Chapter – 4

About the Selected Municipal corporations
Chapter-4
About the Selected Municipal Corporations

(A) Profile of the Selected Units

4.1 Profile of the Surat Municipal Corporation

4.2 Profile of Ahmedabad Municipal Corporation

4.3 Profile of Vadodara Municipal Corporation

(B) Accounting system of Municipal Corporations
4. About the Selected Municipal Corporations

4.1 Profile of the Surat Municipal Corporation

The Indian state of Gujarat was created in 1960 out of the 17 northern district of the former Bombay State: Ahmedabad, Amreli, Banaskantha, Bharuch, Bhavnagar, Dang, Jamnagar, Junagadh, Kheda, Kachchh, Mehsana, Panchmahal, Rajkot, Sabarkantha, Surat, Surendranagar and Vadodara (Baroda).

In 1964 Gandhinagar District was formed from part of Ahmedabad and Mahesana and in 1966 Valsad District was split from Surat. On October 2, 1997 Anand District was split from Kheda, Dahod District was split from Panchmahal, Narmada District was split from Bharuch, Navsari District was split from Valsad and Porbandar District was split from Junagadh. In 2000 Patan District was formed from part of Banaskantha and Mahesana. In 2009 Tapi district was formed from part of Surat district. Gujarat now comprises 26 districts.

There are 26 Districts in Gujarat, as per the population the Surat District stands second place after Ahmedabad and in the Density level its stands third place after Gandhinagar and Ahmedabad. The area wise it stand tenth place.
Evolution of the Present Form and Land Use Pattern:

Surat was originally established on the banks of river Tapi which is a fort on the eastern bank and a Custom House on the northern side of the fort. In the initial years, activities were concentrated in the inner walled city. The wall was constructed in 1664 and the area within the wall was 440 acres. The entrances to the walled city were through 12 gates. The outer wall was constructed in 1707 enclosing an area of 1818 acres.

In the beginning of the 20th century Surat started experiencing the growth of sub-urban areas namely, Udhna, Athwa and Phulpada along the various corridors opened up through the various gates. On account of such a development, the physical expansion of the town was primarily directed towards the five main corridors, namely, Katargam and Amroli in the north, Kamrej road in the west and Dumas road in South-West.

Today’s Surat city is an outcome of the expansion of the city’s limits at various intervals geared to accommodate the additional population and the construction of the outer wall city covering an area of 1.78 sq. kms. In 1707, with the construction of the outer wall, the area of the city increased to 7.36 sq.kms. For the next almost 250 years the increase in the city area wasn’t very significant and in 1963 the city covered an area of 8.18 sq.kms. In the same year 13.77 sq.kms. was added to the city area, increasing its total area to
21.95 sq.kms. In the last 33 years the area of the city increased by six times to an area of 112.27 sq.kms*.

The City has a mixed land use pattern. The entire walled city has a concentration of several small and medium scale industries. A significantly large proportion of the total city area is vacant and agricultural land occupier 14 per cent of the total area of the city.

**Demographic Profile:**

Surat is India’s twelfth and Gujarat’s second most populous city (2001). The city is one of the 11 cities in the country which attained metropolitan status in 1991 census by crossing the one million mark.

Surat has experienced a rapid population increase in the last two census decades.

At the state level Surat ranks second after to the capital Ahmedabad first.

*Surat City Development Plan 2006-2012.*
Surat city can be broadly classified into the three parts; the old city covering an area of 8.18 sq.kms.: the inner periphery and Rander Zone spread over an area of 47.37 sq.kms and the outer periphery comprising of the newly developed areas covering 55.61 sq.kms. Although the population and density in the inner city had increased from 1971 to 1981 a decreasing trend has been observed in these variables in 1991. This resulted in a corresponding increase in the density in the inner periphery. This trend points out the shift of population from the inner city due to extreme congestion, dilapidated building, over-stressed civic infrastructure and an overall deteriorating quality of life along with increasing land values. Despite these processes the inner city still has the highest density among the three zones with as many as 51,929 persons per sq.km. The inner periphery and the Rander Zone have emerged as the focus of population concentration during 1981-'91 with the population and density almost doubling during the same period. While the proportion of population in case of the inner city decreased from 77 per cent in 1971 to 28 per cent in 1991, it increased in the inner periphery from 23 per cent to 43 per cent during the same period. The outer periphery which has emerged as the current focus of population growth accounted for 29 per cent of the total city population and has the lowest density with 7,911 persons per sq.km.

