

Chapter 9 Municipal Finances

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9.1 Introduction

The Municipal Corporation of Ahmedabad is the principal agency at the city level. The project financing would be carried out as per the governing rules of the BPMC Act by AMC. The projects in the periphery have been planned by AUDA, the apex planning agency. Under the existing governance structure, project financing is conceived within the TP & UD Act provisions. This chapter focusses mainly on AMC finances. Summary of AUDA finances is given as part of Chapter on FOP (Chapter 12).

9.2 Structure of Municipal Finances

The review of finances involves a time-series analysis of the income and expenditure of the AMC to ascertain the trends and the major sources and uses of funds. In addition to this, certain key financial indicators relating to property tax, water tax, per capita income, per capita expenditure and debt servicing; have been considered to assess the financial performance of the Ahmedabad Municipal Corporation.

The booking of transactions in Ahmedabad Municipal Corporation (AMC) is carried out under major and minor heads. The corporation performs a series of obligatory and discretionary functions according to the powers vested through the Bombay Provincial Municipal Corporations Act (BPMC), 1949. Under this Act, the corporation is empowered to levy taxes and rates.

The Section 127 of BPMC Act, allows the corporation to levy octroi, property tax and tax on vehicles, boats and animals etc. The Act has special provisions relating to water and conservancy taxes. By virtue of Sec 134 of the Act, the Commissioner has powers to levy a volumetric charge for water supplied in lieu of water tax, subject to its consistency with the bylaws. These bylaws are framed by virtue of powers granted under Sections 458 of BPMC Act. Similarly, based on approval of the Standing Committee the Commissioner may fix a charge for provision of conservancy service.

As per taxation rules, the base for property taxes will have to be assessed once in four years. The Municipal Corporation is also empowered to levy property tax for residential and non-residential properties for which the minimum and maximum limits are fixed. It needs mention that except for the ceiling on general tax, all other taxes have no minimum or maximum limits specified.

The provisions in the Act enable the corporations to levy other taxes with the approval from the State. In the Act it is indicated that supplementary taxation is allowed with the approval of the State Government if the closing balance is less than Rs. 1.00 Lakh.

The booking of transactions in Municipalities is carried out under major and minor heads. The Corporation is required to maintain the financial information in the format prescribed by the Bombay Municipal Accounts Code, 1961. The code prescribes maintenance of the accounts under the following heads:

- Part I: General (Revenue) Accounts
- Part II Capital Account and
- Part III: Extraordinary and Debt and Suspense Account

AMC introduced double entry computerized accounting system in April 1996 in the place of single entry manual accounting system, which was highly inefficient in terms transparency of information like current liabilities and assets and lack of financial management information. Also, manual accounting system proved time-consuming. Instead, the double entry computerized accounting system was quick, efficient and systematic. Various items in the balance sheet could now be bifurcated into various components and information for different period was made available. This facilitated fast and efficient strategic decisions.

The system of accounting is generally on a cash basis. Essentially all transactions are either receipts or payments, with certain transfers and adjustment provisions, mainly in the form of error in classification, adjustment of expenditure on receipt of a bill against advance, and adjustment of refunds of revenue or recoveries of expenditure by deduction.

9.3 Overview of Municipal Finances

Actual accounts of the AMC for the last five years (2000-01 to 2004-05) have been analysed to assess the finances of the corporation. Detailed accounts compiled from the budget books of AMC are presented in **Annexure 9.1**. An abstract of the annual accounts and tables of the sectoral contribution, growth trends and per-capita values of the different items of income and expenditure are presented in **Annexures**.

The city of Ahmedabad holds a special status in its own revenue sources for efficient way of functioning, it has shown operating surplus, in spite of its developmental activities. The corporation has shown a mix of surplus and deficit in its revenue and capital accounts over the last five years (F.Y. 2000/01 to 2004/05). The revenue account portrays a surplus,

whereas the capital account has shown deficit in three of the past five years. It shows the city's ability to generate surpluses amid the favourable environment and flexible environment and flexibility in the tax structure. The Corporation has a healthy opening balance of more than Rs. 240 Crores and the positive fiscal result demonstrates officials' will to maintain fiscal control.

Table 9-1: Summary of Municipal Finances

Sl.	Items	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
		Amounts in Rs. Lakhs				
Opening Balance		13922.64	16054.20	23458.05	16950.32	246625.70
I	Revenue Account					
1	Revenue Income	56257.96	56184.43	61564.13	69067.54	80619.63
2	Revenue Expenditure	56119.93	55954.16	58190.07	56264.50	59647.62
3	Surplus/Deficit	138.03	230.27	3374.06	12803.04	20972.01
II	Capital Account					
1	Capital Income	15608.31	24169.80	3879.76	19211.53	13596.57
2	Capital Expenditure	13614.78	16996.22	13761.57	24339.19	18908.28
3	Surplus/Deficit	1993.53	7173.58	(-9881.81)	(-5127.66)	(-5311.71)

Note: The figures have been computed based on the annual accounts' figures provided by the AMC.

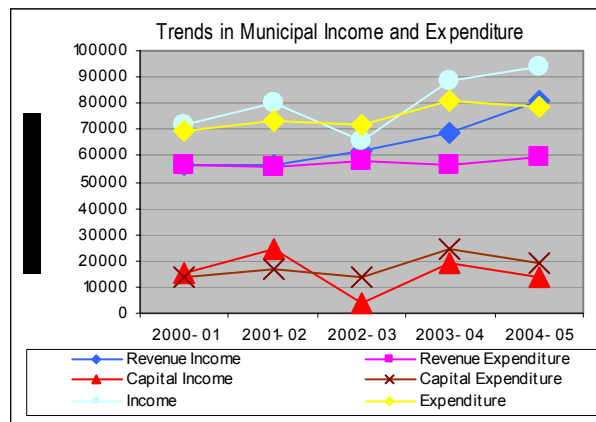


Figure 9-1: Trend in Municipal Income and Expenditure

The revenue account has shown significant surpluses over the years. It represented an upward trend from Rs. 138 lakhs in 2000/01 to Rs. 20972 lakhs in 2004/05, while the capital account has recorded deficit during the past three years (Refer Table 9-1) indicating transfer of revenue surplus for assets' creation on a regular basis, which is a positive feature. In spite of deficit in capital account, the overall municipal account has been continuously in surplus during the assessment period indicating the sound financial health of the Corporation.

