipality over the last three years

Receipts for the year 2000-2001 to 2003 - 2004 (Rs. In Lakhs)				
Sl.No	Particulars	Years		
		2001-2002	2002 – 2003	2003 - 2004
1	Total taxes	40.07	62.1	70.48
2	Total Non-taxes	64.86	138.28	117.28
3	Total assigned revenues	43.75	135.22	72.53
4	Total plan grants	22.62	25.95	325.43
5	Loans		0.6	
	TOTAL	171.3	362.15	585.72
Expenditure for the Years 2001-2002 to 2003-2004 (Rs. In Lakhs)				
Sl.no	Particulars	Years		
		2001-2002	2002 - 2003	2003 – 2004
1	Establishment	85.61	109.84	92.11
2	Maintenance of services	25.43	147.13	59.02
3	Capital works		9.66	141.66
4	Office maintenance	17.43	80.12	251.96
	Total	128.47	337.09	544.75

Table 7.7: Source-Wise Revenue Income

Items	2001-02	2002-03	2003-04
Own Sources	104.93	200.38	187.76
Assigned Revenue	43.75	135.22	72.53
Grants	22.62	25.95	325.43
Total	171.3	361.55	585.72

Own Sources

Own-source income includes income from resource mobilization activities of Mangalagiri Municipality in the form of taxes, user fees, fee for building permission, trade licenses, etc. Own revenue sources are further classified as tax and non-tax sources that are generated by various sections of the Mangalagiri Municipality and are presented in Table 7.7.

Tax Sources: The sections contributing tax income include General Taxation, General Administration, Communication and Engineering, Education, Town Planning, Public Health

and Estate Department. The General Taxation section is the largest revenue generating section and collects among other taxes, property tax and advertisement tax. Other sections collect charges and fees, as per the rules, towards services rendered by Mangalgiri Municipality.

Non-Tax Sources: Non-tax sources include all non-tax revenues such as fees and charges levied as per the Municipal Act. Such revenue sources include income from special services, etc. The major sections/departments contributing non-tax income include General Administration, Income from Town Planning Section, Dangerous & Offensive Trade License Fee, Births and Death Certificate and Income from Remunerative Enterprises.

The essential features of this head of revenue income are listed below:

Income from own sources accounts for about 61 percent of revenue income, and has increased at an average rate of 49.5 percent per annum. Own sources of income growth rate has come down over the financial years 2001-02 to 2003-04. Income through own-source heads that contribute substantially towards revenue income include:

Assigned Revenues

Assigned revenues include revenues transferred to surrounding Mangalgiri Municipality by the State Government (GoAP) under specific acts. Transfers affected by GoAP during the last three years are presented in Table 7.7.

Income through assigned revenues contributes 12 percent during financial year 2003-04 of revenue income and has increased at an average rate of 25 percent per annum. It is observed from the above table that the inflow from this account head have been inconsistent due to delays in transfers and deductions at source towards to any outstanding. Professional tax is a fixed transfer amount per annum and other transfers are as per actual realization.

Income through assigned revenue heads that contribute substantially towards revenue income include **Entertainment Tax, Professional Tax, Stamp Duty**, Revenue Grants and Contribution

The surrounding ULBs receive revenue grants and compensations from the State Government under various heads. The regular revenue grants are listed in Table 7.7 of which some items are fixed and are transferred on a quarterly basis. Other grant heads are for specific purposes; hence ad hoc in nature.

Revenue expenditure

Revenue expenditure of surrounding ULBs has been analysed based on expenditure heads broadly classified under the following departments/sections of ULBs - General Administration, Street Lighting, Revenue, Education, Public Health/Preventive Medicine, Pension Contribution, Public Health/ Conservancy, Communication/ Engineering Remunerative Enterprises, and Town Planning & Urban Community Development (UCD).

Revenue expenditure is further classified under establishment and contingencies (O&M). Besides the above items of expenditure and debt servicing constitute a substantial proportion of revenue expenditure. Application of funds by each sector is presented in Table 7.6. Establishment expenditure alone accounts for 17 percent of revenue expenditure for the year 2003-04.

Establishment Expenditure

Establishment expenditure of all sections accounts for over 17 per cent of total revenue expenditure. Details of establishment expenditure have been indicated in *Table 7.6*. Operation and Maintenance Expenditure. Operation and maintenance expenditure of all section together accounts for 53 percent of revenue expenditure for the financial year 2003-04. The total O&M expenditure during financial year 2003-04 was INR 310.98 lakh.

