



Municipal Finance Assessment of 15 towns Maharashtra

CEPT University with support from CRISIL Risk & Infrastructure Solutions

November 2014



Structure

- **Context**
- **City profiles**
- **Budgeting and accounting practice**
- **Income and expenditure analysis**
- **Investment capacity**

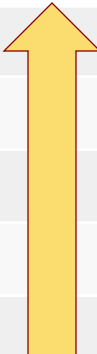

Context

Context

- **Aim is to develop better information on performance**
- **The information to form basis of funding from state and local govt. and improvement in service**
- **CEPT will partner with ULBs and State Governments to develop Performance Assessment System (PAS) for**
 - Performance Measurement
 - Performance Monitoring
 - Performance Improvement
- **CEPT has collected information for 250 ULBs in Maharashtra**
- **CRISIL Infrastructure Advisory appointed by CEPT to assess the financial situation of 15 Class A ULBs in Maharashtra**

City Profiles

City Profiles

S.No	City	2011 Population in lakhs	Decadal growth rate (%)	City size (in sq.kms)
1	Panvel	1.80		3.63
2	Latur	3.83		33.00
3	Ambernath	2.54		38.00
4	Jalna	2.85		81.86
5	Parbhani	3.07		57.61
6	Barshi	1.19		36.00
7	Ichalkarnji	2.88		29.64
8	Satara	1.20		8.15
9	Chandrapur	3.21		56.28
10	Gondia	1.33		18.08
11	Achalpur	1.12		16.00
12	Bhusaval	1.88		13.38
13	Beed	1.46		8.29
14	Yavatmal	1.17		10.17
15	Wardha	1.06		7.44

Budgeting and accounting practices

Budgeting – Urban local bodies

- **Urban local bodies to prepare to separate budgets**
 - Function based
 - Services based
- **As specified in the Maharashtra Municipal Councils Act – Chapter VIII for Budgets and Accounts**
 - a separate budget should be prepared for water supply and sewerage services
 - to indicate the extent of subsidy for each of the services
 - the source of the subsidy for the services
- **Currently no separate budget is prepared**
 - ULBs prepare single budget, with separate heads or items for the services provided
 - No provision for showing the transfer of revenue/ subsidy
 - Items are incorrectly classified under the budget heads
 - Capital grants classified under revenue receipts
 - Capital expenditure classified under revenue expenditure

Budget classification as per Accounting Manual

- **Part I - Revenue Budget**

- Revenue Receipts
- Revenue Expenditure

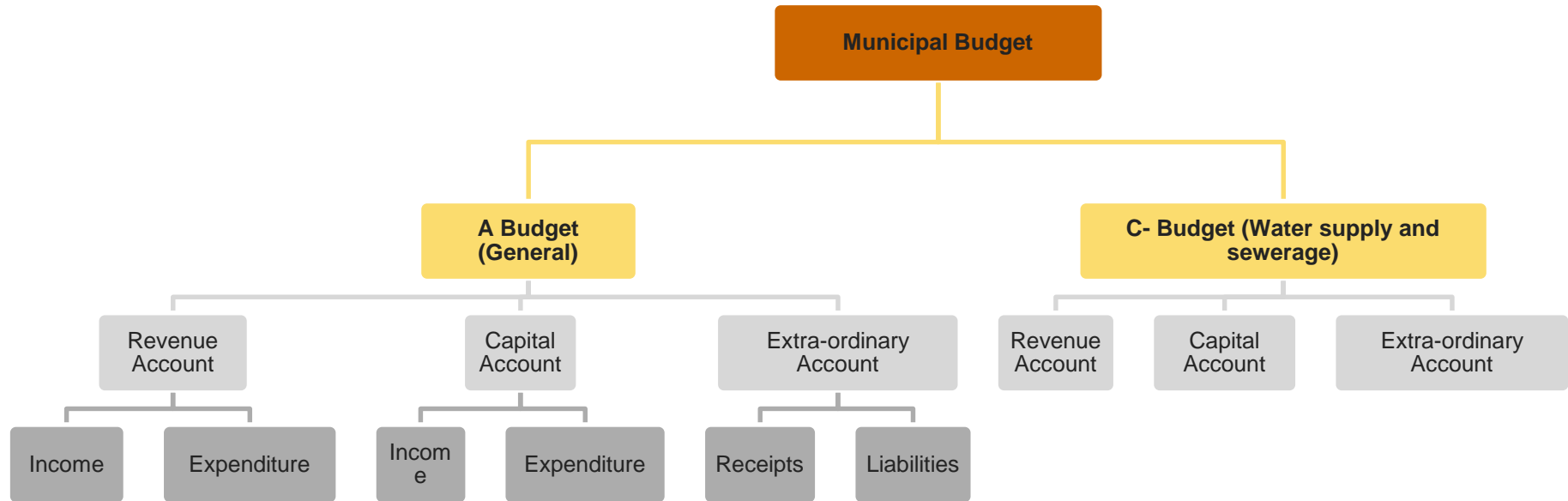
- **Part II – Capital Budget**

- Capital Receipts and Expenditure but grouped separately under following sub-parts
 - Capital Receipts and Expenditure from own sources.
 - Capital Receipts received in the form of new loans and the Expenditure carried out from them.
 - Capital Receipts received in the form of development grants and the Expenditure carried out from them.

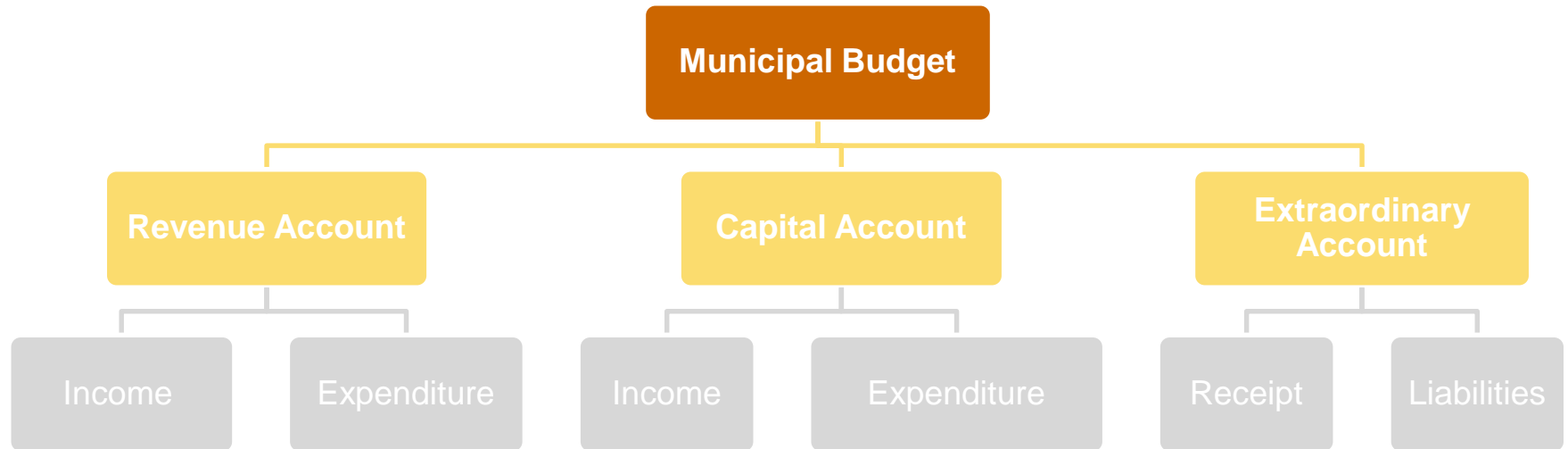
- **Part III – Extra-ordinary Budget – Receipts and Payment of extra-ordinary nature grouped under following distinct parts.**

- Deposits and Fund Budget – Deposits and Special Funds receipts and payment made from them.
- Advances Budget - New advances given and advances adjusted or recovered back.

Budget classification – Urban local bodies



Budget classification – Urban local bodies



Jalna and Beed prepare only income and expenditure statements

No segregation for the source of income and expenditure i.e revenue and capital

Accounting system - existing

- **ULBs follow cash basis accounting system – which is easy to maintain**
- **Income actually received is reflected and receivables are not known.**
- **Payments actually made are reflected and payables are not known.**
- **System provides only surplus/deficit in cash.**
 - Assets and liabilities are not reflected, and consequently, financial strength cannot be estimated
- **Example,**
 - Power bills are paid partly and in most cases ULBs default on payment
 - Arrears are not reflected in the financial statements
 - Outstanding liabilities are not reflected in the financial statements
 - Improper classification of revenue and capital expenditure distorts cost recovery calculations and assessment of operational performance

Accounting system – Accrual based

- **Revenue is shown as both revenue received and receivable.**
- **Expenditure is shown as both amount paid and payable**
- **Expenses are matched with the income earned in the year**
- **Items of ordinary nature and capital nature are differentiated**
- **Assists in effective follow-up of receivables and payables**
- **Costs which are not charged can be carried forward**
 - These items can be kept under constant review
- **Surplus or deficit as shown at the year-end**
 - correct financial position of the ULB.
 - helps in better financial management

Income and expenditure analysis

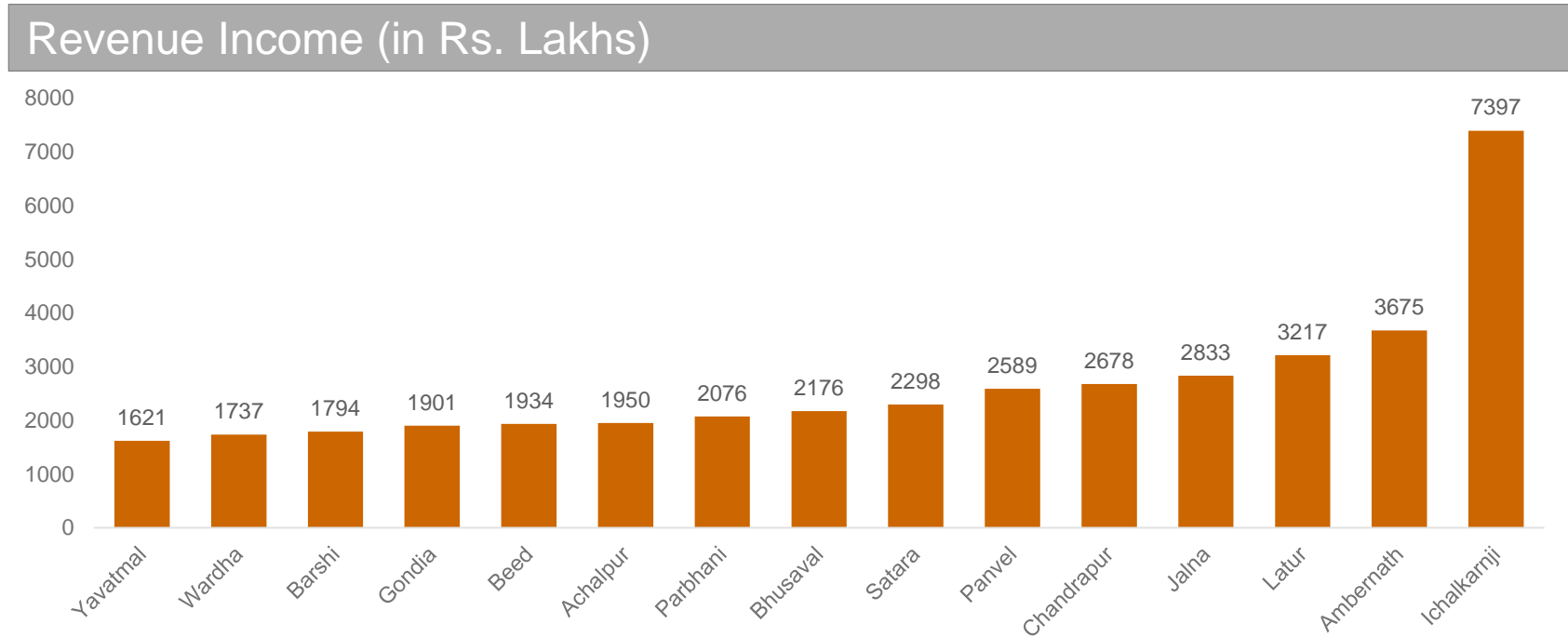
Approach to the study

- **Key items of data used for the study which included**
 - the budget books of the ULB
 - PAS data
 - data related to capital expenditure plan
 - water tariff statement
 - demand collection balance statements
 - loan statements
- **Recasting of the budget documents as and where needed.**
 - Recasting was done to reallocate the misreported items of income and expenditure into revenue and capital accounts.
- **Develop a template for municipal finance assessment.**
- **Assessment of the financial position carried out**
- **Determining the investment capacity of the ULB under optimized conditions**

Recasting of budget items

- **Recasting of the budget items as per source of income and type of expenditure**
- **Recurring grants shown capital grants**
- **Capital grants shown under revenue grants**
 - UIDSSMT and IHSDP scheme grants
 - State scheme grants for development works
- **Capital expenditure items shown under revenue expenditure**
 - Purchases / procurement
 - Development works
 - Creation of assets under new schemes
- **Budget items shown as general**
 - Items have been segregated to its source / types
 - Water supply/ sewerage expenditure revenue and capital expenditure items which were shown as general

Revenue Income – trend for the 15 towns



- **Revenue income constitute three major components**
 - Tax income
 - Non – tax income
 - Revenue grants and contributions

Revenue Income - sources

- **Revenue income constitutes tax income mainly through property tax**
 - Under The Maharashtra Municipal Council, Nagar Panchayats and Industrial Townships Act, Maharashtra 1965 ULBs can levy a mandatory consolidated property tax consisting of
 - General tax,
 - General water tax,
 - Lighting tax,
 - General sanitary tax,
 - Special latrine tax,
 - Fire tax and
 - Environment tax.
 - apart from this mandatory tax, it can also levy the following taxes related to water supply and sanitation
 - special sanitary tax *upon private latrines, premises or compounds cleansed by municipal agency.*
 - drainage tax
 - special water tax *for water supplied by the council in individual cases,*
These charges for such supply being fixed in such modes as shall be best suited to the varying circumstances of any class of cases i.e fixed water charges per connection depending on connection size or volumetric tariff charges in case of metering

