

3 FINANCIAL PROFILE OF VMC AND VUDA

Given the holistic development under JNNURM, it is imperative to assess the financial position of VMC and VUDA, though it is quite evident that VMC has a large gamut of revenue sources as against VUDA. The next section highlights the detailed financial analysis of VMC and VUDA.

3.1 FINANCIAL ASSESSMENT OF VMC

To ensure transparency and give a correct picture of assets and liabilities, VMC has introduced the accrual based accounting system; presently, a mix of cash based system and accrual based system is being followed. The system involves the revenue function (receipt of taxes, charges, loans and grants) and the expenditure function (release of funds against establishment, works and supplies).

The corporation maintains its accounts in the form of funds; the income and expenditure items are indicated under each fund account. There is a municipal general fund under which the normal income and expenditure (revenue and capital) items are listed. Apart from this, there are separate fund accounts for the loans, anamat (public deposits), capital grants including contributions from the corporation and tasalmaat (advances). Additionally, the gas project is maintained as an individual entity and accounting for the same is maintained separately with that of the corporation. The corporation maintains its assets in the form of fixed assets, deposits, capital works-in-progress, investments in sinking fund etc.; these are accounted under the anamat fund. The corporation also holds a record of its current assets including stores and spares in hand, bank balance and cash balance. The loans and advances paid to the employees and other parties are also accounted for as assets.

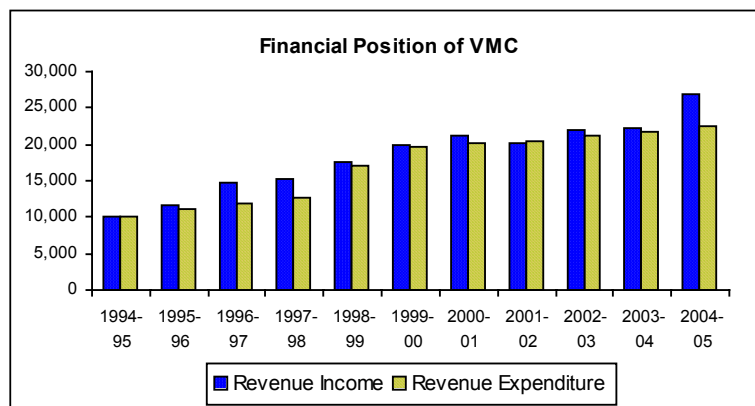
As part of their liabilities, VMC maintains a tasalmat fund, consisting of revolving funds for specific purposes. The reserves and surpluses contained by the corporation include income from capital receipts and credit balance from revenue income. In addition to these, there are current liabilities in the form of sundry creditors, deposits received, employee related liabilities and other liabilities.

The Bombay Municipal Accounts Code, 1961, governs accounts in VMC. The chief auditor conducts the audit in corporation and is independent of the accounts department; the auditor is responsible to the standing committee.

3.2 REVENUE INCOME & EXPENDITURE - A SURPLUS STORY

The Corporation has maintained a steady trend in its revenue surplus for the past 10 years. This reflects the fact that the Corporation has been consistent in its performance. The year 2004-05 shows a tremendous increase in revenue surplus due to a rise in octroi collections and improvement in the collection efficiency of property tax.

The revenue account has shown significant surpluses over the past five years. Actual surpluses have increased from Rs. 2,752 lakhs in 1996/97 to Rs 4,371 lakhs. An annual average of Rs. 972.96 lakhs has been transferred from the operating surpluses during the past



ten years to help the corporation take up new capital works. Nine months data indicates that VMC is poised to have a large surplus in the year 2005-06.

3.2.1 Revenue Income – Change in structure and improving efficiency

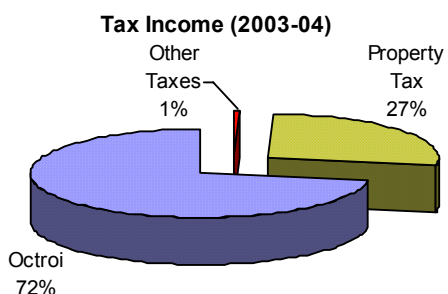
The revenue sources of VMC are tax, non-tax sources, and transfers including grants. VMC's total revenue account receipts have increased at a CAGR of around 10% between 2001-02 and 2004-05. The only contributor to growth in revenue income is tax income, which has grown at a CAGR of around 15% and has increased its share in total revenue income from around 77% in 2001-02 to 86% in 2004-05. Tax income includes octroi, property tax and other taxes. Both non-tax income and transfers including grants have registered a negative CAGR of 10% and 6% respectively. Decline in transfers, including grants, indicates a strengthening of VMC's financial position.