Capital Account

Capital Income

Capital income comprises loans, grants and own contributions. The detailed components of capital income are enumerated in Table 8.1.20 (*Ref. Annexure*).

Capital Expenditure

Capital expenditure (**Ref. Annexure - Table 8.1.21**) has been directed towards roads, special works and other grant works for improvement of infrastructure services. Analysis of capital income and capital expenditure indicates regular transfer of funds from the revenue account to the capital account.

Table 7.7: Capital Account for the year 2000-2001 to 2003 - 2004 (Rs. In Lakhs)

Sl.No	Particulars	Years		
		2001-2002	2002 - 2003	2003 - 2004
1	Capital receipts	0	0.6	0
2	Capital Works	0	9.66	141.66
	TOTAL	0.00	(9.60)	(141.66)

7.6 Vijayawada Guntur Tenali Mangalgiri Urban Development Authority (VGTMUDA).

This section details the financial performance of VGTM Urban Development Authority (VGTMUDA) during the last three years. The (VGTMUDA) generates its revenue through development charges and other levies. In addition, capital income to (VGTMUDA) is through government grants and sale of lands under its possession. A brief summary of the income and expenditure account of (VGTMUDA) from financial year 2002-03 to 2004-2005 is given in *Table 7.8*.

Table 7.8: Income and Expenditure for the last three years

Sl.No	Particulars	Years (In Rs. Lakhs)		
		2001-2002	2002 – 2003	2003 – 2004
1	Income	801.43	1243.73	941.11
2	Expenditure	802.06	1659.39	1993.95
	TOTAL	(0.63)		

During the last three years the growth in the income is inconsistent over and above the expenditure has increased consistently due to which VGMTUDA had to face deficit from the financial year 2001-02 to 2003-04.

Income

Revenue income has shown an inconsistent performance from Rs. 801.43 Lakhs to Rs.941.11 Lakhs from 2002 to 2005. The sources of income include development charges. The income of VGMTUDA and its performance is presented in Table 7.8.

Expenditure

The expenditure of the VGMTUDA increased from Rs. 802.06 Lakhs in 2001-02 to Rs. 1993.95 lakhs in 2004-05, an increase of 148%. The major expenditure items are salaries, contingencies and repairs & Maintenance.

7.7 Investment Sustenance

7.7.1 VMC & Mangalgiri Municipality

In order to assess the investment sustaining capacity of VMC and Mangalgiri Municipality, the municipal fiscal situation is simulated through a Financial Operating Plan (FOP) refer table 7.10. The FOP is essentially a multi-year forecast of municipal finances for a term of 7 years from 2005-06 to 2011-12. It is used to forecast revenue income and operating expenditure (revenue expenditure) for the period between financial year 2005-06 and financial year 2011-12. Following are important assumptions towards simulating the municipal fiscal situation, and include both existing and new resources.

Base case scenario - Income considerations

- In “do nothing” scenario following assumption was made;
- No revision in taxation from financial year 06-07;
- Maintaining the same collection efficiency over the forecast period;
- Growth in other revenue income items based on past performance and or likely growth of 15% in tax and non tax revenues.

Base case scenario - Expenditure considerations

- Establishment expenditure assumed to increase at rate of 15% per annum for VMC and Mangalgiri Municipality.
- O& M to grow based on past performance and/or likely growth;
- Additional O&M due to the new investment was considered;

With Reforms scenario - Income considerations

- Property tax revision (Rationalization) by 10% in financial year 2006-07 and Revision of property tax current valuation method to Unit Area method from FINANCIAL YEAR 2006-07 and there on every year 10% increase is assumed;
- Improving the tax collection efficiency from the current level to the minimum of 85 % of current demand and 50% of arrear demand;
- Growth in other revenue income items based on past performance and/or likely growth;
- Introduction of conservancy fee in addition to the bulk garbage collection charges to households to a minimum of Rs. 10 per month per households;

- Identifying more areas for parking and increasing the parking fee

With Reforms scenario - Expenditure considerations

- Establishment expenditure assumed to increase at rate of 15% per annum for vmc AND Mangaliri Municipality
- O& M to grow based on past performance and/or likely growth;
- Repayment commitments of all outstanding debt liabilities like bonds etc.

Table 7.9: Assumptions for projected income

Particulars	Assumption for Future	Current Average	Unit
Projection of Revenue Income (with Reforms)			
Property Tax			
Tax Revision - 2006-07 (Rationalization)	10.00		%
Tax Revision - Every year	10.00		%
Growth in Assessment	2.50	2.33	%
Collection Performance			
Arrear Collection	50.00	50.0	%
Current Collection	85.00	76.0	%