The revenue income of the corporation has grown at a rate of 9.59 per cent, while the growth in revenue expenditure during the same period was only 1.60 per cent. This explains high operating surpluses during the last five years.

The trends in capital income and expenditure have been fluctuating. The growth rate in capital income is 84% largely owing to the income through the Tax free bonds issued in the year 2002, 2004 and 2005, while the capital expenditure has grown at 15 per cent.

Table 9-2: Summary of Municipal Finances

Sl.	Item	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
		Amount in Rs. Lakhs				
Opening Balance		13922.64	16054.20	23458.05	16950.32	246625.70
INCOME						
A	Revenue Account					
1	Own Sources					
	a Octroi	32451.10	30708.82	36130.57	40093.84	46229.76
	b Taxes	9783.91	12158.15	12123.25	13680.12	17377.09
	c Non-Tax	3819.69	4381.54	4392.26	7059.50	7889.48
2	Grants & Subsidies	10203.74	8935.92	8918.07	8234.08	9123.30
	Total Revenue Income- A	56257.96	56184.43	61564.15	69067.54	80619.63
B	Capital Account					
1	Grants	2879.96	4122.75	3725.46	6302.25	3321.00
2	Loans	12716.02	20039.30	0.00	12800.00	10000.00
3	Others	12.33	7.75	154.30	109.28	275.57
	Total Capital Income- B	15608.31	24169.80	3879.76	19211.53	13596.57
Grand Total Income (A+B)		71866.75	80354.23	65443.91	88279.07	94216.20
EXPENDITURE						
A	Revenue Account					
1	Establishment Expenditure	322.50	324.33	323.30	301.20	333.97
2	Administration & General Expenses	5.95	5.93	6.31	4.74	9.77
3	Repairs & Maintenance	1,381.42	1,504.47	1,717.94	1,429.23	1,982.99
4	Power Charges	13,804.66	13,588.15	12,958.95	12,640.73	13,666.74
5	Fuels	6,904.73	7,485.02	9,098.00	7,974.36	8,730.12
6	Consumable Stores	56,119.93	55,954.16	58,190.07	56,264.50	59,647.62
7	Service & Programme Expenses	322.50	324.33	323.30	301.20	333.97
8	Other Expenses	5.95	5.93	6.31	4.74	9.77
9	Debt Servicing	1,381.42	1,504.47	1,717.94	1,429.23	1,982.99
Total Revenue Expenditure- A		13,804.66	13,588.15	12,958.95	12,640.73	13,666.74

Sl.	Item	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
		Amount in Rs. Lakhs				
Capital Account						
1	Total Capital Expenditure- B	13614.78	16996.22	13761.57	24339.19	18908.28
Grand Total Expenditure (A+B)		69734.71	72950.38	71951.64	80603.69	7555.90
STATUS OF MUNICIPAL FINANCES						
A	Revenue Account (I A - II A)	138.03	230.27	3374.08	12803.04	20972.01
B	Capital Account (I B - II B)	1993.53	7173.58	(9881.81)	(5127.66)	(5311.71)
Overall Municipal Account Status		2131.56	7403.85	(6507.73)	7675.38	15660.30

In addition the Municipal Corporation undertakes infrastructure projects, such as improvement in water supply, conservancy related works, development of commercial complexes, etc. The sources-wise uses of the general fund of the corporation (revenue and capital account) are discussed in detail in the following sections.

9.4 Revenue Account

The revenue account comprises of the operating income and expenditure items of the corporation. These are generally recurring items viz. income from taxes (octroi, property, other direct taxes), non-tax income (rents on municipal properties, charges, fees), grants, etc. and expenditure on establishment, repairs and maintenance, debt-servicing, etc.

9.4.1 Sources of Fund – Revenue Income

The income sources of the municipal fund may be categorized as own sources (octroi, tax and non-tax sources) of the corporation, general grant and contributions. Table 9-3 presents the summary of income under the different categories of source.

Table 9-3: Summary of Revenue Income by Source Categories

Sl.	Item	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
		Amount in Rs. Lakhs				
1	Own sources	46054.22	47248.51	52646.08	60833.46	71496.33
a	Octroi	32451.10	30708.82	36130.57	40093.84	46229.76
b	Taxes	9783.91	12158.15	12123.25	13680.12	17377.09
c	Non-tax sources	3819.21	4381.54	4392.26	7059.50	7889.48
2	Grants & Subsidies	10203.74	8935.92	8918.07	8234.08	9123.30
Total revenue income		56258.44	56184.43	61564.15	69067.54	80619.63

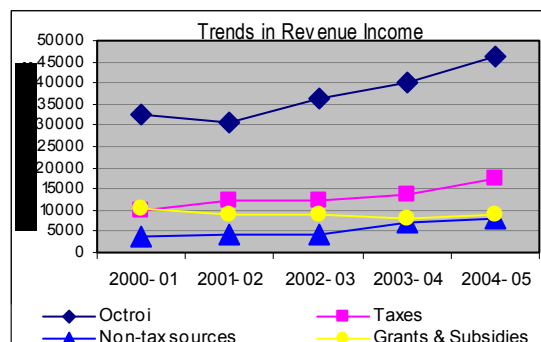
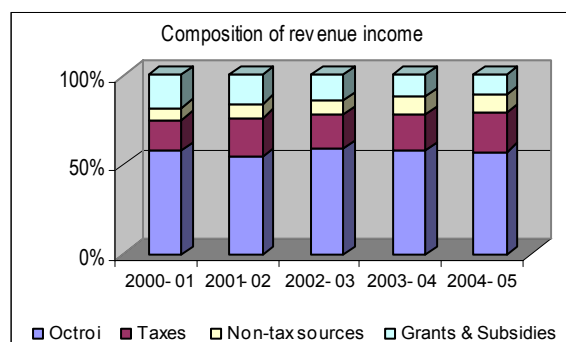