**Economic Profile:**

The economic importance of Surat dates back to the thirteenth century when it was an important port on the banks of river Tapi. However, it has undergone tremendous changes in its
economic characteristics ever since. The 1961 census classifies it as a “manufacturing town with moderate services and low trade and transport”. According to 1991 census, although manufacturing as still the most important sector, with 61 per cent of the main workers engaged in this sector, the service industry is fast emerging as a dominant economic unit with 36.75 per cent of the worker.*

The industries in Surat are dominated by small scale manufacturing units including diamond cutting, textiles, zari (Gold thread), dyeing and printing. Initially, the city’s economy depended primarily on zari and artificial silk industry which were largely home based and run by migrant artisans. These industrial units largely cater to the domestic market. Diamond cutting and polishing which became dominant activities in the city much later are largely export oriented and Surat produces 30 per cent of India’s turnover in the diamond trade.

Besides small scale industries, there are five industrial estates established by the Gujarat Industrial Development Corporation in and around the city. Many modern mega industries have also been set up in these areas because of availability of natural gas from Bombay High. These industries include plastics, chemicals, engineering products, fertilizer, textile processing, dyeing machines and others.

*Surat City Development Plan 2006-2012.
In 1991 Surat district had 21,359 industrial units of which 19,352 units were located in Surat city alone. According to the recent estimates, around 45,000 small and big units in the textile sector with an approximate investment of Rs.4000 million are giving employment to 1,50,000 people. Diamond cutting and polishing is also a labour intensive industry employing around 2,50,000 workers or 50 per cent of 0.5 million workers, in more than 1,00,000 units operating in the city. There are 6,610 zari industries which employ more than 15,000 workers. Besides, there are ancillary industries like dyeing, printing, textile machinery etc. which employ another 85,000 people. Because of this sector has grown at a yearly compound rate of 10.36 per cent during 1990-'93 and the number of working factories increased at a rate of 4.57 per cent during the same period.

**Socio-cultural characteristics:**

Large scale migration from all parts of the country has resulted in a mixed population in the city with people belonging to different socio-cultural and religious backgrounds. Migrants constitute nearly 60 per cent of the total city population. These processes have resulted in the absence of an integrated social and cultural setting for the city. People come to this city from all parts of the country to work and do evince much concern for the city. The vast majority of the city’s population is Hindu (80 per cent). Only 17 per cent of the population is Muslim. Scheduled Castes
and Scheduled Tribes account for approximately 9 per cent of the city’s population.

The economic and industrial character of the city is also reflected in a very low sex ratio. Surat has the lowest sex ration among all the six major cities of the state of Gujarat... Further, the city has experienced a steady decline in the sex ratio over the year i.e., from 903 in 1971 to 859 in 1981 to 845 in 1991. The declining sex ratio in Surat can be mainly attributed to the rapid industrialization in the city during the last three decades which resulted in selective male migration from different parts of the country who generally come alone leaving their families behind. The total literacy rate prevailing in the city is 64 percent as against 52 per cent for the country as a whole. Female literacy, however, is much lower at 56 per cent compared to male literacy of 70 per cent. Even female participation in the work force is very low, with only 6 per cent of women engaged in economic employment as opposed to 58 per cent males.