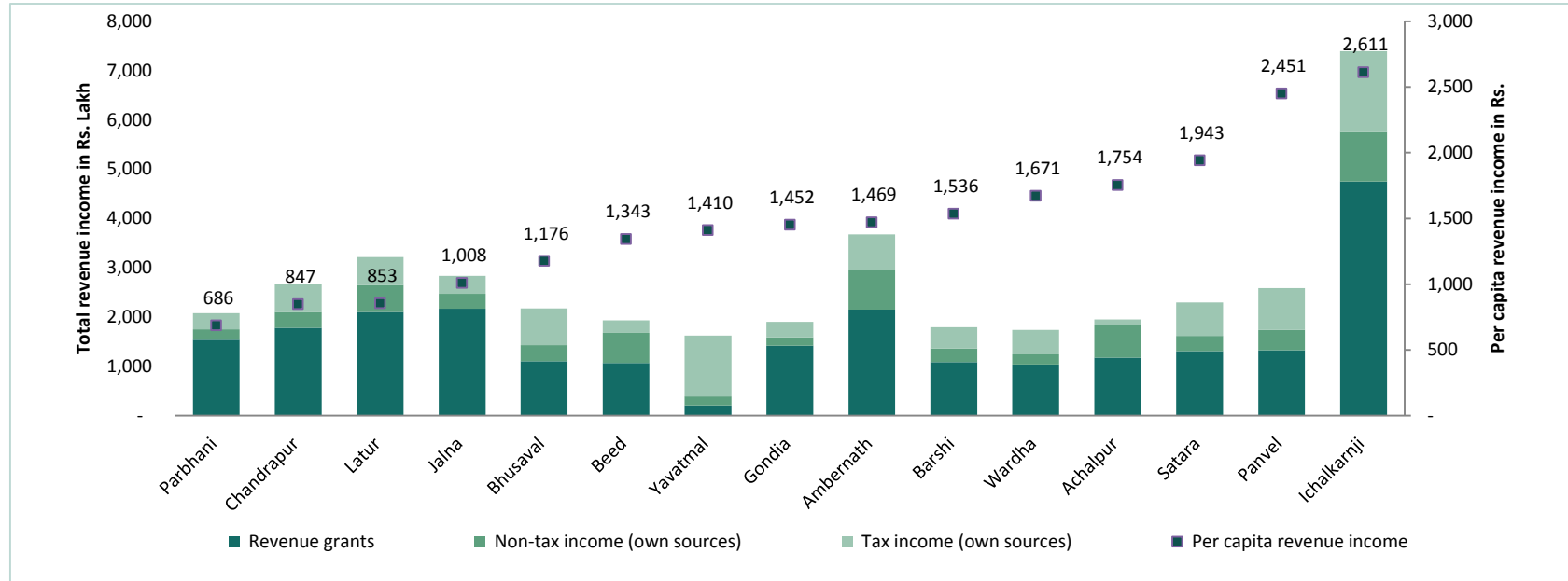
Revenue Income

- **Revenue income constitutes tax income through own source which include**
 - Property tax, entertainment tax, vehicle tax etc.,
 - Non tax income through charges, fees, rent, fines
 - Development charges and regularization charges
 - Permission fees
 - Water charges and water connection charges
 - Sewerage charges
 - Municipal property - land and building rent
 - License and form fees
 - Registration fees
 - Grants and Contributions
 - Assigned grants
Census, education, library, health, minority welfare, salary grants, finance commission grant, special schemes, etc.,
 - Non assigned grants
octroi compensation grants, tax compensations, development grants, stamp duty grants, etc.,

Revenue Income – trend for the 15 towns

Revenue Income (in Rs. Lakhs)

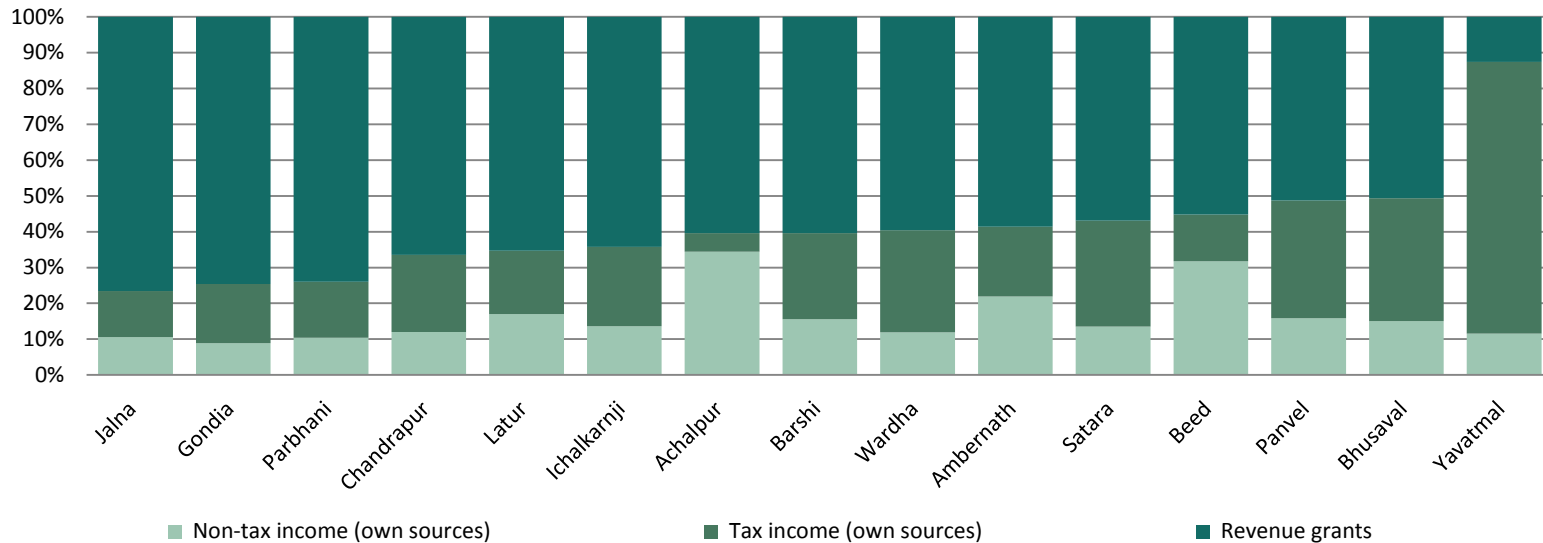
Per capita revenue income (in Rs)



- Except for Parbhani, Chandrapur and Latur all the ULBs have per capita revenue income more than Rs. 1000
- Ichalkaranji has the highest per capita revenue income with Rs 2,611, followed by Panvel with Rs 2451 and Satara with Rs. 1943

Revenue Income – source wise break up

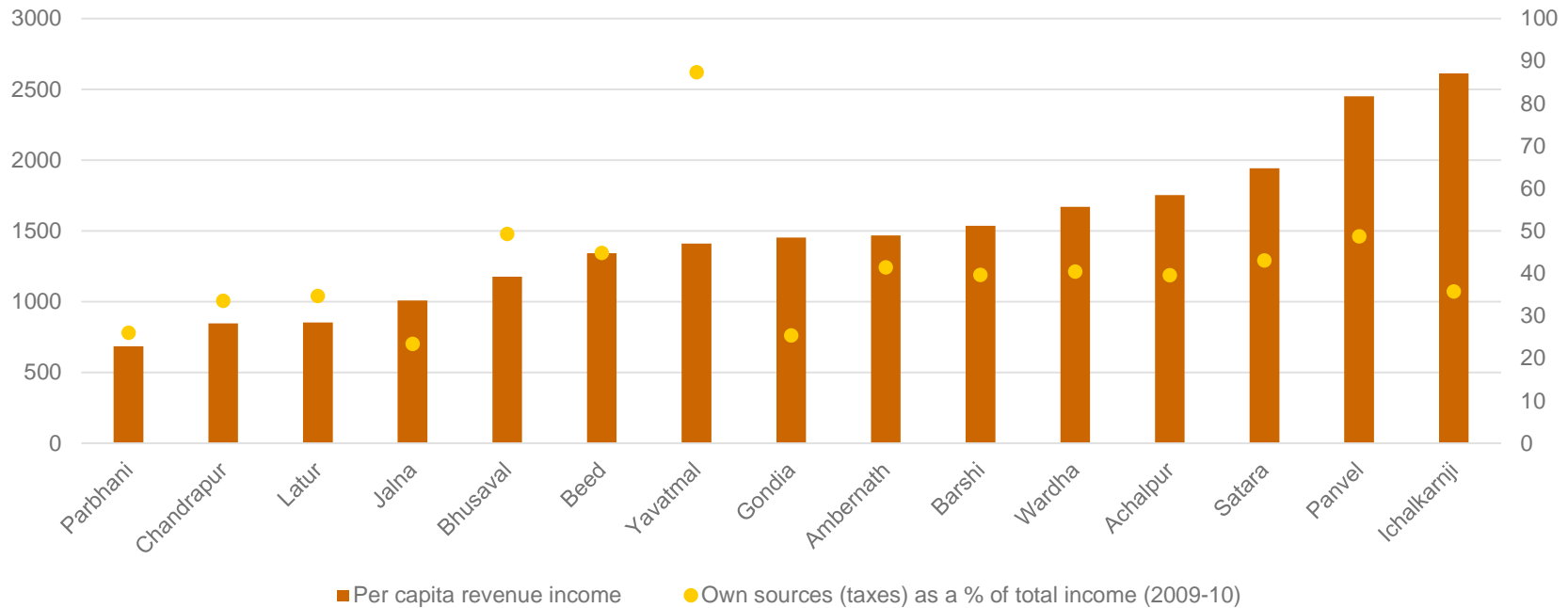
Source wise revenue income break up



- **Yavatmal constitutes high share of tax income and Achalpur has the lowest with 5% of its revenue income coming from tax income**
 - Most of the ULBs have lesser income through tax i.e less than 25%
 - shows high dependency of ULBs on grants and other sources

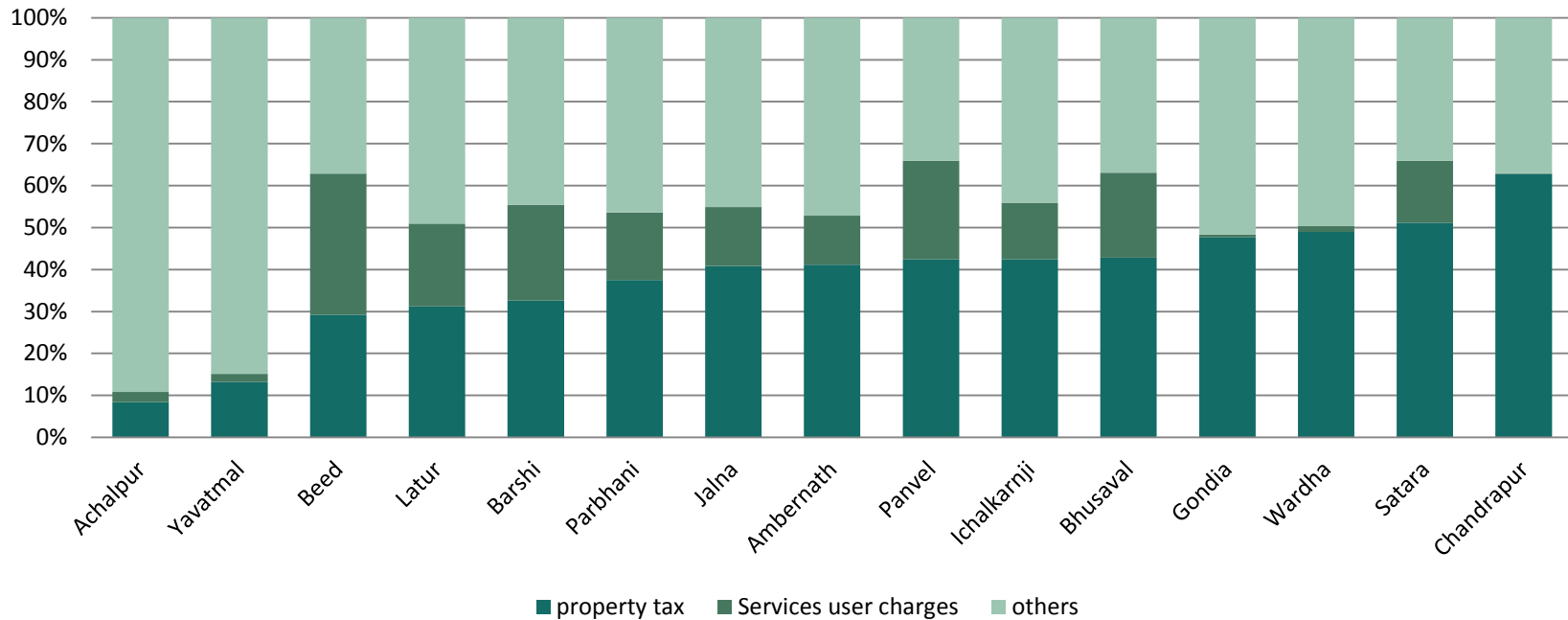
Revenue Income – own sources

Source wise revenue income break up



Revenue Income – own sources break up

Source wise revenue income break up



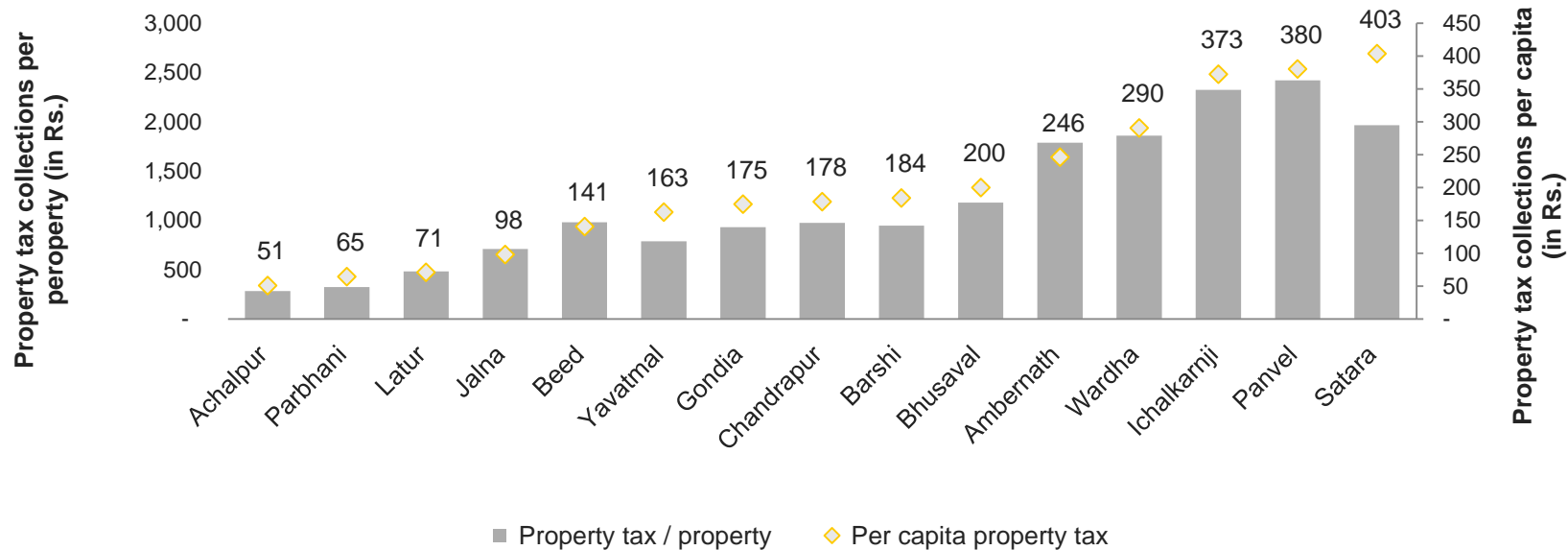
■ Own sources income for 15 towns

- Property tax
- Services user charges (Water supply charges and Sewerage and sanitation income)
- Others

Revenue Income – property tax

property tax/ property (in Rs)

per capita property tax(in Rs)



- **Per capita property tax varies among the 15 towns**
- **Variations for the per capita property tax and average property tax**
 - non -coverage of properties under the property tax net
 - collection efficiency of the property tax
 - difference in the property tax rates

Revenue Income – property tax

S.No	City	Properties	2011 Population	Per capita property tax (in Rs)
1	Wardha	18,515	105,543	290
2	Achalpur	22,742	112,293	51
3	Yavatmal	23,791	116,714	163
4	Barshi	24,469	118,573	184
5	Satara	25,773	120,079	403
6	Gondia	24,764	132,889	175
7	Beed	25,814	146,237	141
8	Panvel	26,845	180,464	380
9	Bhusaval	30,454	187,750	200
10	Ambernath	34,972	254,003	246
11	Jalna	38,151	285,349	98
12	Ichalkaranji	44,992	287,570	373
13	Parbhani	62,230	307,191	65
14	Chandrapur	57,830	321,036	178
15	Latur	55,007	382,754	93