Figure 9-2 Composition and Trend in Revenue Income

The contribution (Table 9-3) shows marginal fluctuation on a higher side during the last five years. AMC derived 77.5 per cent of its revenues from octroi and taxes and a mere 8.5 per cent from non-tax sources, with State Government grants providing a further 14 per cent of the revenues. Octroi and property tax (general tax, water charges and water metre inspection fee) dominated the tax structure, with octroi accounting to 74 per cent of tax revenues (57.3 per cent of total revenues) and property tax accounting to 88.6 per cent of tax revenues (20 per cent of total revenues). The low non-tax receipts can be attributed to low rates of user charges for services against considerably good service coverage. In effect the corporation's income largely depends on a single source i.e. octroi, whose contribution has been constant between 50 to 56 per cent for the past five years. The total revenue income for the year 2004-05 was Rs. 80620 lakhs.

In the absence of any assigned revenues, deposits and advances, AMC has been able to generate 85.97 per cent of the total revenue income through its own sources during the last five years. It has shown a collection of Rs. 71496.33 lakhs during 2004-05[s1]. It needs mention that number of property tax assessments increased by 24 % from 2003/04 to 2004/05[s2].

9.4.2 Own Sources

The AMC levies property tax and service-based taxes of different type against the services provided by it to the citizens. The corporation also owns assets in the form of land and buildings, which are leased/ rented out to generate revenue. The income from such sources contributes to the own source income of AMC.

Own source, mentioned earlier, contribute about 86 per cent of the total revenue income of the corporation. The total income from tax and non-tax sources has grown at 7.83 per cent.

Octroi

Octroi is levied on the goods entering within the municipal limits for use, consumption or sale. Financial results for the last five years show that, octroi has been the single largest revenue source for the corporation, contributing about 56.62 per cent in the total revenue income. The amount realised under octroi has shown an upward trend during 2000-01 to 2004-05(Refer Table 9-4). Octroi income has increased from Rs. 32451.10 lakhs in 2000-01 to Rs. 46229.76 lakhs in 2004-05 – a growth rate of 9.64 per cent per annum.

Table 9-4: Income from Octroi (2000-01 to 2004-05)

Sl.	Item	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
		<i>Amount in Rs. Lakhs</i>				
1	Octroi tax	32451.10	30708.82	36130.57	40093.84	46229.76

Taxes

The power of taxation by the corporation and relevant procedure listed in section 127 of BPMC Act, 1949. The tax sources accounts for about 20.12 per cent of the total revenue income. The tax sources have increased from Rs. 9783.91 lakhs in 2000-01 to 17377.09

lakhs in 2004-05, thereby showing a growth rate of about 15.96 per cent. The taxes levied by the corporation include:

- Property tax
 - Property Tax, and
 - Water and sewerage charges
- Other direct taxes;
 - Vehicle tax, and
 - Theatre tax.
- Other taxes/ refund.

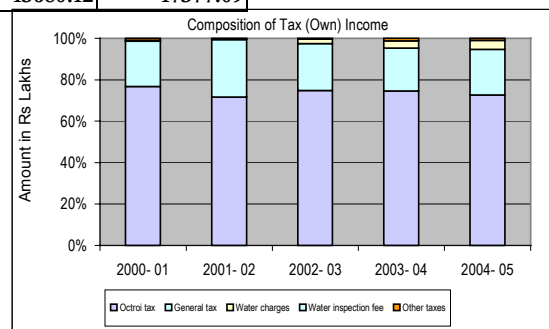
Table 9-5 presents the summary of income from tax source of AMC.

Table 9-5: Summary of Income from Tax Source of AMC

Sl.	Item	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
		Amount in Rs. Lakhs				
1	Property tax	9382.25	12025.13	11923.32	13088.39	16722.87
a	General tax	9181.77	11944.07	10921.76	11173.74	13992.50
b	Water Sewerage_charges	200.37	81.56	1001.51	1912.69	2730.35
c	Water inspection fee	0.29	0.00	0.05	1.96	0.02
2	Other taxes	401.66	133.02	199.93	591.73	654.22
	Total taxes	9783.91	12158.15	12123.25	13680.12	17377.09

Property Tax

The property related taxes are commonly referred as house tax and include a tax on buildings or lands situated within the municipal limits. In some local bodies, it is observed that a consolidated tax is being levied in place of property tax. The AMC levies property tax on residential, commercial and industrial buildings and lands that lie within its jurisdiction. The rules and procedures pertaining to levy of property tax are governed by the BPMC Act 1949.



The share of general tax in tax income has been 20 per cent. The income from general tax has increased from Rs. 9181 Lakhs in 2000/01 to Rs. 13993 Lakhs in 2004/05. The high values are attributable to the revamping of the tariff rates apart from the increase in the number of property tax assessments during 1998 and a further revision is due.

Table 9-6: Number of Property Tax Assessments in AMC

Year	Assessments				
	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
No. of tenements	950103	962553	975002	987452	999902

Basis of Property Taxation

Prior the present system of assessment and taxation, AMC had Annual Rateable Value (ARV) based system (Refer Annexure 9.5) according to which for about 73% of residential properties and for 29% of the commercial properties, ARV was below Rs. 600 per annum and were therefore exempted from general tax payment. In order to overcome these AMC

had adopted an area based tax system, which is fair, transparent, equitable and having buoyancy.

Table 9-7: Rates of Property Tax as per the previous property tax formula

Sl.	Rateable Value	Tariff Rates per Annum on Rateable Value (%)
1	<600	Exempt
2	601-1000	15
3	1001-2000	20
4	2001-3000	23
5	>3001	30

The new property tax structure introduced since 2001-02 gives weightages to following

- Location of the property
- Type of property
- Age of property
- User of the property

In case of non-residential property instead of type of property, use of property was considered. Relief is given to non-residential properties used for religious purpose or charitable purpose vis-a-vis income generating properties.