Table 8. Municipal Revenue Income (Rs. lakhs)

Year	Tax		Non Tax		Transfers incl. grants		Total	
2001/02	15,542.49	77%	1,882.22	9%	2,832.94	14%	20,257.65	100%
2002/03	17,511.39	79%	1,337.30	6%	3,211.46	15%	22,060.15	100%
2003/04	18,716.92	83%	1,352.63	6%	2,569.54	11%	22,639.09	100%
2004/05	23,355.91	86%	1,379.52	5%	2,348.99	9%	27,084.42	100%
CAGR	15%		-10%		-6%		10%	

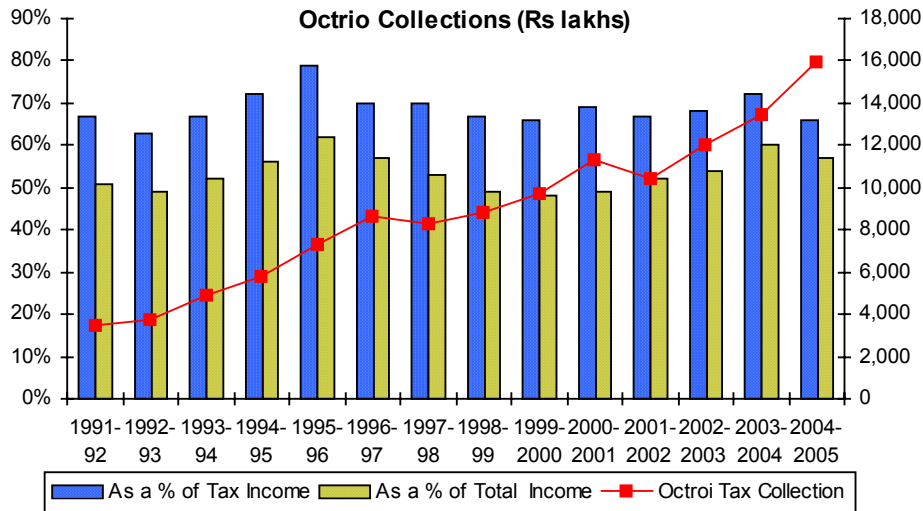
Tax Income (Own Source) – Octroi dominating the scene

Taxes levied by the corporation are mainly listed in section 127 of the BPMC Act. Property tax and tax on vehicles, boats and animals are the two taxes which are compulsorily levied, while octroi, theatre tax and other tax (as may be levied by the state government) can be imposed by the Corporation. VMC levies property tax and service-based taxes of different types against the services provided by it to 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 VMC's own sources of income. Other taxes include mechanical vehicle tax and theatre tax.



Octroi

Octroi constituted the largest share of tax income and collections in the year 2004-05 and amounted to Rs 15,994 lakhs. It is levied on the entry of goods into the Vadodara City area for use, consumption or sale therein.



Octroi not only constitutes an important part of tax income, but also forms an important part of total revenue income (around 60% in 2004-05). Octroi collections have grown at a CAGR of 9% over the last ten years. However, collections in the last four years have increased at a CAGR of over 15%.

Property Tax

Property tax is a generic term, under which presently three different revenue taxes are being levied. They are:

- General tax
- Conservancy tax
- Water tax

VMC has recently adopted an area-based property tax assessment system. Under this system, all the above taxes were merged into property tax. The property tax is calculated on the basis of four main factors -- location, age of the building, usage (residential or commercial) and occupancy factor (owner/tenant). The system prior to 2003-04 was biased and there was no uniform method of calculating the tax. The new system resulted in equality and scientific calculation of property taxes. As a result, the total number of properties increased from 2.5 lakhs to 4 lakhs in 2003-04. However, the amount of property tax did not increase drastically due to its even distribution. Currently, the number of properties stands at 426,606 of which 81.5% are residential. The collection efficiency of the Corporation for the year 2004-05 has been around 74%. Currently, the area-based property tax for a resident is Rs 10 per square meter and for non-residents it is Rs 20 per square meter. Property tax collections, over the last five years, have increased at a CAGR of 10%.