Revenue Income – property tax

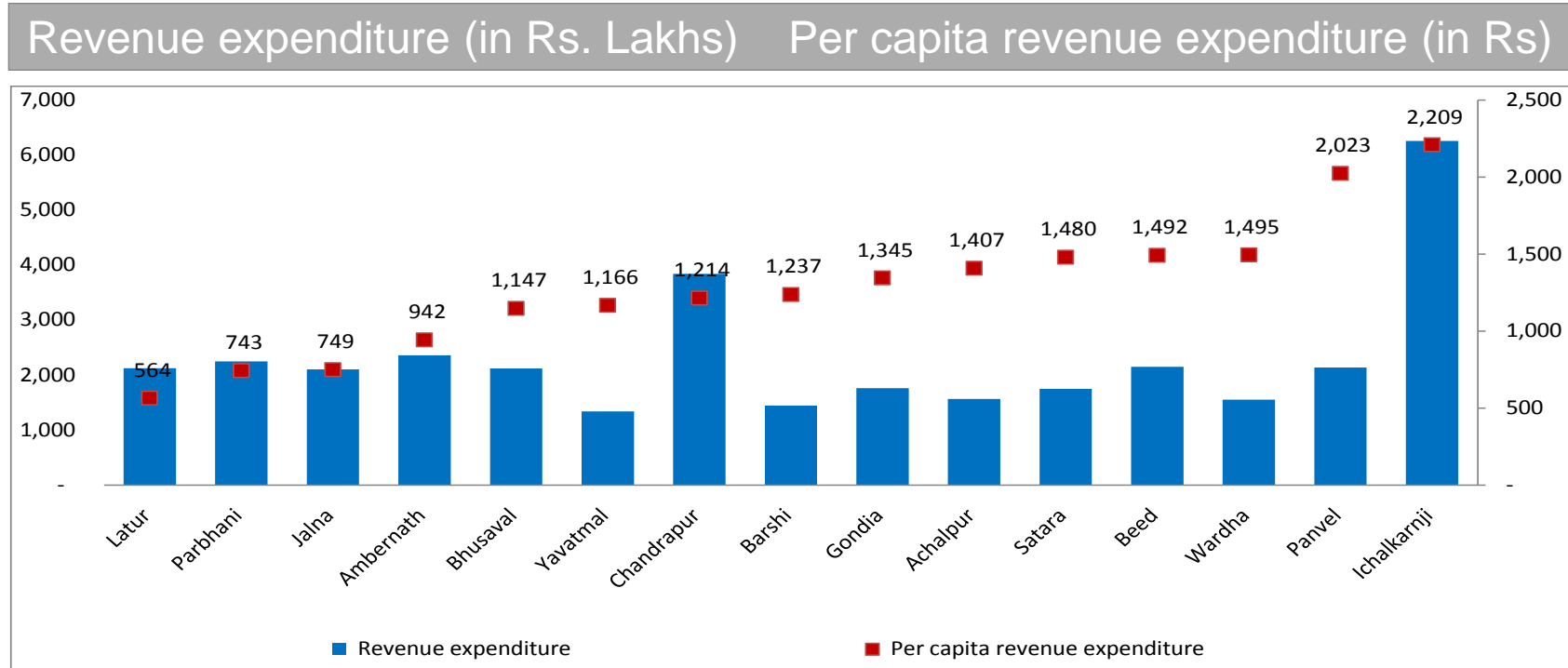
S.No	Population size	Highest per capita property tax (in Rs)	Town
1	One lakh to two lakh	403	Wardha
2	Two lakh to three lakh	373	Ichalkarnji
3	Above three lakh	178	Chandrapur

- **Wardha has the highest per capita property tax among the towns with less than two lakh population**
 - Per capita of Rs 403
- **Ichalkarnji collects the highest per capita property tax for towns with less than three lakh population and more than two lakh population**
 - Per capita of Rs 373
- **Chandrapur has the highest per capita property tax with towns with more than three lakh population**
 - Per capita of Rs 178

Property tax

- **As per the Maharashtra Municipalities Act, Property tax can be levied as percentage of rateable rate of the building or land**
 - Specifies different tax rates
 - A class Municipalities – Maximum of 28% and minimum of 23% of the rateable value of the property tax
 - B class Municipalities – Maximum of 27% and minimum of 22% of the rateable value of the property tax
 - C class Municipalities – Maximum of 26% and minimum of 21% of the rateable value of the property tax
 - Special latrine tax – 0.25% to 2% of the rateable value
 - Drainage tax – 5% of the rateable value
 - Other fixed rates for special sanitary and special water tax

Revenue expenditure



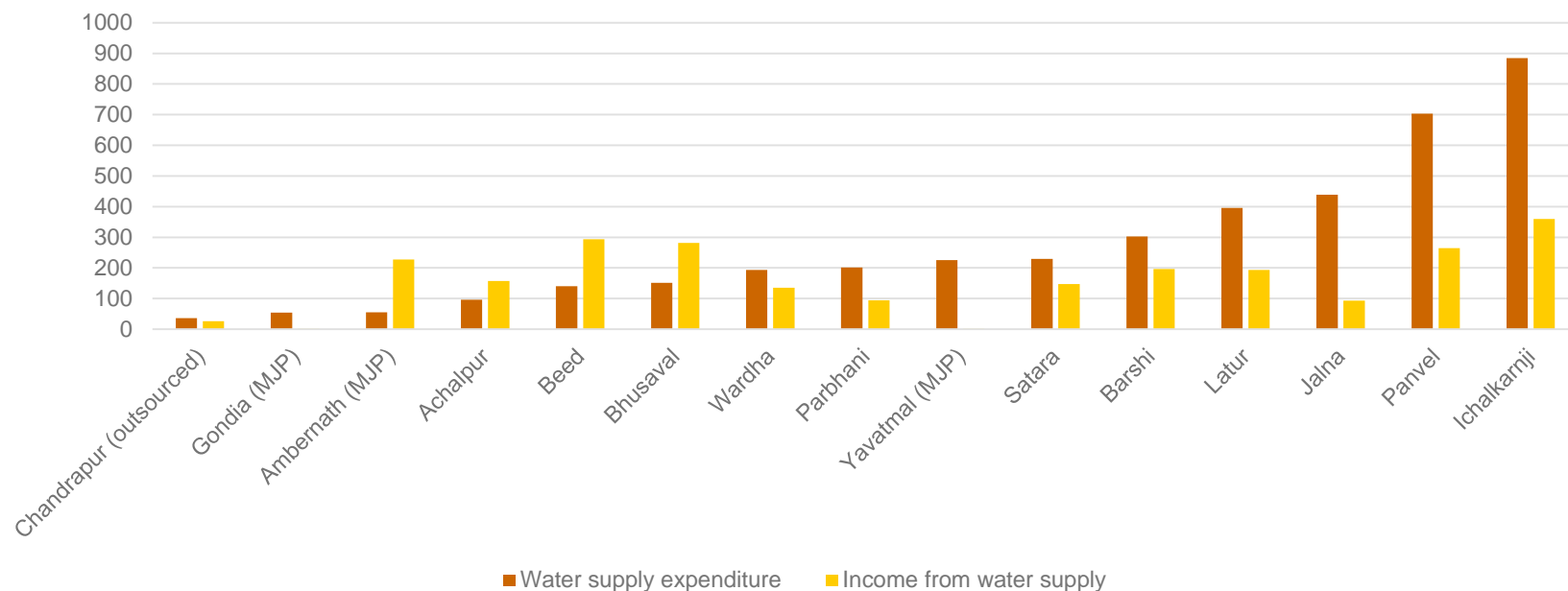
- Most of the cities have a per capita revenue expenditure from Rs 1000 to Rs 1400
- Latur has the lowest per capita revenue expenditure with Rs. 564 and Ichalkarnji highest with Rs 2209

Loan

S.No	City	No. of Loans	Loan amount (in Rs. Lakhs)	Outstanding loan (in Rs. Lakhs)
1	Achalpur	6	488	1278
2	Ambernath	4	940	127
3	Barshi	13	772	996
4	Beed	12	867	780
5	Bhusaval	-	-	329
6	Chandrapur	21	84	39
7	Gondia	-	-	-
8	Ichalkarnji	4	2159	713
9	Jalna	-	-	-
10	Latur	6	2735	2272
11	Panvel	-	-	-
12	Parbhani	58	691	578
13	Satara	-	-	-
14	Wardha	-	-	39
15	Yavatmal	1	260	-

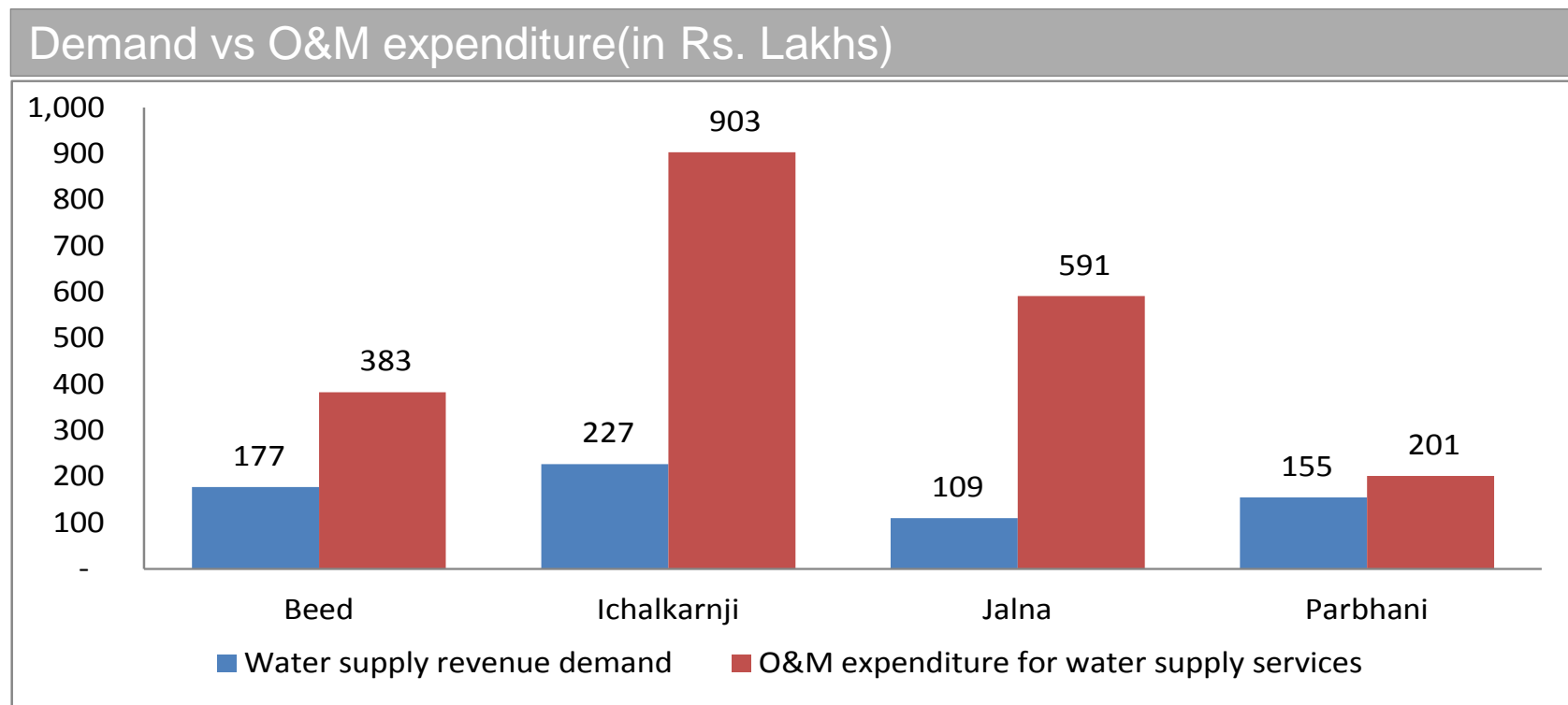
Water supply income and expenditure

Revenue expenditure (in Rs. Lakhs)



- **Ambernath, Achalpur, Beed and Bhusaval are reporting a revenue surplus**
- **Possible reasons for revenue deficit**
 - Lower collection efficiency of water charges
 - Inappropriate tariff rates

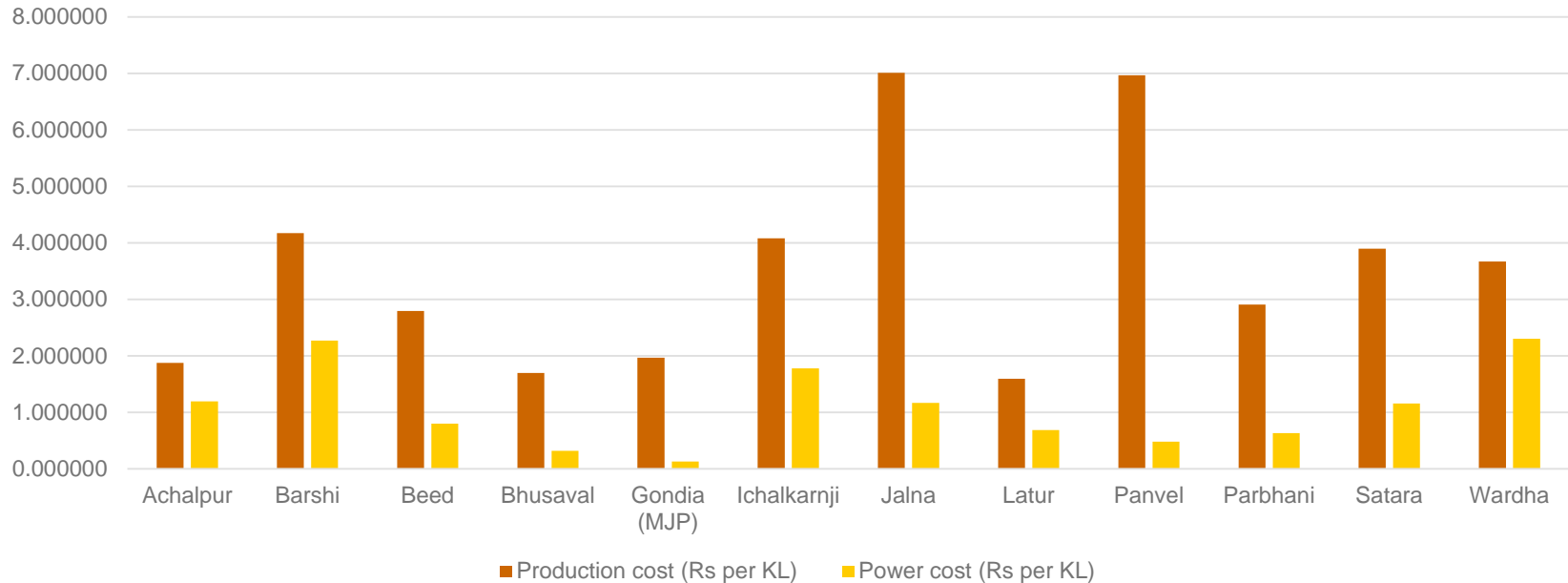
Water supply – Demand vs O&M expenditure



- **Demand not adequate to cover O&M charges indicating**
 - Not all consumers issued with bills; and
 - Tariffs may also need to revised upwards