Factors are assigned to each category; higher weightage is assigned to holding situated in posh area. Independent bungalows have been given higher factor than flats. The formula also accounted for depreciation of properties depending on the age of the property. The formula worked by AMC is as follows

Property Tax = rate x area x (f1x.f2x f3x f4.....fn), Where f1, f2, f3.. ..fn are weightages to various factors mentioned above, whereas f4 is weightage assigned to residential buildings. In case of non-residential properties assigned weightage-ranging form 1 to 8. (Refer Annexure 9-6).

Water and Sewerage Charges

The AMC levied water tax to all assessments having house service connection within the AMC limits. The water tax levied was done as a part of the property tax. However with the change in the property tax formula, water tax component has been removed. Prior to introduction of this system (2001-02) the contribution of water tax to the total revenue income was marginal 0.43 per cent at the aggregate level. Realisations by way of water tax have been about Rs. 200.37 lakhs during 2000/01. The income from water tax has grown at a rate of 7.14 per cent during the last five years. It needs mention that the amount realised under water taxes has been around Rs. 200 to Rs. 230 lakhs during last five years (Refer Annexure 9.1).

Other Taxes

The other major tax items levied by the AMC are Vehicle tax and Theatre tax. The share of these two taxes together in the total tax is negligible. During the last five years, these two contributed 0.62 per cent to the tax sources showing a declining trend. The income from this source during the year 2004-05 was about Rs. 592 lakhs (Refer Annexure 9.1).

Non-Tax Sources

The non-tax own revenue sources of the AMC accounts for 8.51 per cent of the total revenue income. These revenue sources include fees and charges levied as per the legislation. Accordingly, the income sources have been classified under the following broad categories, viz.:

- Municipal properties,
- Collection from public places,
- Realization under special status,
- Public services charges/fee,
- Sale proceeds, and
- Miscellaneous income.

These revenue sources include the income from leased/ rented out municipal property and from the fees and charges levied for the different services rendered by the corporation. At an aggregate level, the contribution of non-tax income to the total revenue income generated is about 8 per cent. The increase in non-tax collection could be attributed to good collection be reflected in the non-availability of new sources. The details of items under these heads are presented in Table 9-8.

Table 9-8: Details of Income from Non-Tax sources

Sl.	Item	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
		<i>Amount in Rs. Lakhs</i>				
1	Rental Income	424.87	452.64	630.38	634.20	538.51

2	Collection from Public Places	134.35	121.77	95.24	171.30	214.55
3	Realisation under special statutes	13.39	17.71	17.39	16.22	15.29
4	Public Service Charges/ Fees	1894.68	2554.90	2226.70	4274.86	3950.08
5	Interest earned	445.24	149.01	426.83	365.01	596.75
6	Sale proceed	83.30	106.62	115.10	186.01	967.51
7	Miscellanies Income	823.38	978.89	880.62	1411.90	1606.79
	Total	3819.21	4381.54	4392.26	7059.50	7889.48

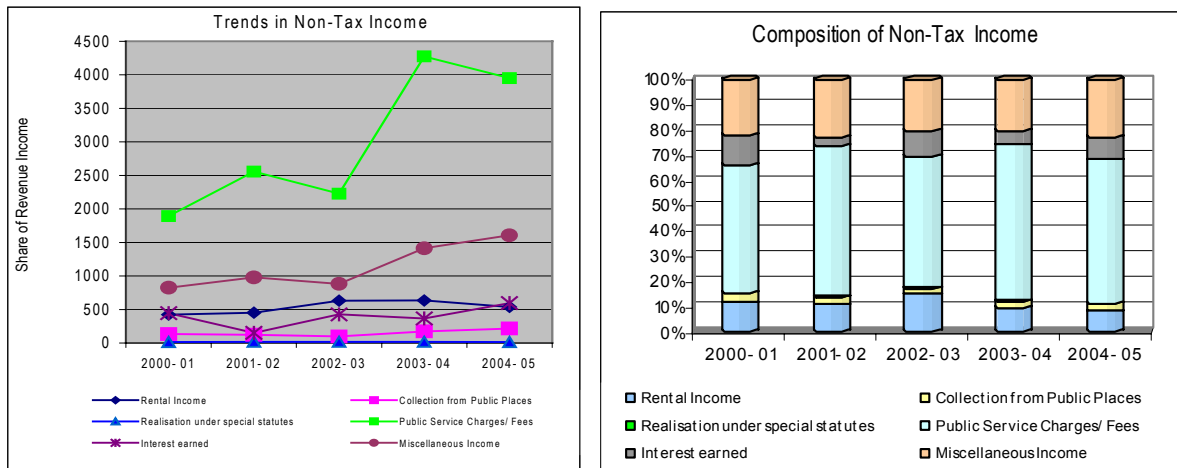


Figure 9-4 Composition and Trend in Non-tax Income

9.4.3 General Grants, Contribution and Subsidies

The AMC receives grants and contribution from the State and Central Government under various heads, for general as well as specific purposes. About 14.03 per cent of the total income is contributed from this source with a sum of Rs. 9123.30 lakhs in 2004-05. Noted heads as per the statement provided by the AMC are:

- Slum Upgradation,
- MLA and MP grant,
- GMFB grant for urban poor,
- Central government grant for purification,
- 10th Finance Commission grant, etc.

9.4.4 Revenue Account Expenditure

The major items of revenue expenditure of the municipal fund may be classified as:

- General Administration and Collection charges
 - Establishment expenditure,
 - Administration and General expenditure,
 - Repair and maintenance,
 - Power & Fuel Charges,
 - Consumable Stores, and
 - Service and programme related expenses.
- Debt Servicing

Table 9-9 presents a summary of revenue expenditure of the AMC. The total revenue expenditure has increased from Rs. 56119.93 lakhs in 2000-01 to Rs. 59647.62 lakhs in 2004-05 – a growth of 1.60 per cent.