Conservancy tax was charged in two categories, viz. within city limits and outside city limits; rates for drainage connections within city limits ranged from 6% to 25% and a flat rate was charged for drainage connections beyond city limits. From the year 2003-04, conservancy tax was merged into property tax. Conservancy tax collections have reduced sharply over the last few years, on account of their discontinuation. The current collections reflect the collection of arrears and collection from outside city limits charges. General tax, before being merged into property tax, was last revised in the year 1992-93, with rates ranging from 13% to 30%. Water charges for connections inside and outside the city limits vary drastically depending on the purpose of the connection and the connection size. Rates in the year 2003-04 were classified as non-meterised rates (for connection size ranging from ½ inch to 1 ½ inches) and meterised rates (for connection size ranging from 2 inches to 12 inches). Rates under both these categories vary according to the connection size. Rates for non-meterised

connections range from Rs 360 per annum to Rs 25,920; for meterised connections, the annual minimum charges range from Rs 5,760 to Rs 1,658,880. Different rates are charged for connections beyond city limits. Revenue income from water charges amounted to Rs 1,949 lakhs in the year 2004-05, having grown at a CAGR of around 12% over the last five years.

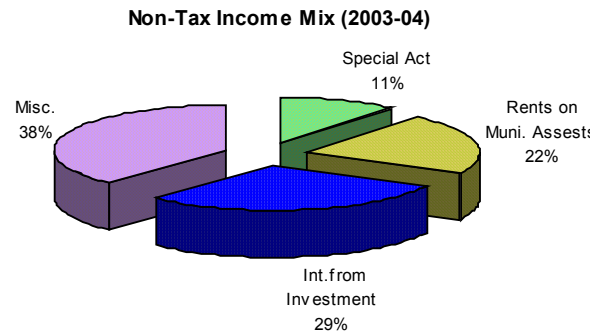
Other Taxes

The other major tax items levied by the corporation include mechanised vehicle tax and theatre tax. Though the combined share of these taxes in the total tax income is negligible, it was around 0.32% of revenue income in 2004-05. The income from this source during the year 2004-05 was about Rs. 85.46 lakhs.

Non-Tax Income (Own Source)

The non-tax own revenue sources of the corporation accounted for 5% (Rs 1,379) of the total revenue income in 2004-05. These revenue sources include fees and charges levied as per legislation. Accordingly, the income sources have been classified under the following broad categories, viz.:

- Water charge / Water meter charge
- Rents & interest from municipal assets
- Realisation under special acts
- Miscellaneous income
 - Public services charges/ fee
 - Collection from public places
 - Sale proceeds
 - Other sources



These revenue sources include the income from leased/ rented out municipal property and the fees and charges levied for different services rendered by the corporation.

Transfers Including Grants – Reduction in dependence

VMC has been receiving grants and contributions from the State government under thirteen heads, for general as well as specific purposes. About 9% of total revenue income (Rs. 2,348 lakhs in 2004-05) is contributed by this source. Noted heads are:

- Family welfare
- Non-agricultural – 75% and of land revenue – 15%
- Education cess
- Grant -- primary education, UCD revenue expenditure
- Road improvement and traffic management
- Irrigation cess and Water rate
- Tourism
- Penalty under BPMC act and other acts
- Share in tax collected under motor vehicle act
- TDO establishment grant

- Bombay public conveyance Act

Primary education constitutes the largest component accounting for nearly 80% of total transfers including grants. As mentioned earlier, there has been a decline in this source of revenue income.

3.2.2 Revenue Expenditure – Steady growth in revenue expenditure

The expenditure structure of VMC is dominated by revenue expenditure. During the financial period 2004-05, it constituted 90% of the total expenditure. Apart from administration and general expenses, VMC uses the resources for establishment, contingency, repairs and maintenance of the services provided by it, direct expenses on services/ programmes provided/ taken up, expenditure from the primary education grants and debt servicing.