Water supply – production cost

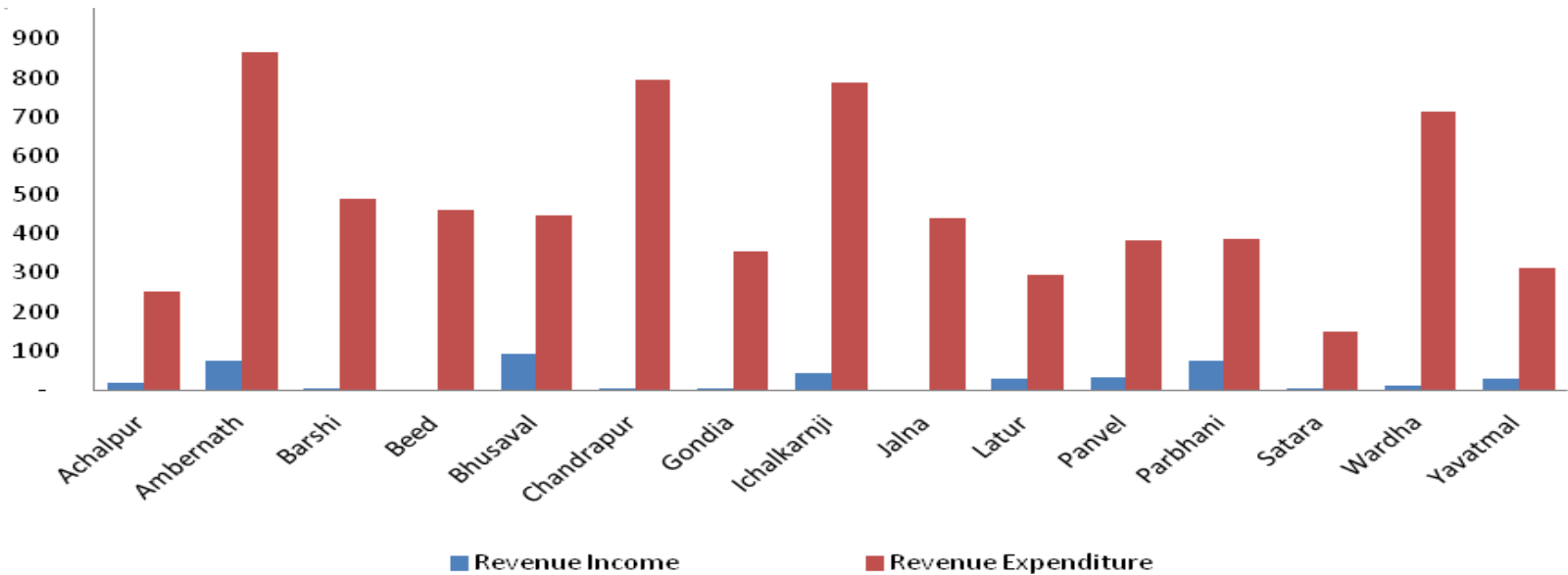
Water production (in Rs per KL)



- **Power costs reported may not reflect the actual value of electricity cost payable by the ULB on account of the single-entry accounting system**
- **This does not allow valid inferences to be drawn**

Sewerage and sanitation

Revenue income and revenue expenditure (in Rs Lakhs)

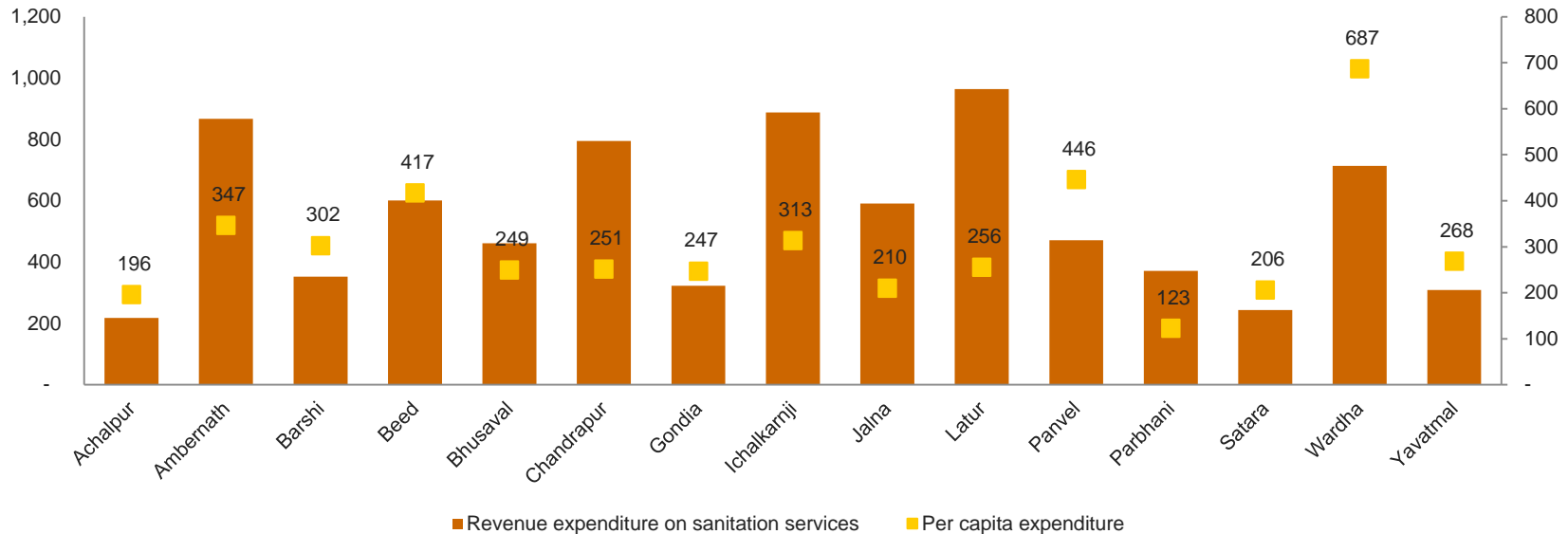


- There is no sewerage network in any of the towns
- None of the cities have 100% cost recovery for sewerage and sanitation services
- Sanitation tax collection as part of property tax but not adequate
- User charges need to be collected by the towns for cost recovery of these services

Actual figures for the year 2009

Sewerage and sanitation – revenue expenditure

Revenue expenditure (in Rs Lakhs) - per capita revenue expenditure (in Rs)



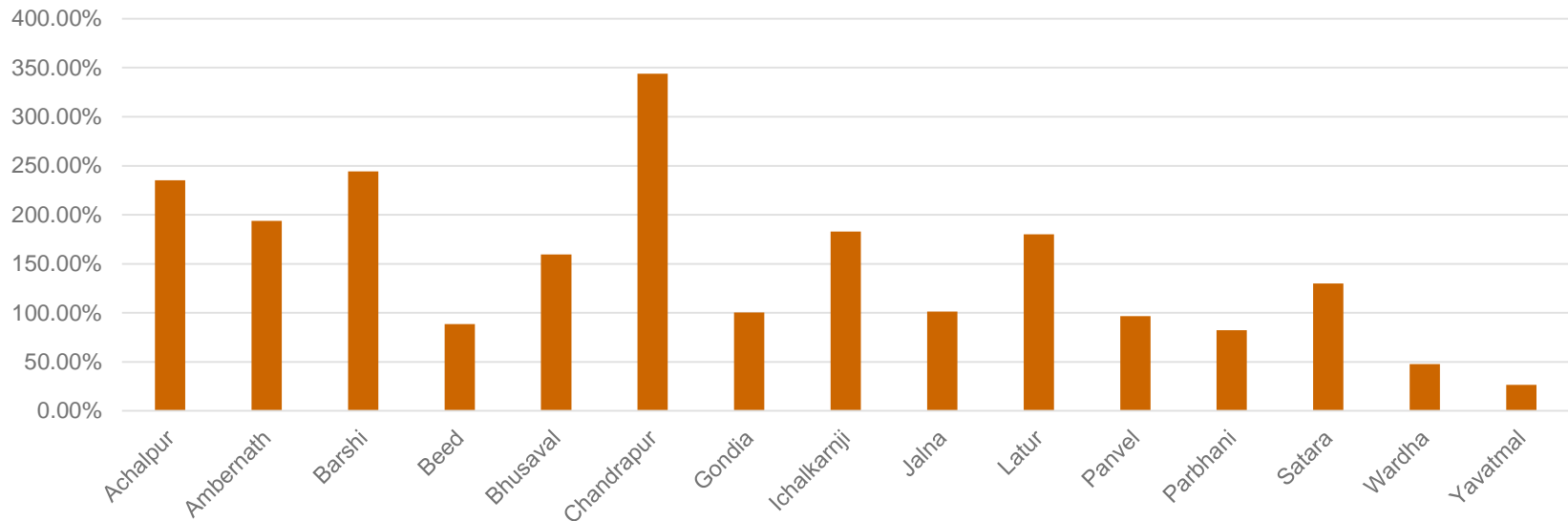
- Average per capita expenditure is around Rs 250 for the towns.
- Highest per capita expenditure incurred by Wardha with Rs 687 followed by Panvel at Rs 446
- Lowest per capita incurred by Parbhani with Rs 123 and Achalpur with Rs 196

Actual figures for the year 2009

Capital account

Capital income utilisation (%)

Capital income utilisation - 2009

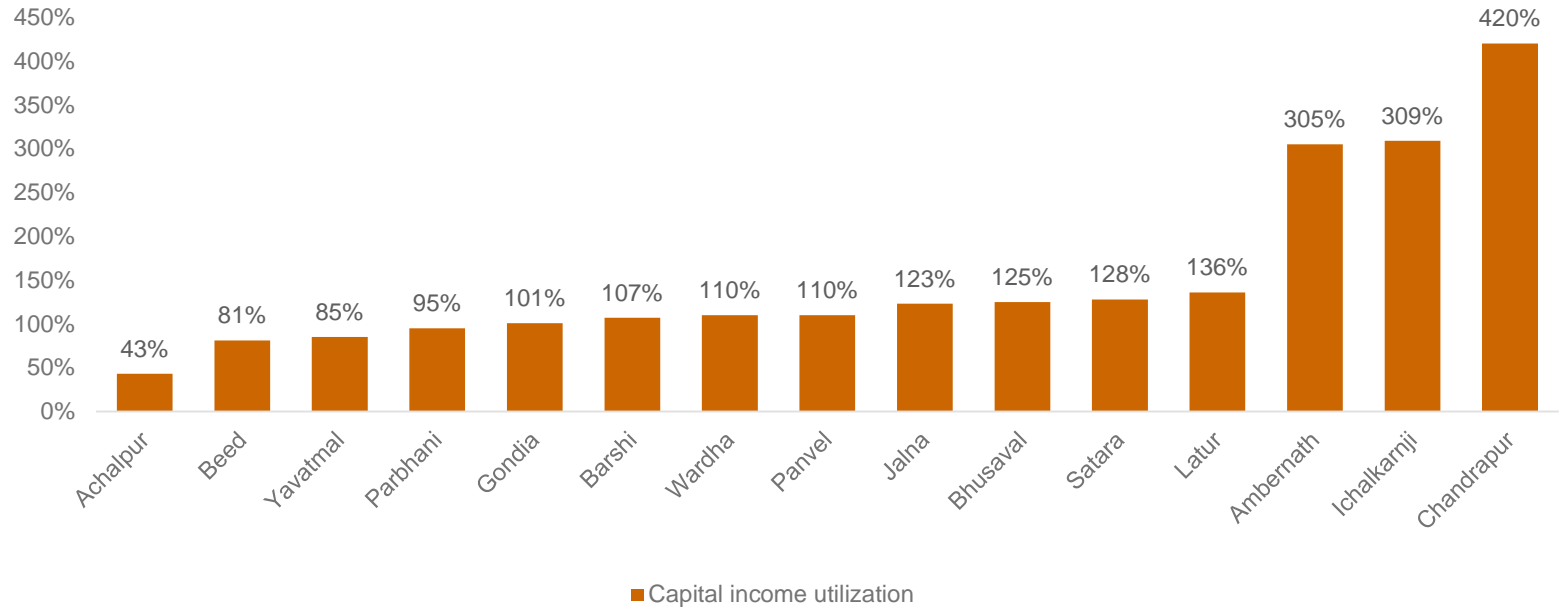


- **Nine towns have 100% or more capital utilisation of its capital income**
- **Few towns, do not utilise 100% of capital income for development of projects**
- **Capital utilisation varies every year for the towns**

Actual figures for the year 2009

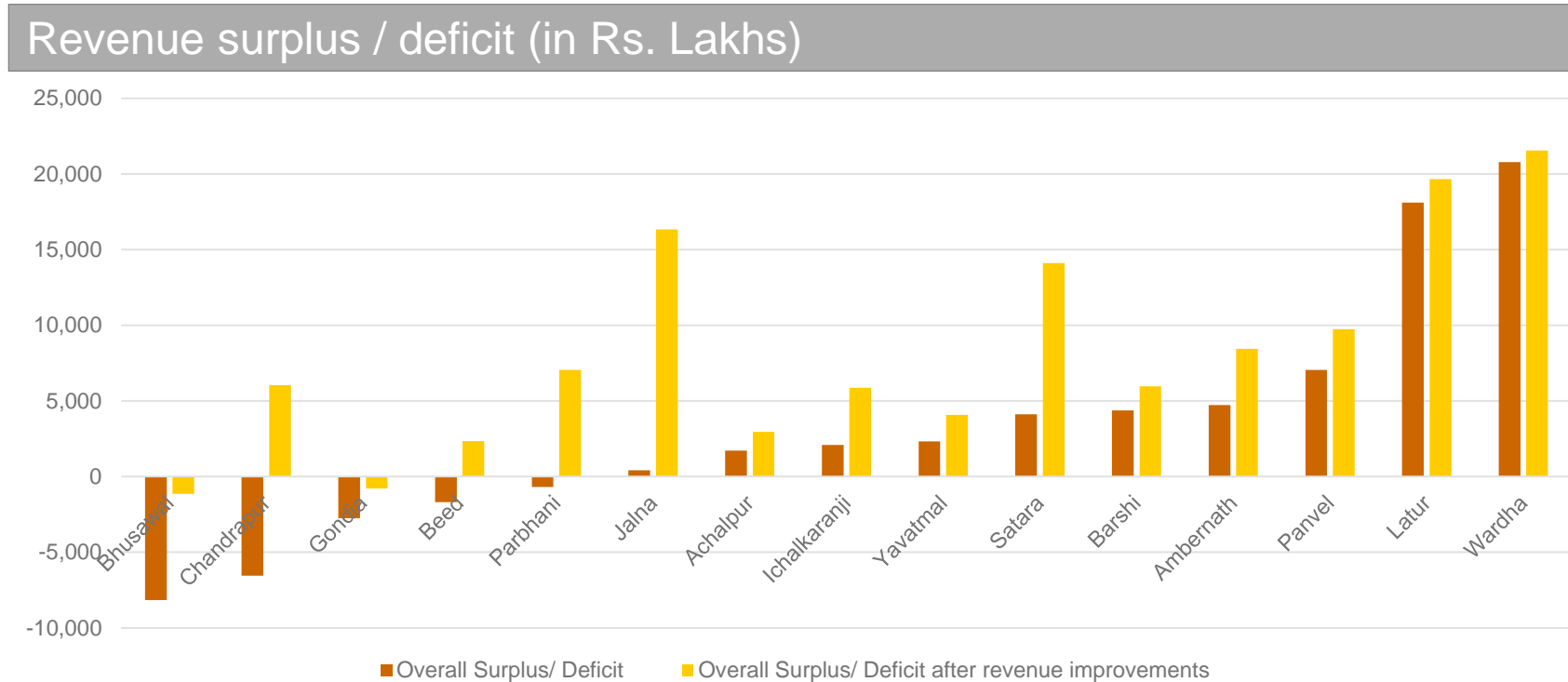
Capital account

Capital income utilisation (%) – overall for five years



- **Capital income is generally on account of grant support from the State / Central government**
- **Higher than 100% utilization reflects spill-over from un-utilised funds from previous years**

Revenue surplus/ deficit – 10 year projected



- **Most of the towns have a revenue deficit for a projected 10 year period**
- **No significant revenues with ULBs for investment in additional projects**
 - Stress on ULBs for ongoing projects
 - Existing debt payment is still a concern for most ULBs