Table 9-9: Summary of Revenue Expenditure of AMC

Sl.	Financial Year ->>>	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05	Average G.R.
		Actual in Rs. Lakhs					
1	Establishment Expenditure	25,353.52	23,523.25	23,771.31	24,527.39	24,618.58	-0.65
2	Administration & General Expenses	1,029.63	917.15	1,535.37	1,109.68	1,046.47	5.77
3	R & M	1,604.39	2,070.77	2,331.26	1,888.42	3,340.58	24.89
4	Power Charges	5,713.13	6,535.09	6,447.63	6,388.75	5,918.40	1.19
5	Fuels	322.50	324.33	323.30	301.20	333.97	1.07
6	Consumarable Stores	5.95	5.93	6.31	4.74	9.77	21.83
7	Service & Programme Expenses	1,381.42	1,504.47	1,717.94	1,429.23	1,982.99	11.26
9	Contribution to allied Institutions & Others	13,804.66	13,588.15	12,958.95	12,640.73	13,666.74	-0.13
10	Debt charges	6,904.73	7,485.02	9,098.00	7,974.36	8,730.12	6.77
Grand Total		56,119.93	55,954.16	58,190.07	56,264.50	59,647.62	

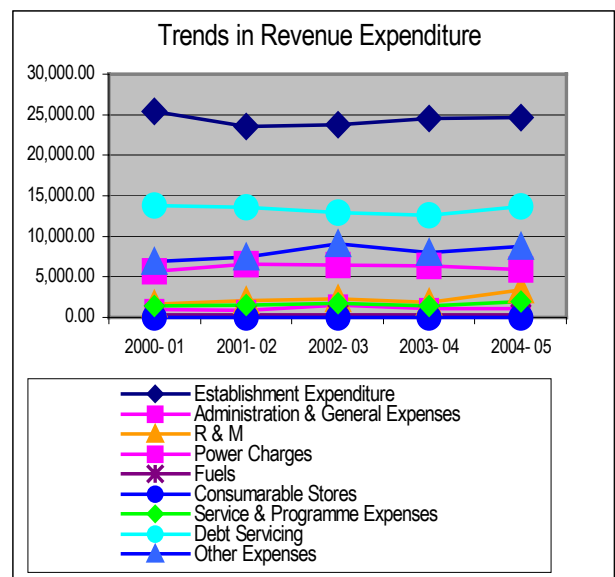
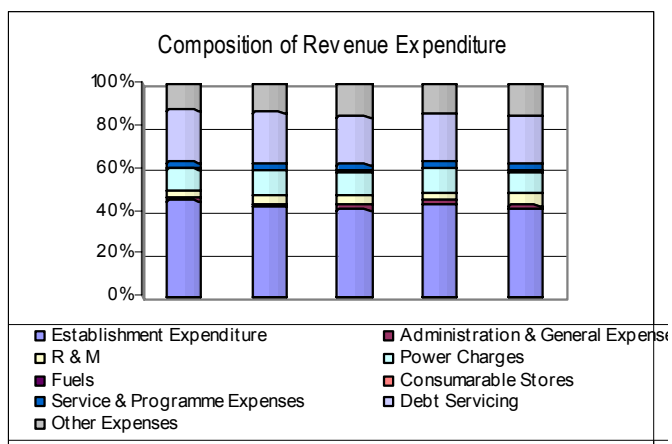


Figure 9-5 Composition of Revenue Expenditure

9.4.5 General Administration and Collection Charges

- Establishment expenditure;
 - Salary & Wages;
 - Allowances (DA, house rent, conveyance, traveling, conservancy, etc.);
 - Reimbursements (medical expenses, LTC, etc);
 - Employee welfare;

- Pension, gratuity, PF;
 - Other employees costs (ESI, Leave encashment, bonus).
- Administration & General Expenses;
 - Rents-Rates Tariff;
 - Communication expenses,
 - Printing and Stationary,
 - Traveling and Conveyance expenses
 - Insurance Charges,
 - Professional and other fees/charges, and
 - Other expenses.
- Repairs and Maintenances;
- Fuel and Power Charges;
- Service & Programme related Direct Expenses; and
- Other expenses;

Establishment Expenditure

Establishment expenditure is among the most flexible item on the city's expenditure budget. The results indicate that expenditure of in-service employees accounts for about 42 per cent of the total revenue expenditure during the last five years. Furthermore, it has decreased from Rs.25353.52 lakhs in 2000-01 to Rs.24618.58 lakhs in 2004-05, registering an average annual growth of about (-0.65) per cent. On the whole there has not been a major change in this aspect.

Table 9-10: Details of Establishment Expenditure

Sl.	Financial Year -->>>	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05	Average G.R.
		<i>Actual in Rs. Lakhs</i>					
1	Salary & Wages	21036.99	18634.85	18365.68	19055.14	19118.21	-2.19
2	Allowances	109.30	127.60	136.18	134.12	144.35	7.40
3	Incentives	378.61	615.15	628.75	20.37	8.56	-22.51
4	Employee Welfare	7.87	30.18	17.60	71.06	56.12	131.13
5	Pension	3820.75	4115.47	4623.10	5246.70	5291.34	8.60
Grand Total		25353.52	23523.25	23771.31	24527.39	24618.58	-0.65

The payroll burden on the city's expenditure budget is explained by a legacy of rigid contracts, which significantly reduces the administration's effectiveness in containing expenditure. Redundancies and cost control have plagued most of the departments in the corporation, because of which, half of the expenditure is incurred on establishment expenses, which leaves very less scope for developmental activities.

Administration & General Expenses

The items of administration and general expenses share about 4 per cent of the total establishment expenditure. In actual terms, the administration and general expenses has grown from Rs. 1029.63 lakhs in 2000-01 to Rs. 1046.47 lakhs in 2004-05 - an average growth of 5.77 per cent over the last five years. The major elements in this source of income are income from rent-rates-taxes (9 per cent), communication charges (24 per cent), and printing and stationary expenses (23 per cent).