Table 9. Municipal revenue expenditure (Rs. lakhs)

Year	Establishment (wages and Salaries)	Operation and Maintenance	Interest Payments	Others	Total					
2001/02	9,263.59	45%	4,590.55	22%	3,471.46	17%	3,176.03	15%	20,501.63	100%
2002/03	9,791.35	46%	4,814.15	23%	3,286.78	15%	3,348.10	16%	21,240.38	100%
2003/04	10,096.11	46%	5,287.00	24%	3,151.84	14%	3,318.53	15%	21,853.48	100%
2004/05	10,338.45	46%	5,848.06	26%	2,956.30	13%	3,570.28	16%	22,713.09	100%
CAGR	3.73%	8.40%	-5.21%	3.98%	3.47%					

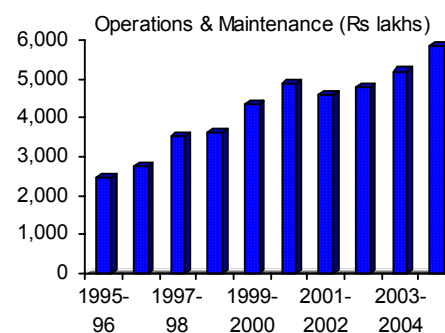
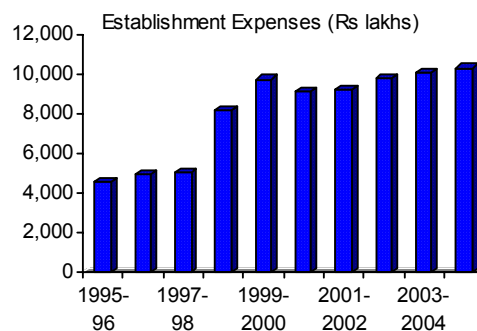
Establishment costs which constitute the major expense head (46%) under revenue expenditure has grown at a nominal rate of around 3.73% per annum. There has also been a decline in the share of interest payments as a percentage of total revenue expenditure, indicating lesser interest burden and improved financial position of VMC. Over 95% of other expenditure is primary education expenditure.

Establishment (wages & salaries)

These expenses involve the general administration expenses on salaries, allowances, employee welfare, etc. besides pension and gratuity amounts. Establishment expenses are also incurred on public works, services, etc. Due to the implementation of the 5th Pay Commission, establishment expenses had grown at an annual rate of around 39% between 1997-98 and 1999-00. However, due to the implementation of the 5th Pay Commission, VMC has managed to control the growth rate in establishment cost in the recent past.

Operation & Maintenance

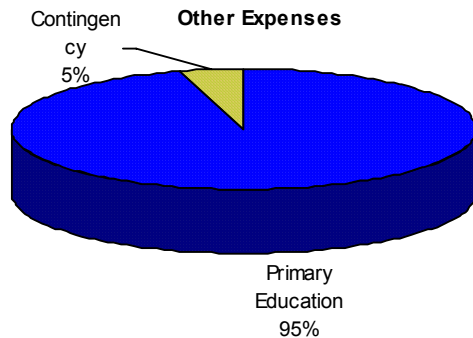
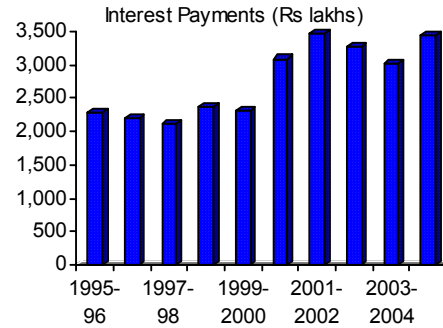
Operations and maintenance expenses constitute 26% of total revenue expenditure and have grown at an annual rate of around 8.40% between 2001-02 and 2004-05. Most of the expenses under this head are accounted for by the fuel charges for public safety, water supply, and conservancy



services. There has been a steady increase in the operations and maintenance expenses share in total revenue expenditure over the past few years.