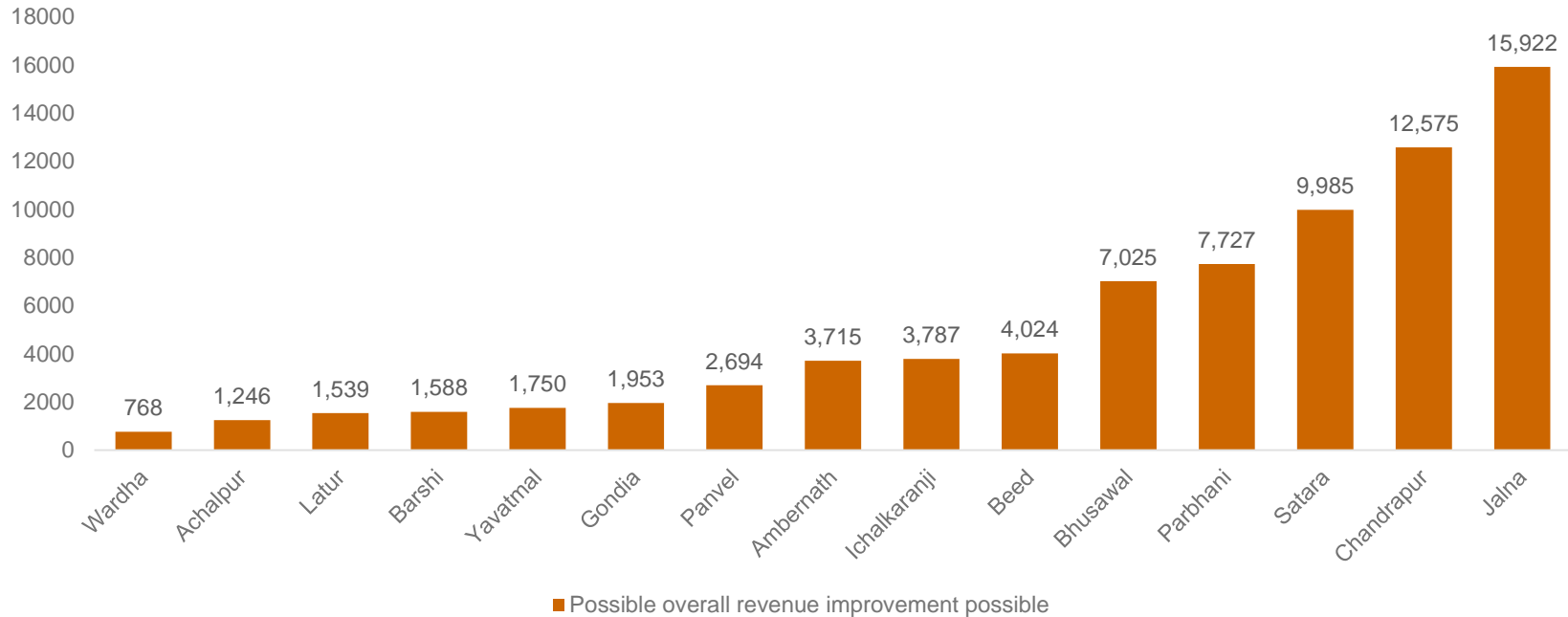
Revenue enhancement for towns

- **Revenue enhancement – critical for towns for investing in performance improvement measures**
- **Some of the measures to be taken up**
 - Property tax coverage– increase of tax coverage for higher demands (additional 15 to 20%)
 - Property tax collection – improving collection efficiency of 85% to 90% (annual equal increment over five years)
 - Revision of existing water charges
 - Water charges – improving collection efficiency (to achieved 85% to 90%) – annual increment
 - Introduction sewerage tax as part of the property tax
 - Additional revenues through implementation of capital projects
 - Increase of water supply coverage

Investment capacity

Investment capacity

Possible additional revenues (in Rs Lakhs)



■ Possible additional income through enhancement measures

- Improved collection efficiency of taxes and charges
- Revision of tariff charges and tax rates
- Introduction of tariffs for sewerage charges and SWM
- Improving coverage of tax net and services

Investment capacity

- **Towns with capacity for additional investment**

- Barshi
- Chandrapur
- Jalna
- Latur
- Panvel
- Parbhani

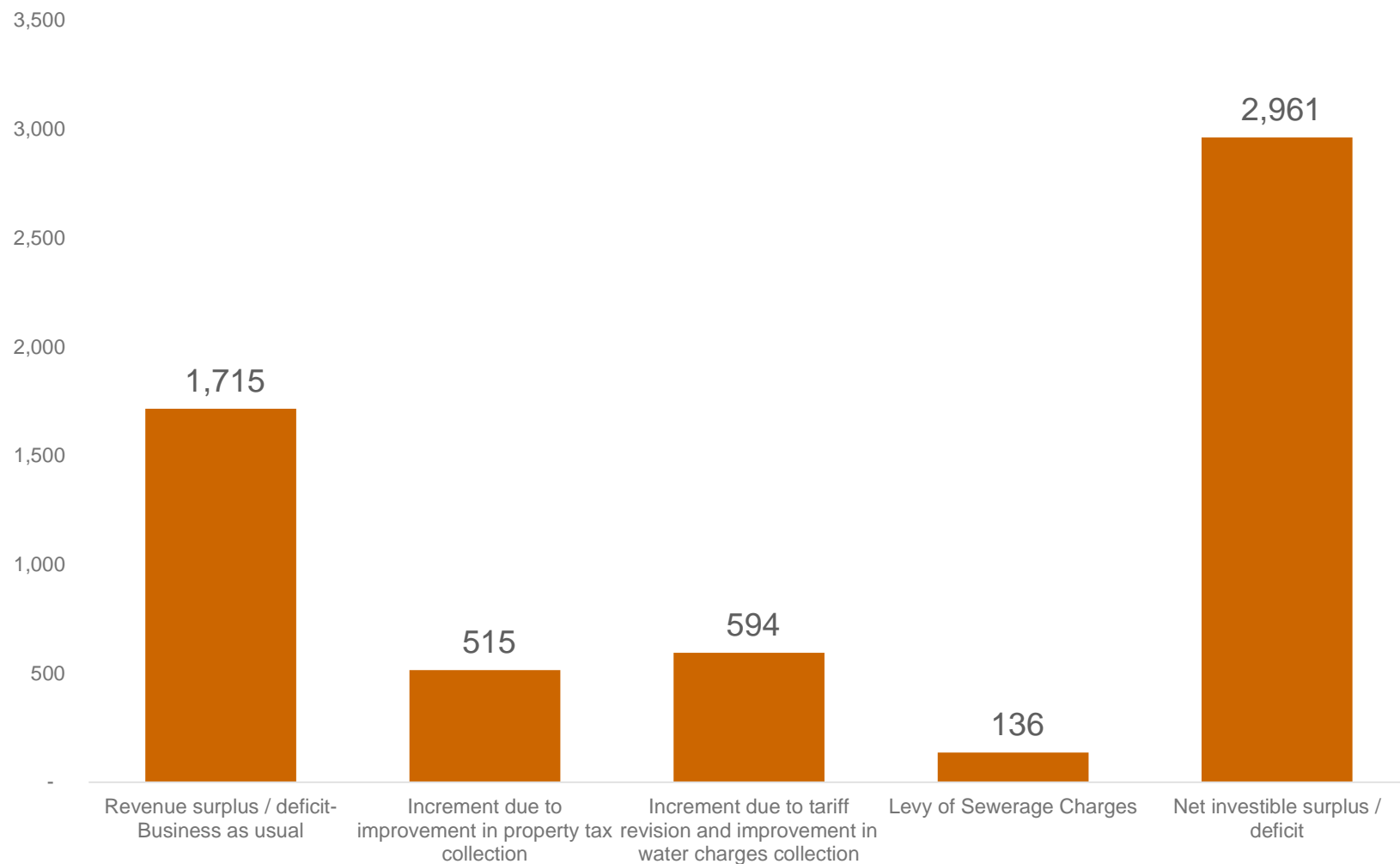
- **Towns with no capacity for additional investment**

- Achalpur
- Ambernath
- Beed
- Bhusawal
- Gondia
- Ichalkarnji
- Satara
- Wardha
- Yavatmal

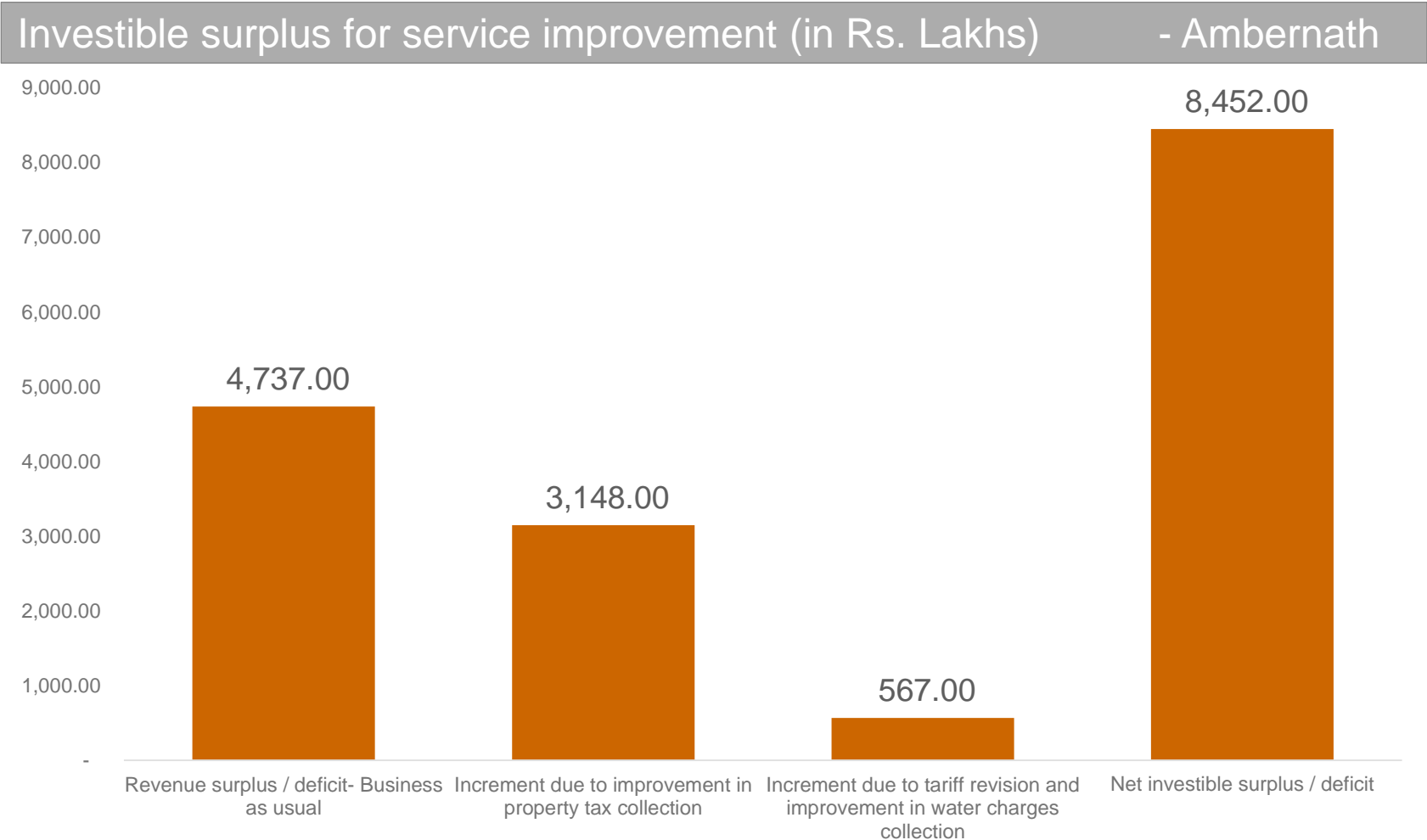
Revenue surplus – 10 year projected

Investible surplus for service improvement (in Rs. Lakhs)