The outbreak of pneumonic plague in Surat during September 1994 created worldwide panic and severely affected the city as well as the entire nation’s economy. About 60% of the population fled the city and the industry suffered an estimated loss Rs.12 Billion. Though the disease was controlled within a week, it raised many serious issues of public health and the capacity of the local government to mange the city.
Surat district alone contributes to about Rs.700 Crores to the state as through sales tax, over Rs.3000 Crores and Rs.8500 Crores through as Excise duty and Income Tax respectively 2002 and 2003. This clearly demonstrates that to sustain high rates of economic growth, cities have to be made productive and competitive. In a globalizing scenario, the role of the cities is even more pronounced. With no barriers, attractiveness of a city as an investment destination depends on the quality of infrastructure, social safety and connectivity. Ultimately, improved quality of life in the city would depend on the ability to compete successfully with other city-regions and to provide the necessary foundations for growth. Competitive businesses and industries are going to result in employment and increased revenues to the local government. To achieve this objective of being the most appropriate choice of investment/residence, there is a need to strategically position the city strengths.*

Surat is one of the cleanest city of India and is also known by several other names like “THE SILK CITY”, “THE DIAMOND CITY”, “THE GREEN CITY”, etc. It has a most vibrant present and an equally varied heritage of the past. It is the city where the British first land in India. The Dutch and the Portuguese also established there business centers in Surat, the remnants of which are still preserved in the modern day Surat. In past this was a glorious part with ships of more than 84 countries anchored in its harbor at any time. It has a total area of 112.29 square kilometers. Still today, Surat continues the same tradition as people from all around the

*Surat City Development Plan 2-006-2012.
country flock in for business and jobs. Surat has practically more than 80% employment rate and jobs are easier to get here due to very fast development of various industries in and around Surat City.

**Performance of Surat City:**

Surat city is one of the most important cities on the industrial map of the country with many large industries developed over here. The economic base of Surat consists of textile manufacturing, trade, diamond cutting and polishing industries, zari works, chemical industries and the petrochemical and natural gas based industries at Hazira established by leading industry houses such as ONGC; Reliance, ESSAR and shell.

**The city accounts for**: 

- 42% of the world’s total rough diamond cutting and polishing.
- 70% of the nation’s total rough diamond cutting and polishing.
- 40% of the nation’s total rough diamond exports.
- 40% of the nation’s total man made fabric production.
- 28% of the nation’s total man made fiber production.
- 18% of the nation’s total man made fiber export and
- 12% of the nation’s total man made fabric production.

*Surat City Plan 2006-2012*
The region is one of the leading city-regions in the country that has attracted massive investments of which substantial proportion is under implementation. According to CMIE 2002 (Centre for Monitoring Indian Economy), the Surat city region has a proposed investment of about Rs11, 817 Crores. In addition Projects worth Rs.2, 022 Crores are under implementation. Hazira and SEZ (Surat Economic Zone) are major focal points for growth continuing is bright.

City Information:

- Surat is the commercial capital and second largest city in Gujarat
- It is an important industrial centre of the country. The city houses 70% of the nation’s and 42% of the world’s total rough diamond cutting and polishing Business.
- It is country’s major man made fabric producing area.
- It is one of most dynamic cities of India with one of the fastest growth rate due to immigration from various parts of Gujarat and other states of India.*
- It provides industrial employment to over one million people with over 9.7 million in the textile sector and 0.3 million in diamond sector.
- The city has over 14 lakhs people living in slums (as of 2001 census).

* censuse 2001
Urban Services:

Surat gets about 373 million liters of water daily supplied through various sources with a per capita per day supply of 120 litres.

- Almost two-thirds of city’s population is covered by underground sewerage system.
- The city generates around 1080 metric tones of solid waste per day with collection efficiency of 98 percent.