Interest Payments

Debt servicing of loans account for about 13% of the revenue expenditure of the corporation. The annual accounts of the corporation indicate that it has been servicing its debt on a regular basis. Interest payments have increased from a low of Rs 2,110 lakhs in 1997-98 to a high of Rs 3,471 in 2001-02. However, since then, the corporation has been able to control interest payments successfully. Also, the share of interest payments in total revenue expenditure has declined over the recent past.



Other Expenses

Other expenses include expenses on primary education and contingencies. The revenue grants received from the state government are utilised for the same purpose and are accounted for under this head. Contingency expenses of the corporation are mainly incurred under the general administration, land acquisition, town development and public safety heads. Share of other expenses in total revenue expenditure was around 16% in 2004-05.

Table 10. Service-wise expenditure

Particulars	1999-2000		2000-2001		2001-2002		2002-2003		2003-2004		CAGR
	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%	%
General Adm. & Collection of Taxes.	4,774	24%	4,114	20%	4,097	20%	4,568	22%	4,695	21%	-0.4%
Land Equipment & Town Development	330	2%	306	2%	318	2%	315	1%	331	2%	0.1%
Public Safety	1,067	5%	1,232	6%	1,266	6%	1,212	6%	1,287	6%	4.8%
Water Supply	2,579	13%	2,777	14%	2,735	13%	2,774	13%	2,933	13%	3.3%
Conservancy	674	3%	748	4%	852	4%	927	4%	1,098	5%	13.0%
Public Health	379	2%	355	2%	340	2%	350	2%	350	2%	-1.9%
Road Cleaning	1,665	8%	1,793	9%	1,843	9%	1,831	9%	1,904	9%	3.4%
Medical Relief	399	2%	410	2%	408	2%	474	2%	518	2%	6.7%
Market & Slaughter House	36	0%	36	0%	38	0%	39	0%	41	0%	3.7%
Birth & Death Reg.	61	0%	55	0%	56	0%	72	0%	67	0%	2.2%
Parks & Garden	530	3%	576	3%	589	3%	593	3%	611	3%	3.6%
Public Works	1,002	5%	908	4%	777	4%	889	4%	979	4%	-0.6%
Road & Strom Water Drain	412	2%	325	2%	259	1%	249	1%	298	1%	-7.8%
Primary Education	3,081	16%	3,055	15%	3,049	15%	3,209	15%	3,189	15%	0.9%
Licence & Encroachment & Shop Estb.	222	1%	263	1%	232	1%	246	1%	224	1%	0.2%
Miscellaneous	97	0%	232	1%	172	1%	204	1%	177	1%	16.2%
Loan Charges	2,302	12%	3,091	15%	3,471	17%	3,287	15%	3,152	14%	8.2%
Total Revenue Exp.	19,609	100%	20,279	100%	20,502	100%	21,240	100%	21,853	100%	2.7%

The above table indicates the service-wise mix and growth of revenue expenditure. Critical components of the expenditure are highlighted. 55% of the total revenue expenditure of VMC covers

five activities, viz. general administration and collection of taxes (21%), public safety (6%), water supply (13%), conservancy (5%) and road cleaning (9%). These expenses together have grown at a CAGR of around 2.6% over the mentioned period.

3.2.3 Status of Revenue Account – Exhibiting financial strength

VMC's revenue account has shown surpluses, which almost always contributed to the capital account for taking up new works. The revenue account status of VMC has improved from a deficit of Rs 243 lakhs in 2001-02 to a surplus of Rs 4,371 lakhs in 2004-05. The revenue account has improved on account of reforms which have been undertaken by the Corporation, such as property tax reforms, decentralization of administration, revision of octroi rates, establishment of metering system at water sources and computerization of the accounting system. The Corporation has also kept a tight control over its expenditure and has been consistently servicing its debt.

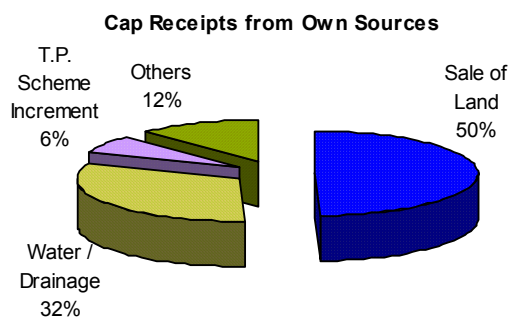
3.3 CAPITAL INCOME & EXPENDITURE

3.3.1 Capital Income – Steady declining trend

VMC funds its capital works by way of loans and grants from the state and central governments and other institutions under different project specific funds. It also utilises revenue surpluses on capital works.