- Achalpur

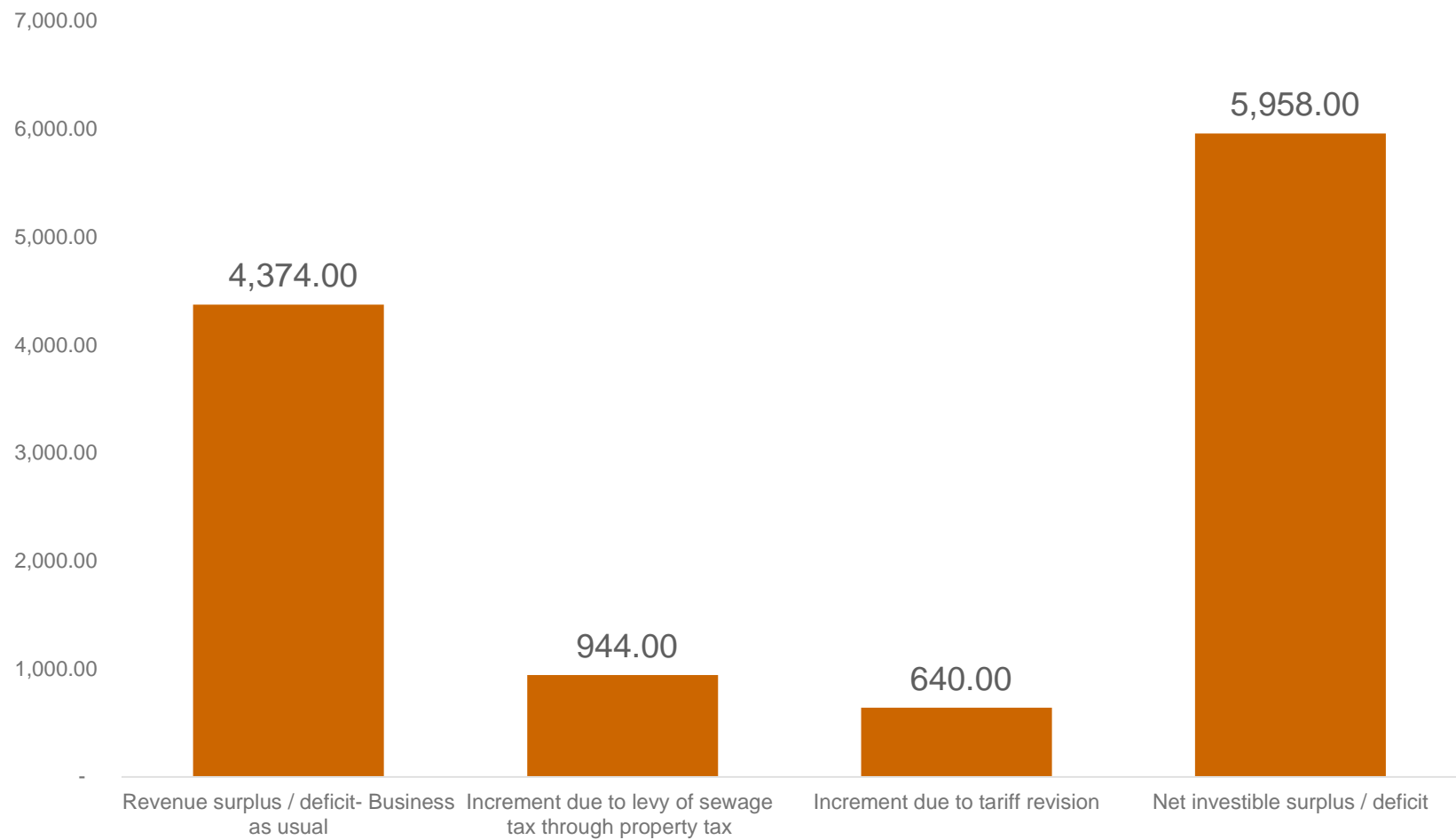


Revenue surplus – 10 year projected



Revenue surplus – 10 year projected

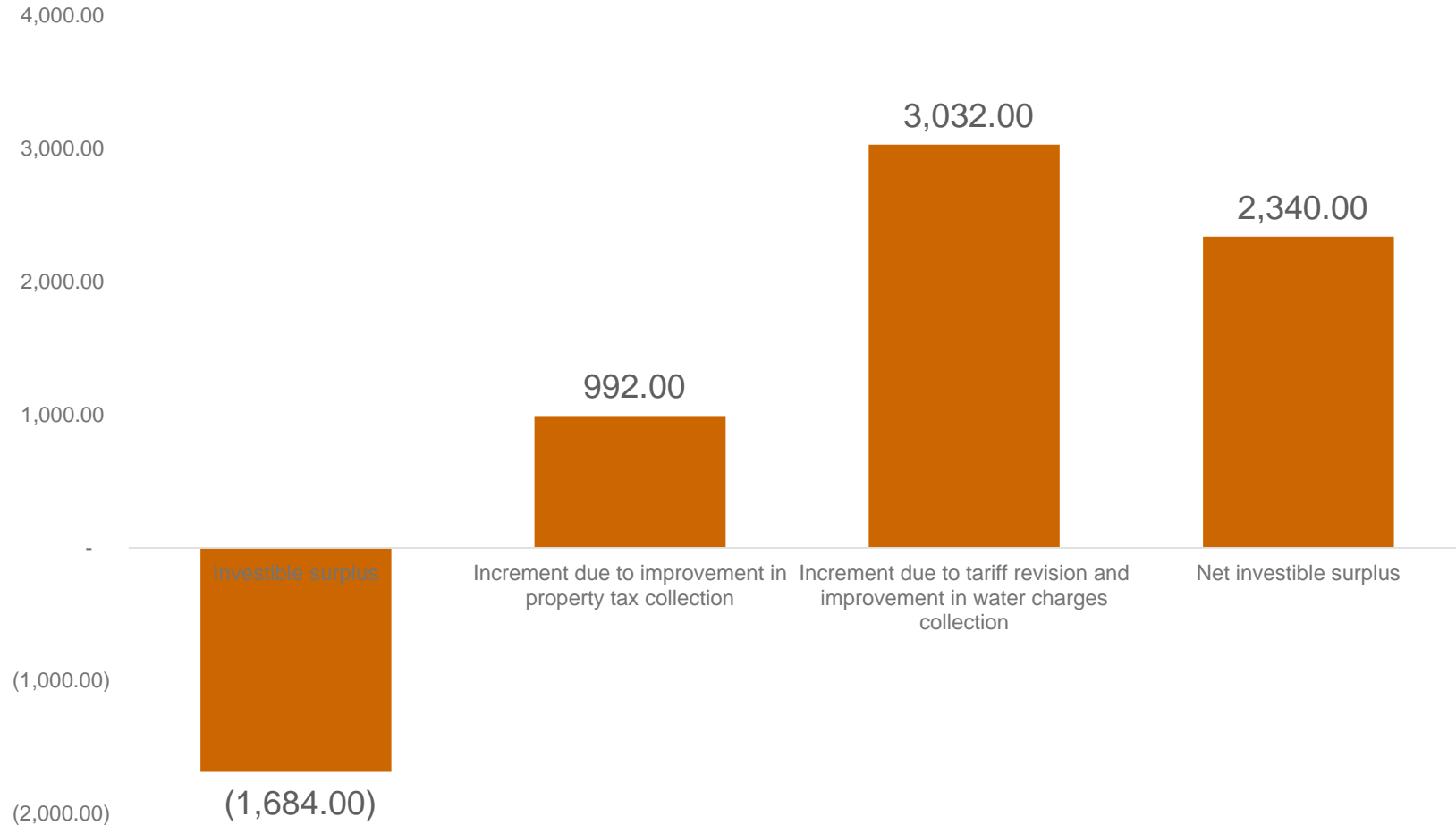
Investible surplus for service improvement (in Rs. Lakhs) - Barshi



Revenue surplus – 10 year projected

Investible surplus for service improvement (in Rs. Lakhs)

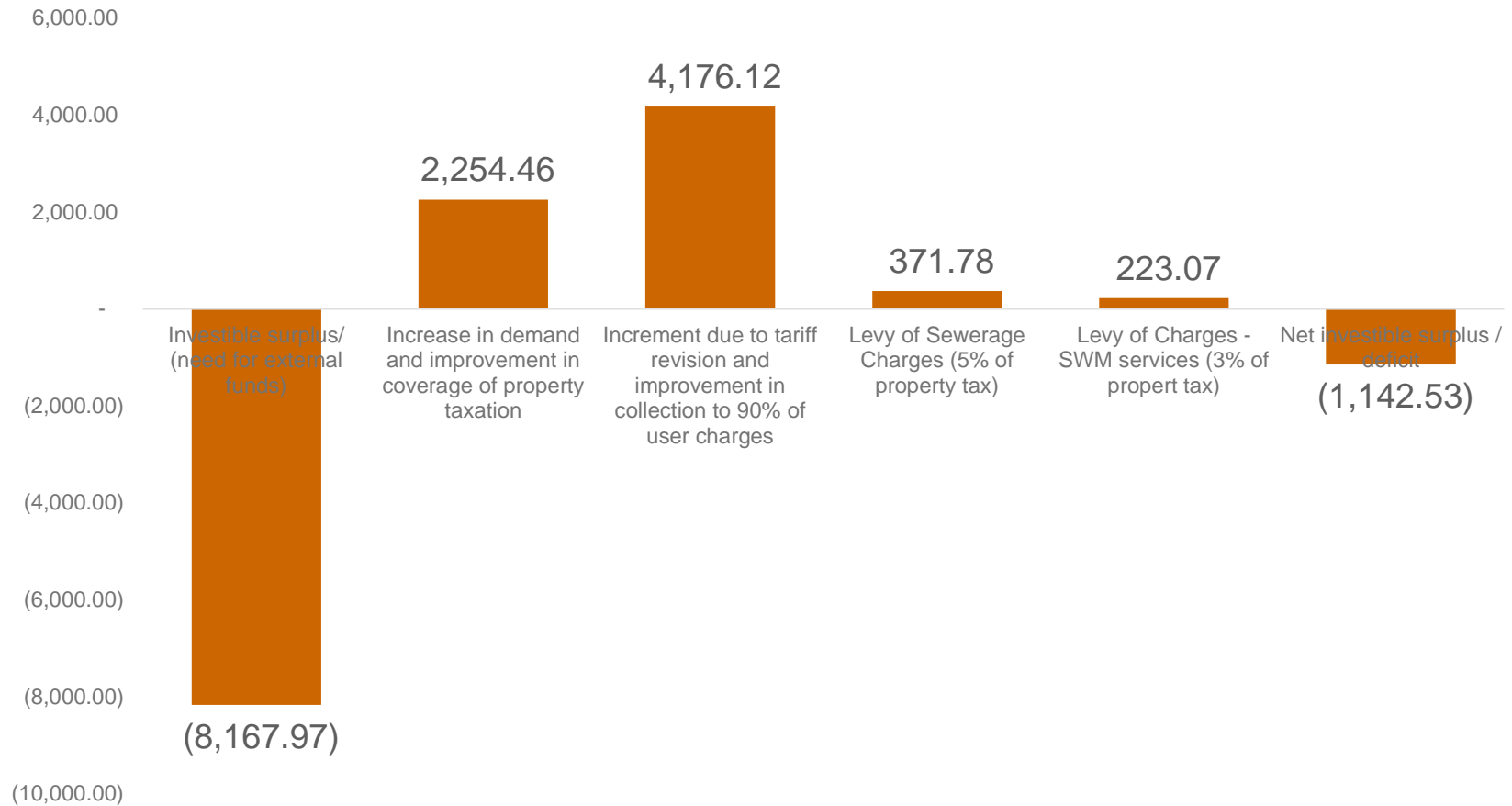
- Beed



Revenue surplus – 10 year projected

Investible surplus for service improvement (in Rs. Lakhs)

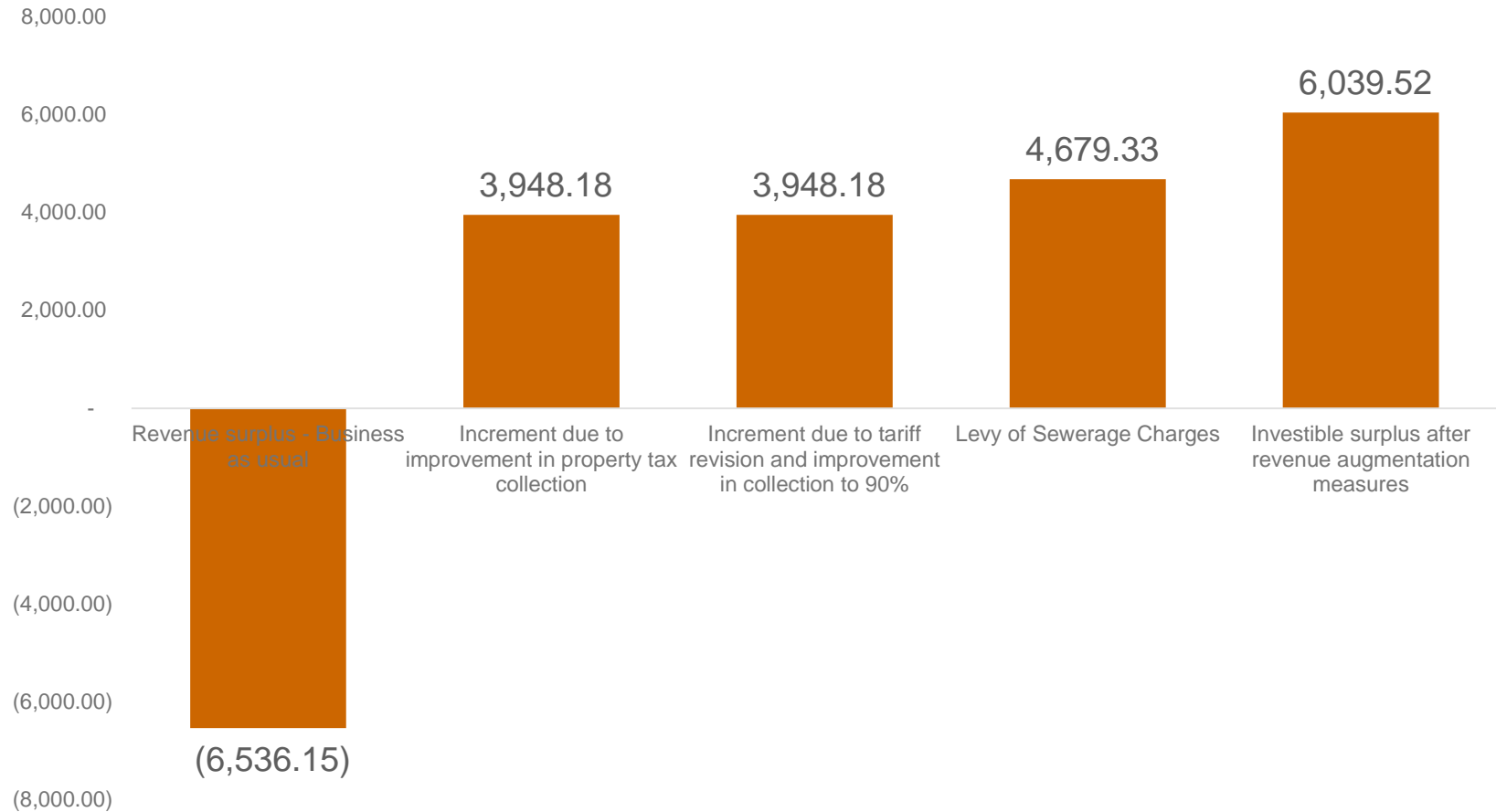
- Bhusawal



Revenue surplus – 10 year projected

Investible surplus for service improvement (in Rs. Lakhs)