4.2 Profile of Ahmedabad Municipal Corporation

More recently, some of the local governments that have strong municipal structures and finances are experimenting with innovative approaches of augmenting traditional revenue sources by attracting private sector participation (PSP) and financing in municipal infrastructure and services. In terms of impact, these are as yet of small magnitude vis-à-vis the growing infrastructure requirements and financing gap in cities. Nonetheless, where successful, they have triggered far-reaching institutional reform and motivated the Central and State Governments to empower and support local governments in developing additional private sources of municipal revenue and PPP models. For example, the municipality of Tirupur in South India has undertaken a major PPP initiative to involve the private sector in the provision of water supply and sewerage facilities for the city, specifically to support its export oriented industrial estate. Project viability and private sector participation has been possible due to the municipality's sound financial performance and the availability of commercial
end-users for the services. In addition; many of the larger local governments have let out maintenance of gardens, parks and streets on management contracts to the private sector. In terms of mobilising private capital, many local governments have issued municipal bonds for infrastructure development. These have usually been structured debt obligations, with several levels of credit enhancement and secured on municipal revenues. A select few bond issues such as by the Madurai Municipal Corporation in South India have been revenue bonds on the strength of estimated revenues from the project, particularly in the case of toll roads and bridges. Some of the larger issues have been credit rated and have translated into lower cost of borrowing for the municipalities. This has led to the development of a robust credit rating system for municipalities, which seek to access capital market finances for its activities.

Also, many cities of India are undertaking significant reform of the administrative and organizational machinery that supports and holds together the municipal activities. These include revamping and computerising the accounting and financial management systems of the larger municipal corporations and municipalities in order to improve overall accountability and effectiveness. Additionally, by letting out functions such as solid waste collection, maintenance of streetlights, and upkeep of public parks and gardens on private management contracts, some municipalities are trying to enhance efficiency of operations as well as reduce their establishment and salary expenses.

**Background**

Ahmedabad, in the state of Gujarat, is one of the largest and more prosperous cities in Western India. It was renowned for its
vibrant manufacturing and textiles industry and was often referred to as the 'Manchester of India'. The rapid economic growth in the 1960s and 1970s turned Gujarat into one of India's richest and industrially developed states. However, the recession in the 1980s forced the closure of many of the textile mills, and nearly 50,000 people lost their sources of livelihood. In the post-1991 period, Ahmedabad city received substantial industrial investments on account of the generally progressive policies of the state government. This led to the growth of economic activity in the city, reflecting in its substantial contribution of about 18% of the state's gross domestic product. The city is currently growing at an annual rate of 3-3.5%. As in the other cities of the world, the increasing trend of urbanisation has continually expanded the area of the city. The rapid growth in city area in the period 1981-1991 was due to the merger of the eastern side of Ahmedabad city with effect from 23rd February 1986. This has led to a city jurisdiction of about 190.84 square kilometers as per the 2001 Census.

As per the 2001 Census, Ahmedabad city has a population of 3.52 million, with a decadal growth rate of 22.36%, from 1991 to 2001.\textsuperscript{32} Urban growth in the state has been driven primarily by natural population growth (72%), followed by migration (19%) and classification of boundaries (9%).

The religious mix of the population of Ahmedabad provides the backdrop to the city's communal conflict. Once famous as the adopted hometown of Mahatma Gandhi, an apostle of peace and nonviolence, Ahmedabad today is arguably one of the most communally sensitive cities in India. Its battle with sporadic but fierce communal violence has lasted over the last forty years. It is
generally agreed that communal violence in Gujarat saw an upward turn from 1980s. However, in the 1990s and more recently, the Hindu-Muslim hostility has taken political centre-stage.

There has been a rapid growth of hard-line Hindu organisations in India, specifically Gujarat, in the last twenty years. These Hindu nationalist parties raised religion and communal discord as the central agenda of their socio-political campaign. It is argued that the close links between these political parties - Jan Sangh, Shiv Sena, Vishwa Hindu Parishad (VHP), Bajrang Dal, its youth wing, the Rashtriya Swayamsewak Sangh, and the Bharatiya Janata Party (BJP) has led to the communalization of politics in Gujarat.\textsuperscript{35} The political ascendancy of the BJP to power at the state government level and their leadership of the National Democratic Alliance coalition at the centre aggravated the communal focus. Further, the textile and industrial workers who lost their livelihoods in the state's economic downturn in the 1980s resorted to anti-social and often illegal sources of income generation, becoming pawns in the religion based conflict.