Table 11. Municipal Capital Receipts (Rs. lakhs)

Year	State Government				Financing Institution	Market / Own Source Income		Total		
	Loans		Grants							
2001/02	44.40	2%	140.07	5%	1752.82	65%	776.75	29%	2,714.04	100%
2002/03	23.66	1%	606.37	24%	667.62	27%	1,188.37	48%	2,486.02	100%
2003/04	0.00	0%	674.92	38%	143.00	8%	951.79	54%	1,769.71	100%
2004/05	12.74	1%	679.90	53%	55.80	4%	556.11	43%	1,305.56	100%
CAGR	-34.0%		69.3%		-68.3%		-10.5%		-21.7%	

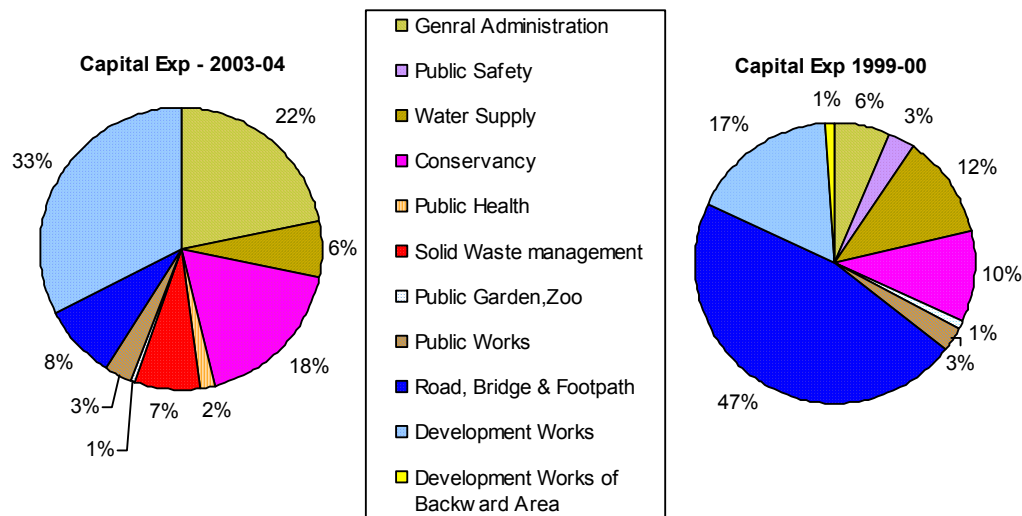


Capital receipts of VMC have declined steadily over the above-mentioned period at an annual rate of 22%. There has been a change in the mix of capital receipts of the corporation. There is now a lesser amount of receipts from financial institutions and larger reliance on state government grants. State government grants are the only source of capital, which reflect positive growth. The corporation has not borrowed any money from the market till date, and hence the above column indicates receipts from its own sources. Capital

receipts from own sources include receipts from the sale of land and water/drainage deposit; sale of land accounts for the largest share of its own sources of capital receipts.

3.3.2 Capital Expenditure – Changing mix of expenditure

Capital expenditure of the corporation has grown from Rs 772 lakhs in 2001-02 to Rs 2,621 lakhs in 2004-05 at a CAGR of 50%, indicating increased spending. However, in comparison to 1999-00, capital expenditure in 2003-04 has declined at a CAGR of 25%.



The mix of capital expenditure has changed over the years, with increase in developmental works from 17% of total capital expenditure in 1999-00 to 33% in 2003-04; however, in rupee terms, this expenditure has declined at the rate of 12% per annum. Also, the share of capital expenditure on roads, bridges and footpaths has declined from 47% (Rs 1,380 lakhs) to a meagre 8% (Rs 75 lakhs) during the same period. A similar trend is seen in conservancy services expenditure; its share has increased from 10% to 18%. However, the amount spent has reduced from Rs 304 lakhs to Rs 166 lakhs.