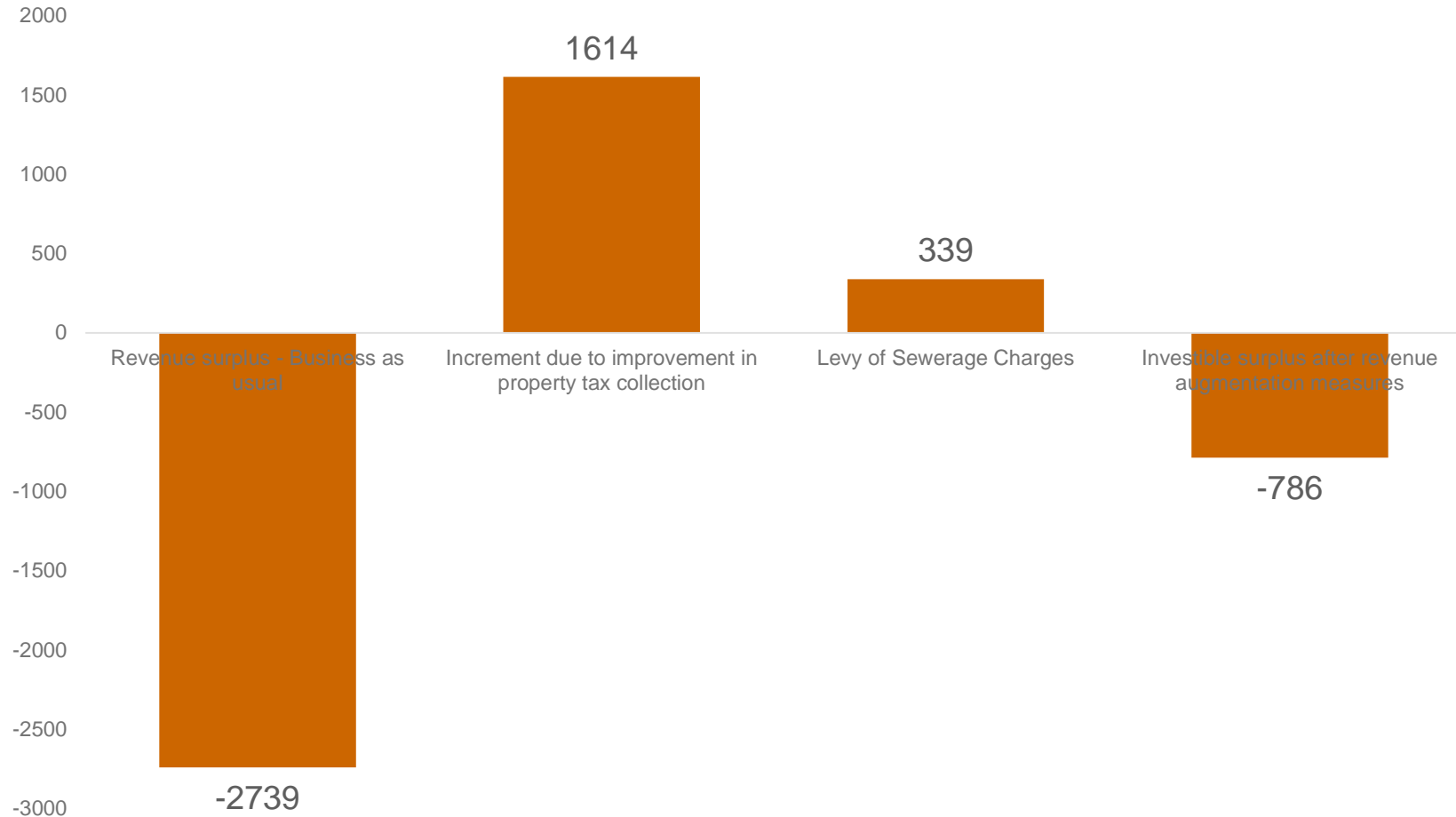
- Chandrapur



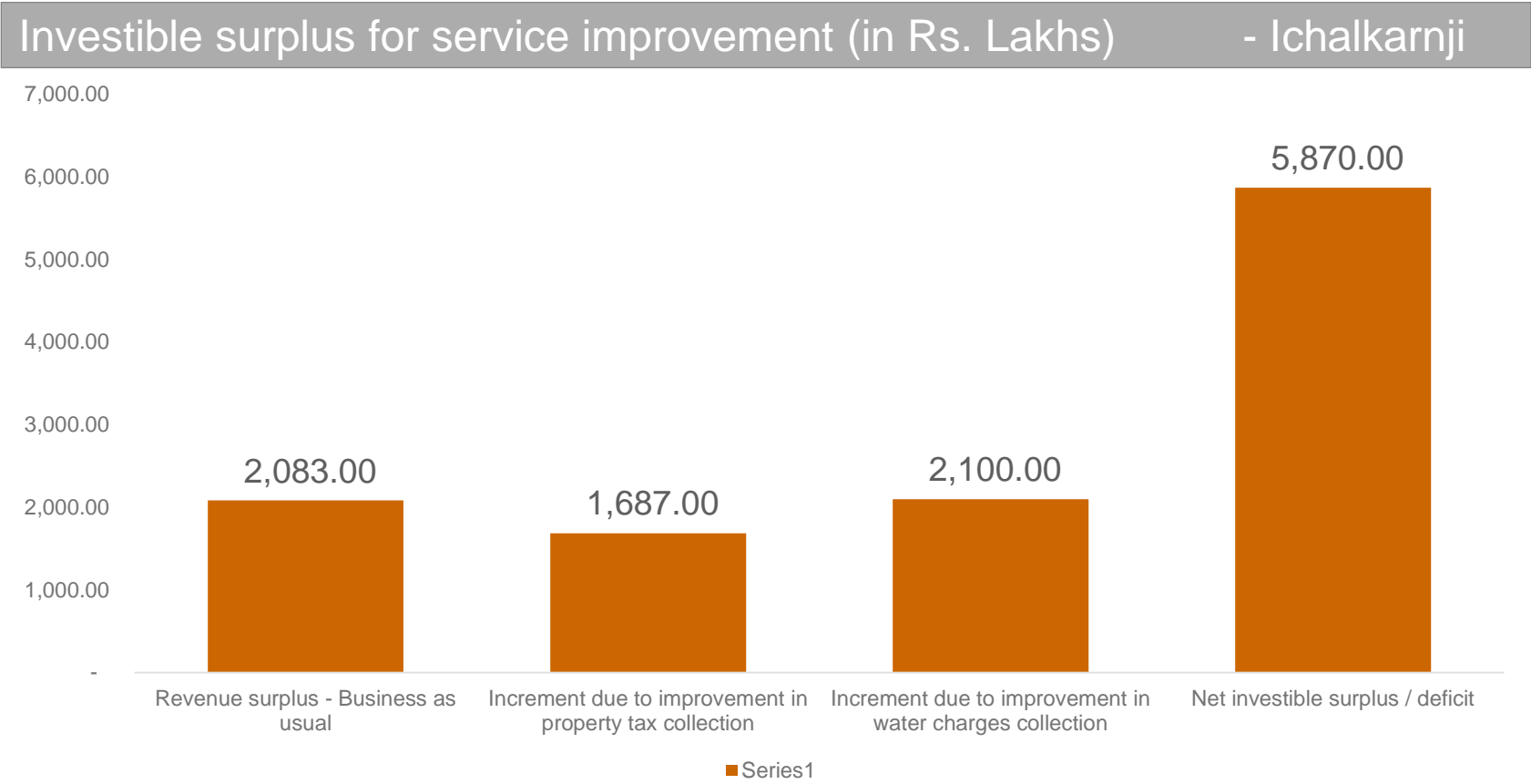
Revenue surplus – 10 year projected

Investible surplus for service improvement (in Rs. Lakhs)