Repairs and Maintenance

Expenditure on repair and maintenance of municipal assets- land buildings, public spaces, infrastructure systems, equipment and machinery- accounts for 3.93 per cent of the total revenue expenditure. Table 9-11 presents the items-wise annual repair and maintenance of the corporation for the period 2000-01 to 2004-05.

Table9-11: Details of Repair and Maintenance

Sl.	Financial Year ->>>	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05	Average G.R.
		Actual in Rs. Lakhs					
1	Land/ Building Maintenance	199.55	252.37	128.06	178.36	149.72	-6.93
2	Public Spaces	200.49	215.27	170.37	107.65	243.04	4.93
3	Roads/ Bridges/ Street lights	322.11	839.92	513.40	522.73	747.58	23.43
4	Sewerage & Drainage Lines	213.93	203.65	260.92	155.36	207.86	-0.72
5	Water Supply	240.80	169.91	645.87	322.59	1270.53	51.56
6	Plants, Machinery & Equipment	231.37	190.76	308.84	285.04	378.10	13.06
7	Others	196.14	198.89	303.80	316.69	343.75	15.06
Grand Total		1604.39	2070.77	2331.26	1888.42	3340.58	20.12

Road/bridges/street lighting (22.37 per cent), Public Place maintenance (7.27 per cent) and plant, machinery and equipment (11.31 per cent), Water (38.03 per cent) are the major items of repair and maintenance expenditure, together accounting for about 69 per cent of the total repair and maintenance expenditure.

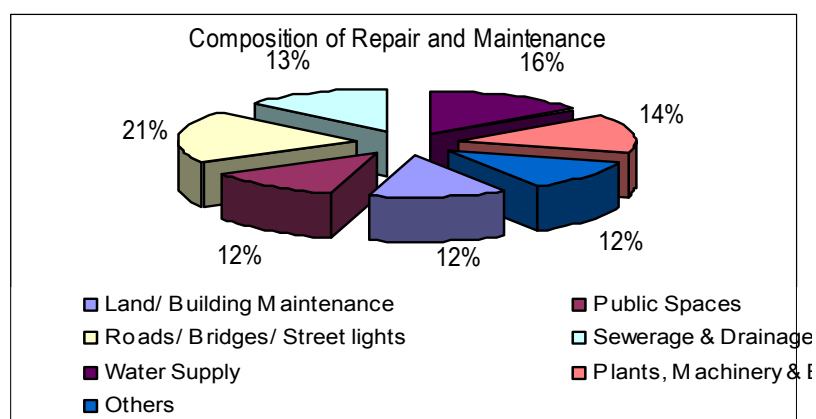


Figure 9-6 Composition of Repair and Maintenance

The repair and maintenance expenditure of the corporation has increased from Rs. 1604.39 lakhs in 2000-01 to Rs.3340.58 lakhs in 2004-05 – growth of 24.89 per cent over the last five years. All the items in this category have shown fluctuation over the last five years, but at an aggregate level they show an increasing trend.

Other Expenditure

The other major items under expenditure are mainly fuel and power charges contributing to about 12 per cent of the total expenditure. The total expenditure under power charges has increased from Rs. 5713.13 lakhs in 2000-01 to Rs. 5918.40 in 2004-05, thereby showing an increase of 1.19 per cent per annum.

The other item under revenue expenditure includes expenses incurred on services and programme related items, such as, overheads, contracts, materials, etc. The expenditure has increased from Rs. 1381.42 lakhs in 2000-01 to Rs. 1982.99 in 2004-05- a growth of 11.26 per cent.

In addition to these expenses, the other expenditures incurred by the corporation which mainly comprises of contributions given by the corporation to the municipal school board, V.S. Hospital and M.J. Library, which are allied institutions of AMC. All these items consolidate to about 26.67 per cent of the total expenditure over the last five years.

9.4.6 Debt Servicing

The annual accounts of the AMC indicate that it has been servicing its debt on a regular basis. Capital expenditure in AMC is funded by various grants from State Government under various schemes and by loan for capital investments. The average expenditure on debt servicing, during the last five years has been Rs. 6904.73 lacs from the year 2000-01 to 8730.12 lacs in 2004/05. It needs mention that during 2002-03 the total expenditure towards debt servicing has been about Rs. 9098.00 lakhs, which has been the highest payment made during last five years. The debt indicators are discussed in detail as part of financial indicators in this section. The outstanding loan with the AMC has been Rs.420.57 crores during 2004/05.

Table 9-12: Outstanding loans as on 31-03-2005



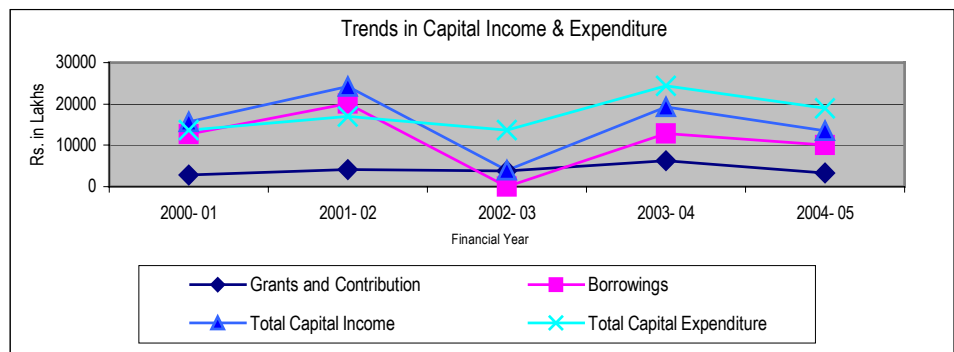
Sl.	Head	Outstanding Loan Amount (Rs. Lakhs)
1	Government of Gujarat	7954.47
2	LIC/ HUDCO	3.05
3	Banks	4230.70
4	Other Institutions	4069.00
5	Tax free Bonds	25800.00
Total		42057.22

9.4.7 Status of Revenue Account

AMC's revenue account has shown surpluses all through out the last five years which was mainly contributed to the capital account for taking up new works. The available surpluses have increased from Rs. 138.03 lakhs in 2000-01 to Rs.20972.01 lakhs during 2004-05. Appropriation also must have been carried out from revenue surplus to the capital accounts, which could have mainly led to reduction in the capital deficit.