3.4 FINANCES OF CITY LEVEL SERVICES - INCREASING DEFICITS

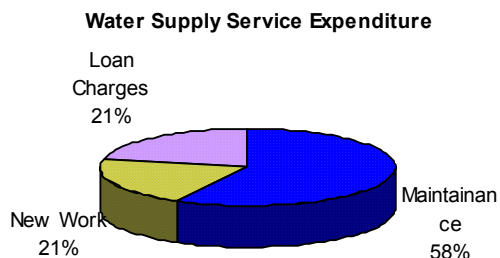
3.4.1 Water Supply - New structure increases collections

The responsibility of supplying water to the city of Vadodara lies with the Vadodara Municipal Corporation. The city gets water from radial wells in River Mahi, tube wells in River Mahi, from Ajwa Lake and also from tube wells scattered over the city.

Table 12. Finances of City level Water Supply (Rs. lakhs)

Year	Expenditure	Income	Deficit
2001/02	4,351.89	1,208.52	3,143.37
2002/03	4,179.21	1,221.55	2,957.66
2003/04	4,296.06	1,020.23	3,275.83
2004/05	5,578.43	1,983.96	3,594.47
CAGR	8.63%	17.97%	4.57%

The Vadodara city has a water distribution network of 700 kms, which covers 78% of the total area. The tankers supply water to the areas that are not covered by the network. The distribution network losses, which include physical



water losses through leakages and water theft, account for about 30-35 % of the total water supplies. Water is supplied for about 45 minutes every day in most of the areas.

Income from water supply services has increased by around 90% between 2003-04 and 2004-05. This increase can be attributed to increase in the rates of water charges during the same period. Water supply revenue expenditure consists of

maintenance, new work, and loan charges on loans taken for water supply. Maintenance activity is the largest component of water supply service expenditure which has grown at an annual growth rate of 6% between 2001-02 and 2004-05. Loan charges for water supply have reduced from Rs 1,596 lakhs in 2001-02 to Rs 1,191 in 2004-05. The estimated per capita subsidy for water supply services was around Rs 241 per capita per annum.

3.4.2 Sewerage – Income being merged with property tax

The responsibility of supplying water to the city of Vadodara lies with the Vadodara Municipal Corporation. The sewerage network in Vadodara presently caters to only 55% of the area.

Income from conservancy services have declined sharply over the recent past, as conservancy tax for city limits was merged with property tax, resulting in the huge fall in income between 2002-03 and 2003-04. Current collections under this head reflect collections from connections beyond city limits. Also, rates for residential connections beyond city limits were reduced during the same time. In line with water supply service expenditure, conservancy service expenditure too can be categorised into maintenance, new work, and loan charges on loans

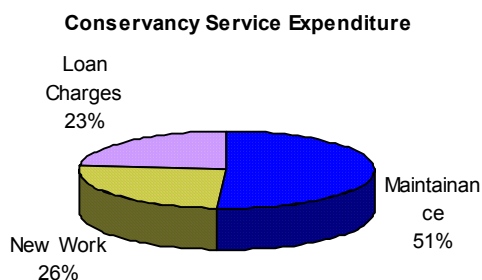


Table 13. Finances of City level Sewerage (Rs. lakhs)

Year	Expenditure	Income	Deficit
2001/02	1,801.27	1,518.76	282.51
2002/03	1,772.65	1,616.50	156.15
2003/04	1,893.83	574.14	--
2004/05	2,291.02	268.65	---
CAGR	8.35%	-43.87%	--

taken for conservancy services. Maintenance activity is the largest component of conservancy service expenditure, which has grown at an annual growth rate of 11% between 2001-02 and 2004-05, pulling up the total expenditure for the service. Loan charges for conservancy have reduced from Rs 751 lakhs in 2002-03 to Rs 531 in 2004-05 at an annual rate of 16%. The estimated per capita subsidy for conservancy services was around Rs 97 per capita per annum.

3.5 SUMMARY

VMC follows a semi-accrual based accounting system. Apart from one year, the corporation has been generating a revenue surplus. Tax income is its largest source of revenue income and octroi contributes the largest share of tax income. VMC has recently adopted an area-based property tax assessment system. As a result of this, the collection efficiency of property tax has improved.