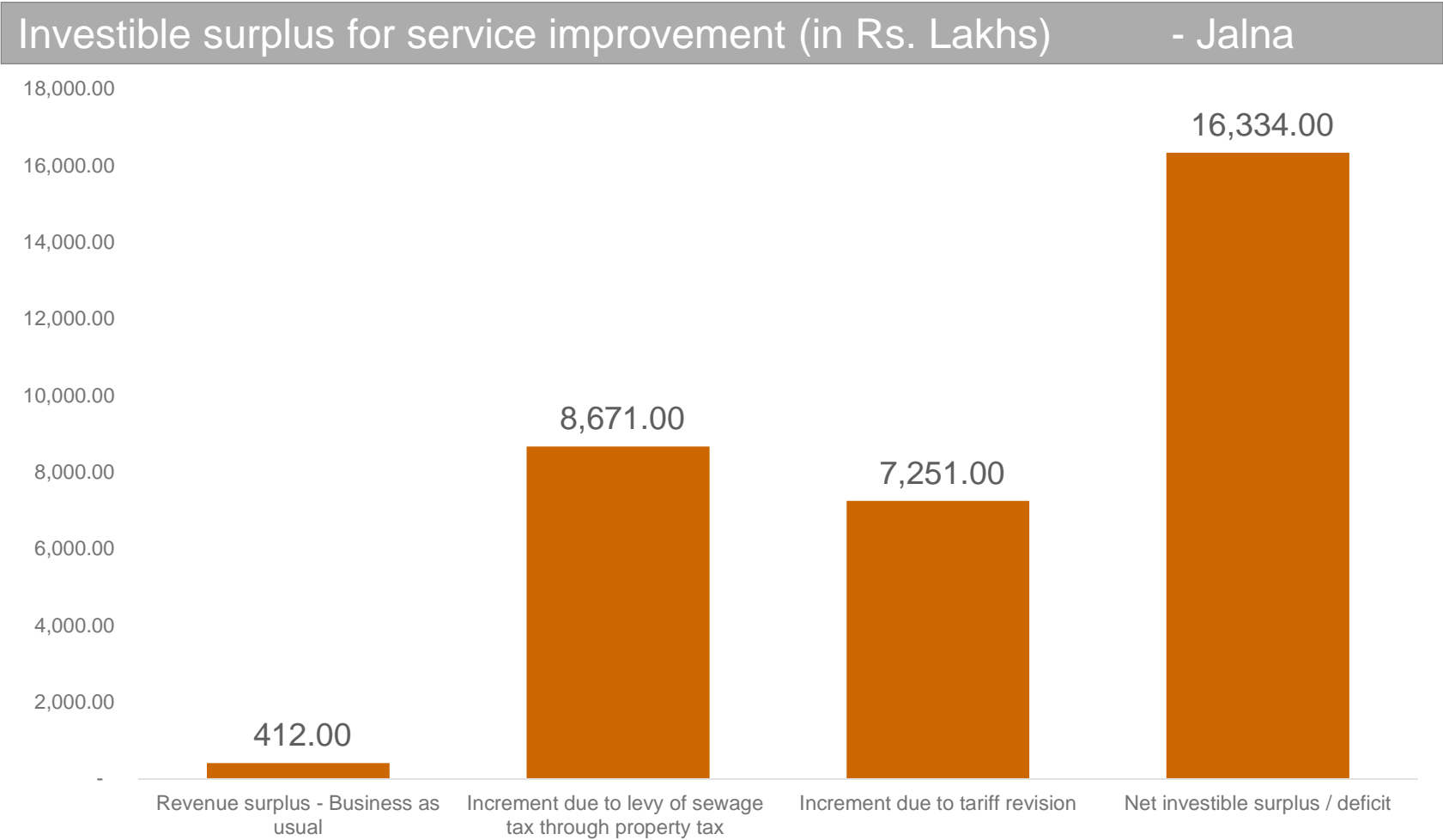
- Gondia



Revenue surplus – 10 year projected

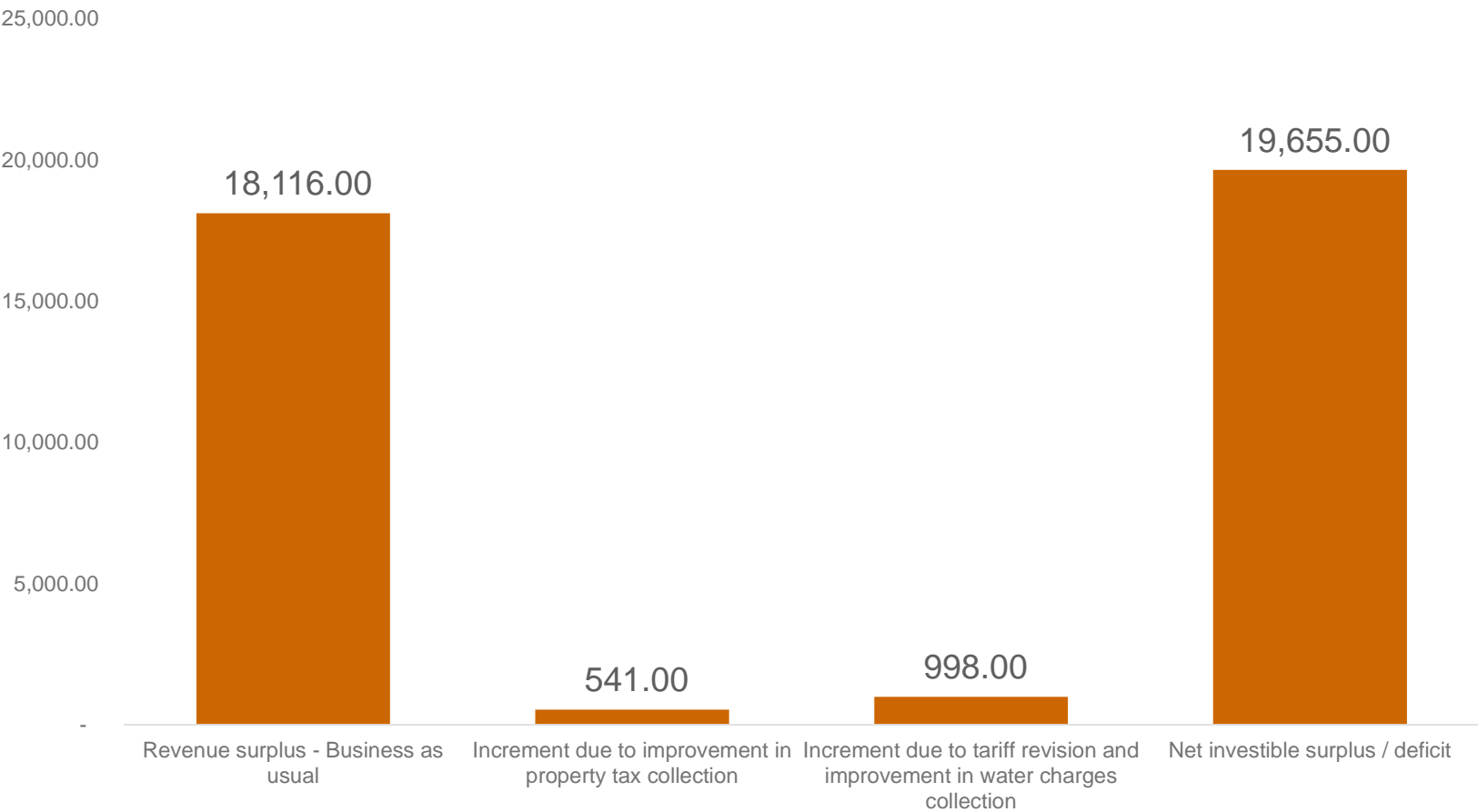


Revenue surplus – 10 year projected

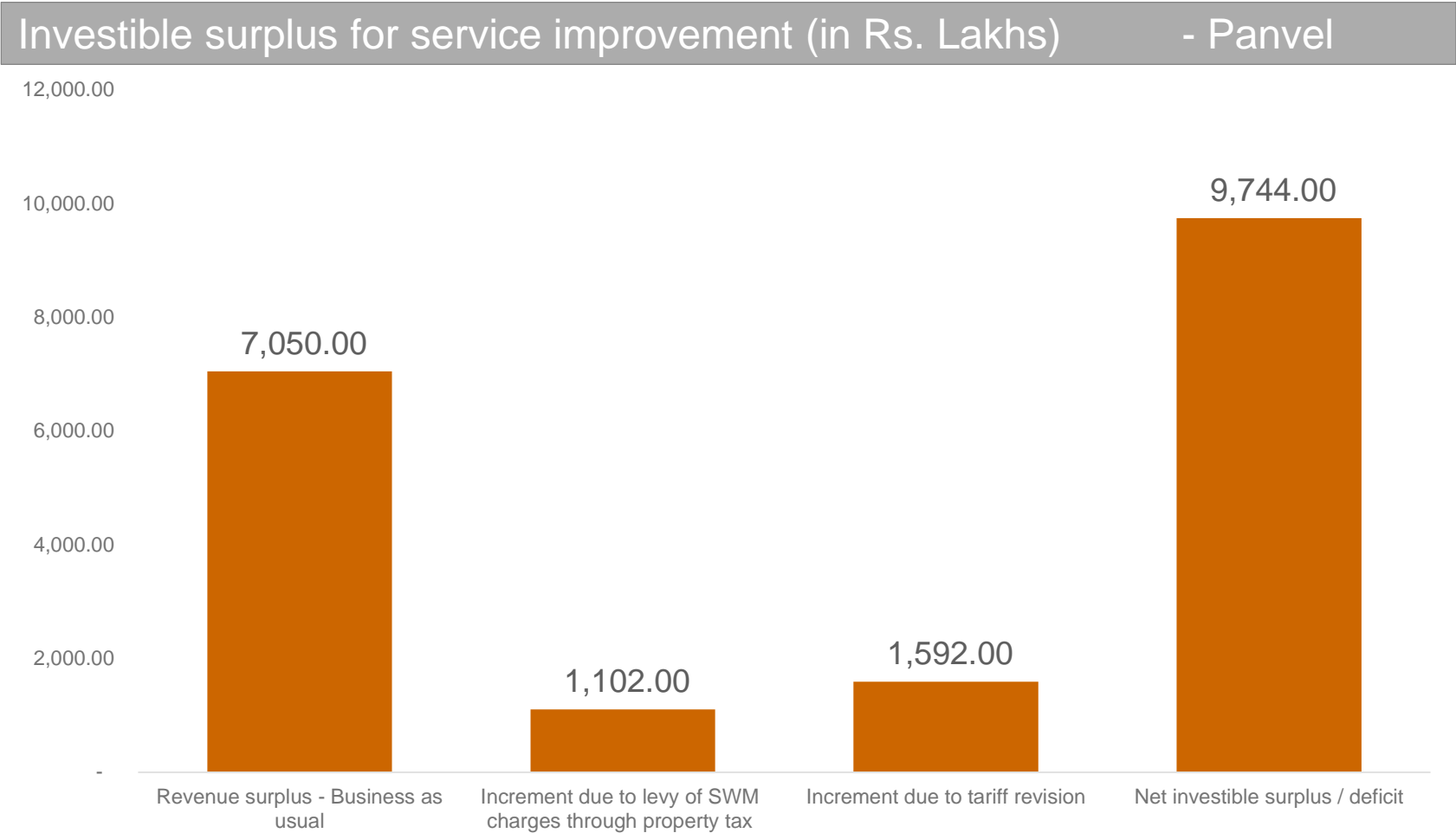


Revenue surplus – 10 year projected

Investible surplus for service improvement (in Rs. Lakhs) - Latur

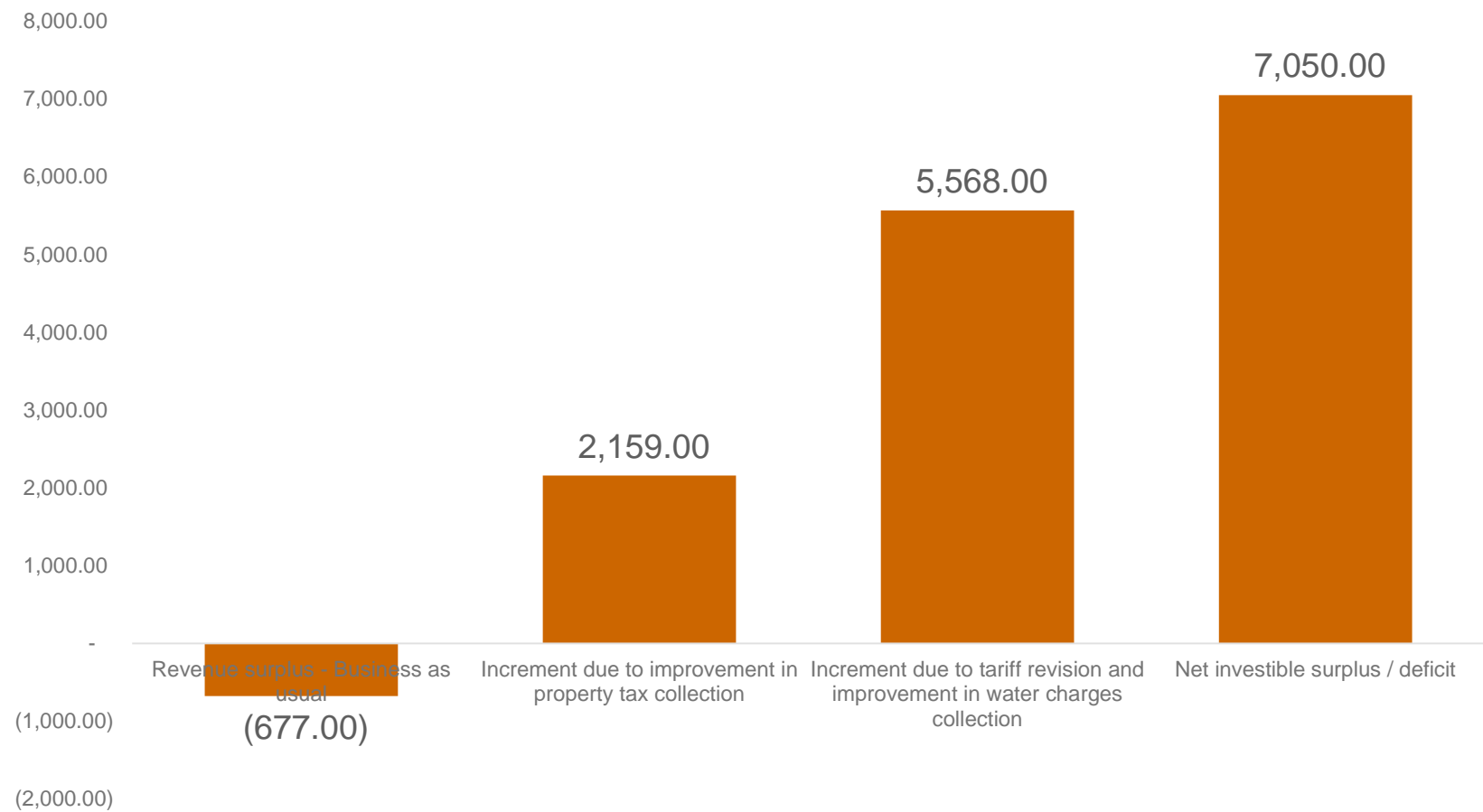


Revenue surplus – 10 year projected



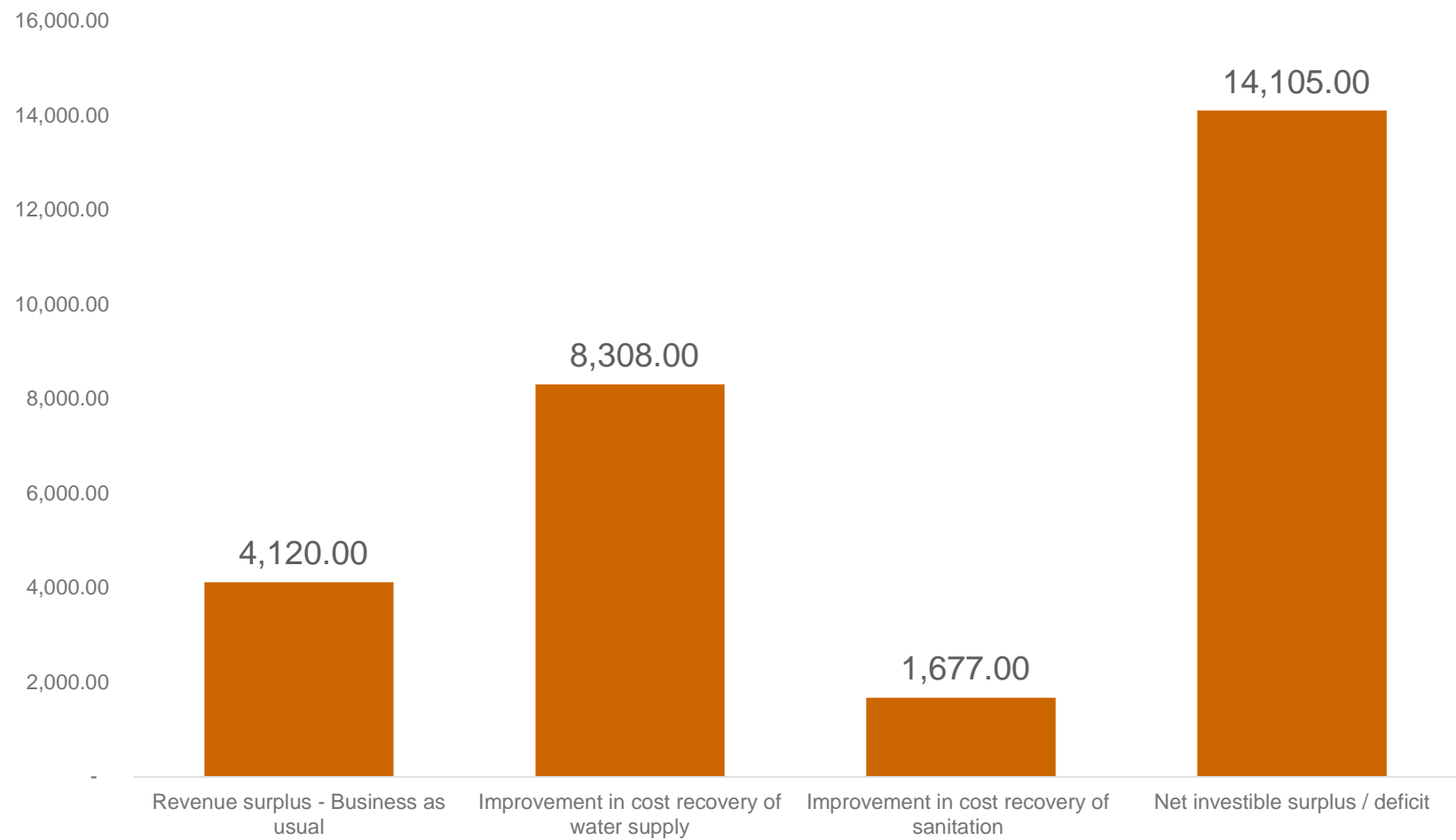
Revenue surplus – 10 year projected

Investible surplus for service improvement (in Rs. Lakhs) - Parbhani



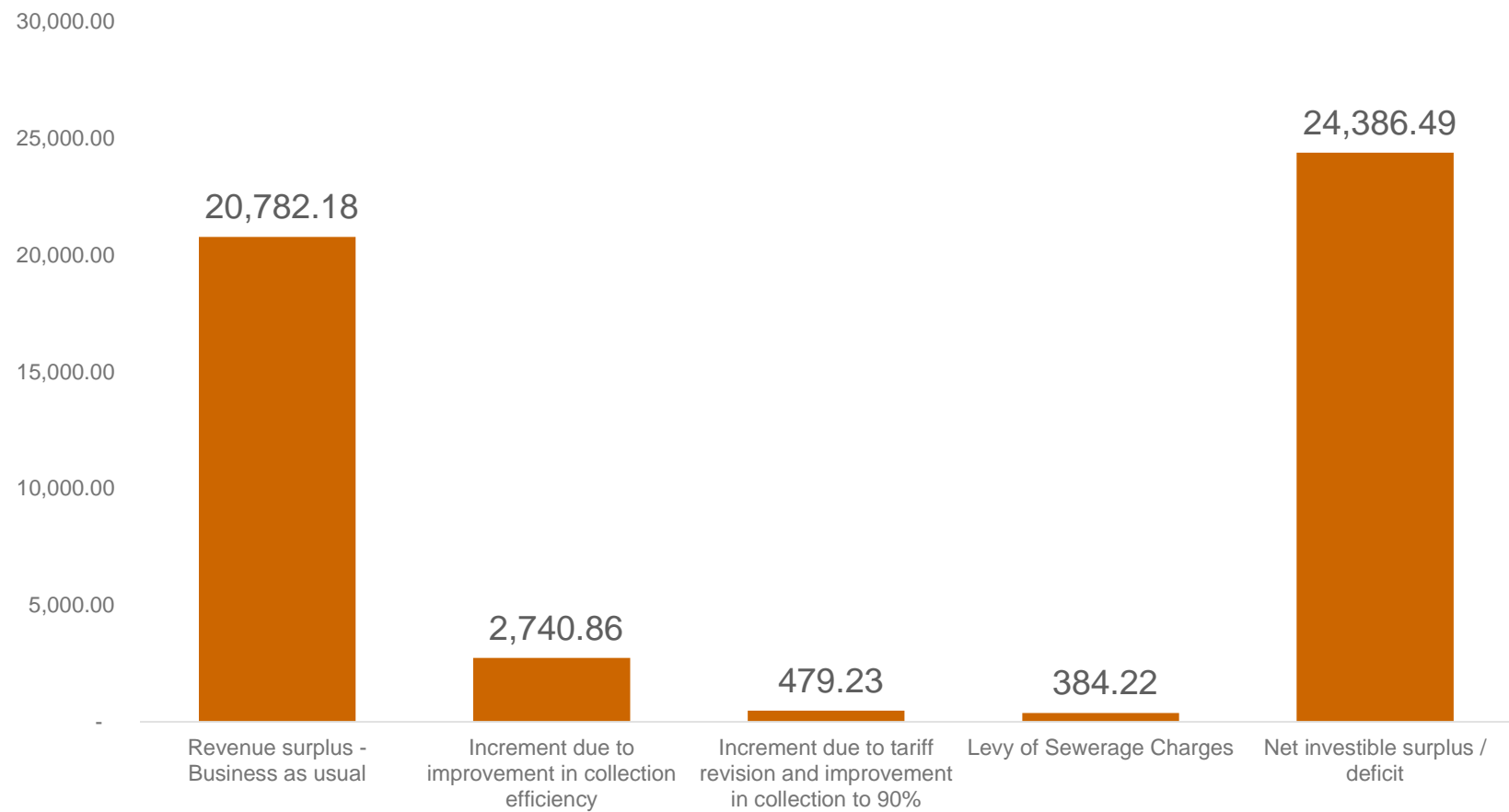
Revenue surplus – 10 year projected

Investible surplus for service improvement (in Rs. Lakhs) - Satara

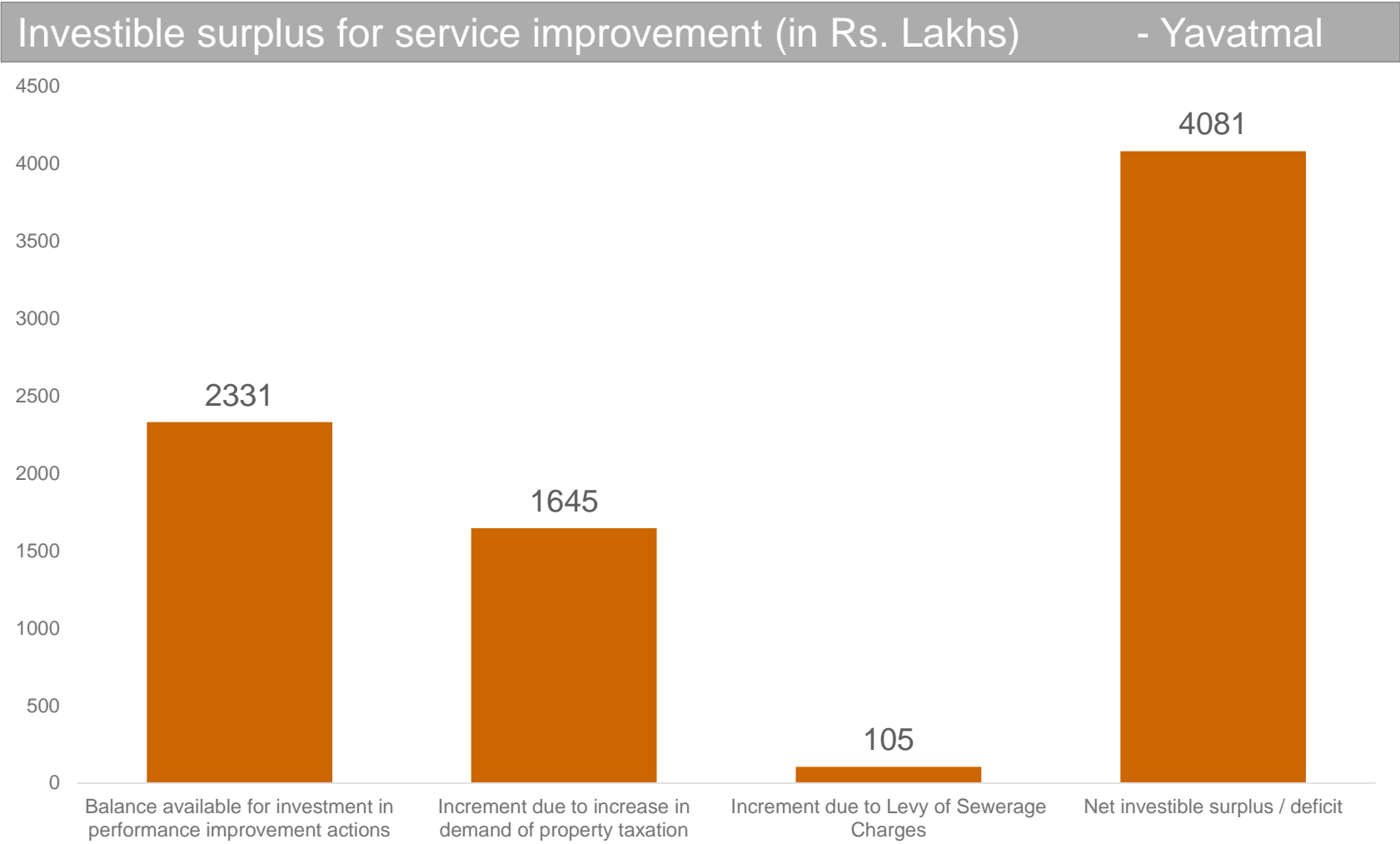


Revenue surplus – 10 year projected

Investible surplus for service improvement (in Rs. Lakhs) - Wardha



Revenue surplus – 10 year projected



Thank you