In 1969, nearly 2,500 people were killed in Ahmedabad in the region's worst violence between Hindus and Muslims since the partition of the subcontinent into India and Pakistan in 1947. A series of communal riots rocked the city around 1985 and again in 1992 following the demolition of the Babri mosque by Hindu activists in the north Indian town of Ayodhya. The Babri Mosque-Ramjanmabhoomi (birth place of Ram, a Hindu God) Ayodhya
dispute was a watershed in the escalation of Hindu-Muslim animosity and marginalisation of Muslims.

Then followed a decade of relative peace in Ahmedabad, barring a few months of sporadic anti-Christian violence. These were attacks on minority Christian institutions and individuals during the BJP reign in the state between December 1998 and January 1999, in line with their All-India campaign against Christian missionaries.

But the bloodbath in 2002 again raised the evil head of communal conflict. The Godhra train episode took place on 27th February 2002, when a compartment carrying a large number of Hindutva activists and VHP supporters was burnt to cinder, after a skirmish with a Muslim tea vendor on the railway platform of Godhra station. The exact identity of the culprits, their motivation, and the way the coach was set on fire had not yet been deciphered, but this dastardly act triggered by Muslims in Godhra was taken to legitimise the revenge against all Muslims in the state. The next few days until 31st March saw Gujarat burning, with thousands of unsuspecting Muslims massacred and more than two hundred thousand displaced from their burnt and looted homes. Sporadic incidents of violence continued unabated until July. It is now a well-known fact that the ruling BJP state government and its police forces were coinplicil in this pogrom and the then coalition government led by BJP at the Centre remained a mute spectator. It has been established that the lists of Muslim residential and commercial properties were 'obtained' by the perpetrators of violence for careful targeting of violence. Also, the violence was sustained by vicious communal propaganda through public media often by leading political stalwarts.'
Beyond the tragic loss of lives, Muslim businesses in Ahmedabad and other cities of Gujarat were attacked and burnt, their shops looted and shut down, and their power looms gutted - virtually all the vulnerable Muslim establishments were systematically targeted and destroyed. There have been many other incidents of communal and class-conflicts in the past in Gujarat, but the 2002 riots were by far the bloodiest and described as genocide by many. While communal propaganda is not necessarily an ideology of only the Hindus and is indulged by many Muslim organisations as well, the aftermath of the riots saw the systematic and growing ghettoisation and vulnerability of the Muslims. The active connivance or passive concurrence of the State and police forces shook the foundation of secularism and communal co-existence. Several of Gujarat's cities such as Ahmedabad, Surat and Baroda were affected. Even today, the Muslims who did not flee from the state continue to live in fear and insecurity.

**Municipal structure and finances**

There are two main local bodies in Ahmedabad responsible for the creation and provision of infrastructure and services - Ahmedabad Municipal Corporation (AMC) and Ahmedabad Urban Development Authority (AUD). The AMC is the elected urban local government that was established in 1950 under the Bombay Provincial Municipal Corporation Act 1949. The Act provides the revenue generation and borrowing powers of the Corporation. AMC undertakes the provision of basic services in Ahmedabad city within the jurisdiction of about 190.84 square kilometers with a population of 3.87 million. Its area is divided into six
geographic zones for administration purposes, which are further segregated into 43 administrative wards. AMC is headed by a Municipal Commissioner, and each zone is led by a Deputy Municipal Commissioner. Zonal officers are reasonably empowered for administrative procedures to ensure timely sanction of works. Each ward has three elected representatives. Wards form the basis of collection of property tax, service charges and other fees. Each ward inspector covers around 5,000 properties for billing and collections. While municipal revenue data may be available by ward, local expenditures are not budgeted or compiled by administrative wards.

In the periphery areas of the city and its urban agglomerations, the AUDA, a State owned entity, is responsible for town planning and infrastructure development. The states of Gujarat and Maharashta are historically renowned for their town planning scheme, which enables local authorities to develop land without fully acquiring it and having a positive control over the design and timing of urban growth. The map in Annex 3 specifies the boundaries and remit of the AMC and AUDA.