9.5 Capital Account

The corporation spends considerable amounts on capital works- such as creation of infrastructure assets - water supply and drainage works,



roads, conservancy schemes, purchase of vehicles, plant and

Figure9-7: Trend of Capital Income and Expenditure

machinery, etc. The corporation's funds for capital expenditure are a mix of loans, grants, assistance from financial institutions and from own sources.

9.5.1 Capital Income

Also referred to as capital non-tax sources, AMC has the following sources of income for own sources, grants and borrowings. The major heads are:

- Grant and Contribution,
- Capita Profit from Sale of Asset,
- Contribution and Subsidies,
- Loans and Borrowing and
- Other Capital Income.

The total capital income of AMC was Rs.13596.57 lakhs in the year 2004-05. The share of capital grants and contribution to total capital income is 27.35 per cent and loans and borrowings contribute around 72.65 per cent.

BPMC Act has the provision that the corporation may borrow, for financing capital expenditures of a long term basis. The sources of loans taken by AMC are:

- Open market debenture loans,
- State government loans,
- World Bank loans, and
- Loans from institutions (LIC, HDFC, HUDCO, NHB etc.).

Table 9-13 : Summary of Capital Income of AMC

Sl.	Financial Year ->>>	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
		<i>Actual in Rs. Lakhs</i>				
1	Grant and Contribution	2879.96	4122.75	3725.46	6302.25	3321.00
2	Borrowings	12716.02	20039.30	0.00	12800.00	10000.00
3	Other Capital Income	12.33	7.75	154.30	109.28	275.57
Grand Total		15608.31	24169.80	3879.76	19211.53	13596.57

9.5.2 Capital Expenditure

Capital expenditures are the most flexible item of the city's budget, and are normally contingent upon receipt of associated revenue. The capital expenditure of AMC includes all expenditure incurred on creation/ acquisition of capital including construction of buildings and infrastructure systems and purchase of furniture, plant/ equipment, machinery and vehicles. The summary of expenses under various heads of capital account are presented in Table 9-14.

Table 9-14: Summary of Capital Expenditure of AMC

Sl.	Financial Year ->>>	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
		<i>Actual in Rs. Lakhs</i>				
1	Land	61.19	74.91	5.78	87.85	365.89
2	Buildings	340.42	806.85	433.67	164.80	118.37
3	Public Places	340.71	98.91	88.93	172.64	151.71
4	Roads/ Bridges	1992.98	754.33	310.41	1668.87	3460.17
5	Sewerage & Drainage Lines	857.10	433.89	209.32	1305.32	1674.51
6	Water Supply	5358.46	1078.66	1329.65	4117.40	2838.81
7	Plants, Machinery & Equipment	107.00	88.27	19.43	62.93	192.85
8	Motor Vehicle and Transportation	36.12	3.77	42.21	131.48	100.46
9	Office Equipments	69.66	6.24	263.09	163.81	365.89
10	Street Lighting	54.13	152.88	0.00	161.79	19.13
11	Works for Weaker Section	162.18	78.03	62.90	47.57	41.21

		2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
12	Miscellaneous Fixed Assets	4234.83	13419.48	10996.18	16254.73	9579.28
Grand Total		13614.78	16996.22	13761.57	24339.19	18908.28

It has been observed that the maximum expenditure has been incurred on water supply - about 40 per cent during 2000-01. At an overall level expenditure on water accounts for maximum – about 16.80 per cent of the total expenditure.

AMC is also empowered by the BMC Act to levy betterment charge for increase in the value of land and building, if they are a result under a scheme of improvement, clearance or are under developments carried out by the corporation. AMC can also levy an incremental contribution termed as betterment charge, which is generally realised from the land owners, at a rate equal to one half of such increase in value of the land

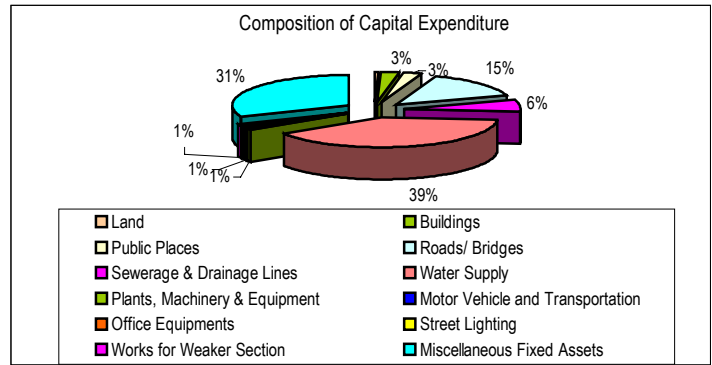


Figure 9-8 Composition of Capital Expenditure

9.6 Outstanding Liabilities

The agency-wise outstanding liabilities of Ahmedabad Municipality are presented in Table 9.15. The total outstanding loan including the overdue principal and interest as on March 2001 is Rs. 329.24 crores. It may be noted that loans from LIC and HUDCO alone account for about 46 per cent of the total outstanding loans of the AMC.

Table 9-15: Agency wise Outstanding Debt of AMC - 2005

Sl.	Head	Outstanding Loan Amount (Rs. Lakhs)
1	Government of Gujarat	7954.47
2	LIC/ HUDCO	3.05
3	Banks	4230.70
4	Institutions	4069.00
5	Tax free Bonds	25800.00
Total		42057.22

Source: Ahmedabad Municipal Corporation

The ratio of outstanding liabilities to total property tax demand is 40.48.

9.7 Key Financial Indicators

This section gives the financial indicators which helps analysing the efficiency and operational performance, and debt servicing. These have been calculated as an average over a period of five years, which provides a more realistic picture.