The expenditure structure of VMC is dominated by revenue expenditure. Establishment cost is the largest revenue expenditure head, whereas the O&M expenses have steadily grown over the recent past. The corporation has been servicing its debt on a regular basis, based on its strong financial position; it is also in a position to raise funds from the market and service such debt comfortably.

VMC's revenue account has shown consistent surpluses, which have contributed to the capital account. The capital receipts have declined steadily; there are lesser receipts from financial institutions and larger reliance on state government grants.

The capital expenditure of the corporation has grown. The mix of capital expenditure has changed over the years. Income from water supply services has increased due to an increase in rates, whereas

the expenditure on water supply services has grown at a higher rate. The estimated per capita subsidy for water supply services was around Rs 241 per capita per annum.

Income from conservancy services has declined sharply over the recent past, as conservancy tax for city limits was merged with property tax. The estimated per capita subsidy for conservancy services was around Rs 97 per capita per annum.

3.6 FINANCIAL ASSESSMENT OF VUDA

VUDA has displayed a stable financial position over the last five years. There has been a steady decline in scale of operations, with its income (receipts) declining from Rs 1,114.02 lakhs in 2000-01 to Rs 366.28 lakhs in 2004-05; during the same period, expenses (payments) too have declined from Rs 1,233 lakhs in 2000-01 to Rs 602.84 in 2004-05.

Table 14. Income & Expenditure Account Position (Rs lakhs)

Sl. Items	2000-01	2001-02	2002-03	2003-04	2004-05
1. Opening Balance	719.27	600.26	807.81	640.12	788.83
2. Income	1,114.02	1,315.48	721.86	528.80	366.28
3. Total	1,833.29	1,915.74	1,529.67	1,168.92	1,155.11
4. Expenses	1,233.03	1,107.92	889.65	380.09	602.84
5. Closing Balance	600.26	807.81	640.12	788.83	552.27
6. Income – Expenses (2-4)	-119.01	207.55	-167.69	148.71	-236.56

3.6.1 Income

Sources of various incomes have been classified into major heads for ease of understanding and analysis. The mix of receipts from various sources has varied over the years.

Table 15. Mix of Income (Receipts)

Items	2000-01	2001-02	2002-03	2003-04	2004-05
Grant	0%	0%	3%	7%	0%
Fee Income	23%	4%	9%	6%	10%
Loans	7%	30%	21%	0%	0%
Income from Various Schemes	48%	24%	17%	44%	50%
Development Charges	1%	10%	14%	21%	25%
Interest	0%	5%	11%	14%	12%
Other Income	20%	27%	25%	8%	3%
Total Income	100%	100%	100%	100%	100%

Share of development charges in total income of VUDA has shown a consistent increase over the last few years from 1% in 2000-01 to 25% in 2004-05. Receipts from various schemes have the largest share in total receipts. Interest income too has increased its share in total income from 0% in 2000-01 to 12% in 2004-05. During the same period there has been a decline in other income and fee income from 20% to 3% and 23% to 10% respectively. Grants from the state government to VUDA have been intermittent in nature. Overall income of VUDA has declined at a CAGR of around 24%.

3.6.2 Expenditure

As in the case of income, sources of various expenditures have been classified into major heads for ease of understanding and analysis. The mix of payments from various sources has varied over the years.

Items	2000-01	2001-02	2002-03	2003-04	2004-05
Employee & staff expenses	14%	29%	13%	19%	13%
Office administrative expenses	5%	2%	13%	4%	3%
Finance & legal expenses	3%	7%	14%	40%	68%
Asset related expenses	28%	19%	17%	7%	6%
Business expenses	7%	8%	9%	13%	4%
Scheme related expenses	43%	34%	34%	17%	5%
Total Expenditure	100%	100%	100%	100%	100%

Finance expenses have emerged as the largest segment on account of repayment of loans over the past few years; its share has increased from 3% in 2001-02 to 68% in 2004-05. Scheme related expenses of VUDA have declined over the years. Employee and staff expenses have maintained their share in overall expenses. Overall expenses of VUDA have declined at a CAGR of around 16%.