AMC is one of the few ULBs in India that generates sufficient revenue surpluses to finance the development, operation and maintenance of urban infrastructure and assets. It has a strong revenue base of its own tax sources, primarily octroi and property tax. This is supplemented by other taxes such as advertisement tax and motor vehicles tax and non-tax income such as fees and fines. AMC had huge revenue losses and liabilities until 1993-94. Also, at that time, inadequate capacity and inefficiency of the
Corporation's administration contributed to severe deficiencies in performance. In 1994, wide-ranging taxation reforms and improved administrative and enforcement systems enabled AMC to covert its revenue deficit into a surplus. A series of measures were undertaken to shore up tax collections. The reforms for octroi included the arrest of anti-social elements engaged in evasion, updating of valuation books to prevent under-invoicing of goods, random physical verification and vigilance squads at octroi points and wireless communication systems connecting octroi check posts. Key property tax reforms included imposing stringent collection mechanisms and coercive measures against defaulters including disconnecting water supply and drainage connections. These reforms were instrumental in the financial turnaround of AMC by increasing revenues from Rs.2.2 billion in 1993-94 to Rs.2.9 billion in 1994-95 and again to Rs.3.5 billion in 1995-96. All cash losses and overdrafts of AMC were wiped off by year ending March 1995. In the late 1990s, AMC introduced a number of financial management improvements such as computerisation of accounts, double entry accrual based accounting, and capital budgeting systems. However, the collection of property taxes was still relatively poor. 73% of the residential properties and 29% of non-residential properties were exempt from paying tax on account of very low assessment with annual rate able value below Rs.600. The rate able values were generally not revised and resulted in huge variations in amount of taxes to be paid, perceived to be unfair and non-transparent. In 2000-01, it revamped the property tax assessment system from annual rate able value basis to area-based valuation, to make it more transparent and increase the property tax base and collections. The property tax assessment was modified to be a function of annual rate, area, location, year of
construction (age), type of building (for example, hut, flat, bungalow etc.), and occupancy by landlord or tenant.

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Own tax sources from octroi and property tax on average encompass over 55% and 20% of the total revenues respectively. Grants and contributions contribute about 15% official revenues.
Deployed some of its revenues to services and programs as well as generated growing revenue surpluses that can be used for the development of public infrastructure. To its credit, AMC undertakes developmental expenditure towards both physical and social infrastructure.

AMC utilises its revenue surpluses as well as its capital income towards capital works and new projects. These include capital expenditure on public infrastructure and services such as roads and bridges, water supply, sewerage and solid drainage, street lighting, land and housing programs etc.

Leveraging the strength of its revenues, AMC was the first ULB in India to issue municipal bonds worth Rs. 1000 million without state guarantees in January 1998. Subsequently, it has obtained a strong credit rating and raised further capital market financing through the issue of municipal bonds. Another unique model of growth adopted in the state is to develop industrial estates and attract private financing using Special Purpose Vehicles (SPV). Essentially, 75% of the property tax collected within an earmarked estate area is dedicated to an SPV, which then leverages these revenues to raise finances from market sources. The SPV is responsible for developing the infrastructure such as roads, streetlights, water supply etc. within the estate. Three industrial estate SPVs have been developed so far, with the Memorandum of Understanding having been signed for another two. AMC benefits from the model as it assists in the industrial development of the city and thereby increases octroi revenues.
With respect to land and property development, many capital works are undertaken by AUDA under the auspices of the Gujarat Town Planning and Urban Development Act 1976. Town planning (TP) schemes are conceptualised as a joint venture between the local authorities and the original owners of the plots, who agree to pool their land for planning purposes. After carving out public roads and sites for social facilities such as parks, schools, dispensaries etc., the remaining area is laid out into regular shaped plots and sold. The final plots are hence enhanced in terms of shape, accessibility, usage and accompanying amenities and consequently, in value. AUDA is paid the difference between the incremental appreciated value of the final plot and the compensation for the original plot by the owner. In addition, up to 15% of the land can be appropriated by AUDA and sold at market rates for housing and commercial purposes to recover its costs of infrastructure provision. While between 1978 and 1997, only 18 TP schemes were undertaken by AUDA, the post 1997 period saw the initiation of almost 119 schemes.