- **Operating Ratio**

Operating ratio (OR) is the ratio of revenue expenditure to revenue income and it indicates financial status or “profitability” of the local body operations. Sound financial management requires that this ratio should be less than unity. The average OR of AMC works out to 0.9. The OR below 1.0 in AMC indicates that it has had a surplus revenue account over the last five years except in 2000/01, where the OR was 1.0.

- **Debt Servicing Ratio**

Debt Servicing Ratio (DSR) is ratio (expressed in percentage) of debt payment to total revenue income. This indicator helps in assessing the implication of debt on the local body finances. But it has been observed that the local body service their debt on a regular basis. The analysis indicates that the average DSR with respect to revenue income is 12.55 per cent.

- **Capital Utilisation Ratio**

Capital Utilisation is the ratio of capital expenditure to the capital income. This ratio indicates the performance of the local body in terms of utilisation of capital income- it could also be an indicator of the Local Bodies’ capacity to utilise capital resources. A capital utilisation ratio of greater than unity indicates that revenue account surplus have been utilised for capital works, which is a positive feature. A CU ratio below unity indicates that either capital income is being diverted for revenue expenditure (when O.R is also above 1), or that part of capital income is unspent during the F.Y under consideration.

The years in which the CUR of AMC is high indicates too much of non-plan expenditure and hence capital utilization and improvement plan/ program is necessary. The average CU ratio is 1.56. The high capital utilisation ratio over the years could be attributed to the fact that the capital income received by the AMC have been utilised to its fullest extent before the close of the financial year.

- **Share of Establishment Expenditure to Total Revenue Income**

The contribution of establishment expenditure (including salaries and wages, pension, reimbursement, etc) has accounted for 38.32 per cent of the total revenue income during the last five years. The rest of the income is used for administration and general expenses, repair and maintenance, service related expenses and for other miscellaneous expenses.

- **Collection Performance**

Property Tax

The average collection performance of property tax collection is 17.44 per cent for the period from 2000-01 to 2004-05. It needs mention that the collection performance of the AMC as far as arrears collection is concerned is below 15 per cent. The AMC has been able to maintain the current collection around 40 per cent. However, with the new area based property tax

system the current collection levels have been reported to be as high as 80 percent. The details for different years are presented in Table 9-16.

Table 9-16: Demand Collection Balance Statement-Property Tax

Year	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05
No. of Assessments	950103	962553	975002	987452	999902
Total Demand	78,538.69	84,853.35	98,363.20	104,068.24	106,968.47
Current	7,602.35	9,157.72	11,914.20	15,871.80	21,030.51
Arrear	4,106.41	5,443.54	6,780.66	8,117.79	9,454.92
Total Collection	9782.05	13403.57	17025.09	20646.61	24268.13
Current	NA	NA	NA	NA	NA
Arrear	NA	NA	NA	NA	NA
% collection	12.46	14.92	17.31	19.84	22.69

9.8 Status of Municipal Fund

Ahmedabad Municipal Corporation has performed well as far as revenue account is concerned. Annexure 11.7 presents a summary of the operating performance of the corporation. It may be noted that operating ratio has been below unity during the last five years period.

The average debt servicing ratio has been around 12.55 per cent during last five years. The debt servicing ratio has increased from 12.27 percent in 2000-01 to 12.55 percent in 2004-05. Outstanding loan with AMC is Rs. 429.24 crores in 2005 which involves overdue against the lending organisation with respect to principal as well as interest. The debt servicing of long overdue is towards payment to long term borrowing from state government, LIC/HUDCO and other financial institutions. Due to its high dues, there is a possibility of State Government deducting the annuity due from the Corporation's share in state's devolution. Revenue Expenditure has been primarily directed to establishment expenses (42.64 per cent) followed by power and fuel charges (11.4 per cent).

Revenue through the levy of octroi contributes for over 57.34 per cent of the total revenue income of corporation, whereas property tax contributes for almost 20 per cent of the total revenue income. The average collection performance of the same has been very poor around 17.44 per cent from 2000-01 to 2004-05.

Capital Expenditure has been mainly directed towards the water supply and public works (Roads/bridges) at 16.80 and 9.34 per cent respectively which is followed by sewerage and drainage.

The revenue account has been accruing a substantial amount of surplus. On the other hand, the capital account has faced deficit in all years except 2000-01 and 2001-02.

AMC's performance with respect to resource mobilisation and expenditures has been reasonably good during the recent past. The per capita incomes, both (both revenue as well as own sources) of AMC, are around Rs 1675 and Rs.1439 respectively. Income from own sources is fairly high which is dominated by income from octroi tax. At present the resource position of AMC is sound inspite of the collection performance being low.

The overall status in the revenue account shows a net surplus. Substantial amounts from revenue surplus have also been diverted to capital account, which is used for capital works. At an overall level the corporation has been able to maintain a positive closing balance each year (2000-01 to 2004-05)

Table 9-17: Key Financial Indicators

Head/ Financial Indicators		Average Value of 5 years (2000-01 to 2004-05)
Resource Mobilisation (General)		
1	Per Capita income	Rs. 1675
2	Share of Own resources in Revenue Income	85.97 %
3	Growth In Revenue Income	9.59 %
4	Growth in Own Resources of Revenue Income	14.86 %
5	Per Capita own income	Rs. 1439
6	Share of Non-tax to own resources	9.90 %
Resource Mobilisation (Property Tax)		
	Share of Property Tax in Revenue Income	22 %
Expenditure Management		
1	Per Capita Expenditure	Rs1486.50
2	Share of Establishment expenditure in total revenue expenditure	42.64%
3	Share of Establishment expenditure in total revenue income	38.32 %
Liability Management		
1	O/S Loan to Octroi	21.49%
2	O/S Loan to Property Tax Demand	40.48%
3	O/S Loan to Total Own Sources	14.23%
4	O/S Loan to Total Revenue Grants	84.15%
Performance Assessment		
1	Operating Ratio	0.90
2	Collection Performance (Property Tax)	17.44 %
3	Capital Utilisation Ratio	1.56
4	Debt Servicing ratio	12.55%