Unlike the AMC, which charges taxes, AUDA primarily derives capital income from betterment levy or incremental land contribution and the sale of land. Concurrently, its main expenditure is towards development projects and the provision of infrastructure for the town planning schemes. While AUDA is responsible for the provision of basic infrastructure services and amenities in the TP scheme, it typically relies on the local government or the private sector to maintain the public assets. It is hence not authorised to collect taxes, and at times charges maintenance fees for specific services rendered.
The combination of AMC and AUDA activities and finances comprise the city's fiscal systems, against which the impact of conflict is being studied.

**Impact of conflict on municipal finances**

There are certain fundamental characteristics of Ahmedabad city and the communal riots, which underlie the impact assessment of the conflict on its municipal finances. Firstly, the municipal finances of AMC are robust and in surplus. It is also one of the few local government bodies in India that has obtained a strong credit rating. Secondly, the nature of conflict in Ahmedabad, although certainly devastating in terms of loss of life, property and security, was localised and not protracted over a long period. It was willfully targeted against the Muslim community and intended to drive them out of the Ahmedabad old city area. Thirdly, the hand of the State in the violence taints any evaluation, since the local authorities and official sources deny and underplay the impact of the conflict. Fourthly, there are extraneous concurrent factors such as the massive Gujarat earthquake in January 2001 that increased the financial pressures of the state and city governments." Hence, it is difficult to isolate the impact of the 2002 conflict on some of the economic and financial factors of city development in the period.

There were a few visible implications of the riots for the city's financial position. However, given the strong municipal finances and the concentrated nature of the riots in terms of
duration and target groups, these implications were marginal and short-term.

The direct impact of the riots can be studied with respect to the sources of municipal revenues for the period. Octroi collections fell steeply in March and April 2002 during the riots. The fall could potentially be on account of the conflict, as typically the month of March being the year-end, provides the highest octroi collections in any year. This can be seen in the following years 2002-2006, where the months of March and October accrued the highest octroi collections in the year. The downward impact on octroi as a result of conflict in March 2002 can be explained by the slump in economic activity, particularly the entry of goods in the city, in the months and areas of intense rioting. Nonetheless, the communal grievances did not shake the economic and business fundamentals of the city and hence, the decrease in octroi revenues was not sustained beyond April 2002.

The other sizeable source of municipal revenue to be explored is the property tax collections. The violence was clearly targeted to purify certain neighborhoods of Muslim and pluralistic identities. The Ahmedabad riots of 1985, 1992 and 2002 saw the forced migration of Muslims from the inner city area. However, the 2002 pogrom inflicted by far the most gruesome violence on the Muslims. Muslim houses were burnt and many were forced to sell their property and relocate to fringe or periphery areas of refuge such as Juhapura, Shah Alam, Vejalpur, Kalupur, Dariapur and East Jogeshwari. Some of these areas were termed 'mini-Pakistan' by the locals. The Sabarmati river that flows through
the city became a symbolic divide for areas designated as Hindu and Muslim. (Refer to city map in Annex 3). The mass exodus of Muslims and their forced migration led to distress sales and collapse of real estate prices in the affected areas. However, these falling prices do not exert an immediate effect on property taxes, given that the official tax records are not updated annually for latest market property values and that rental charges are based on historic valuations. In India, property taxes assessed on rateable values are revalued only once in every five years. Moreover, the Ahmedabad property tax system was revamped in 2000 from annual rateable values to area-based composite valuation. Hence, overall local property tax collections did not decrease as such in the period under study. Possibly, the realisation may have been adversely impacted in specific Muslim majority wards from where the migration was highest. Property tax collections at ward level could be an area for further study.

The non-tax sources of municipal incomes, comprising 6-7% of total municipal revenues, are not substantial. Hence, any impact related to the conflict will only be marginal to the overall municipal finances. There are claims of incidental reductions in the collections of some municipal fees and charges such as for the Muslim shops and establishments and tanneries and slaughterhouses destroyed or displaced during the riots. But these effects are possibly localized to select wards in the municipality. Also, on the whole, the lower standard of living and limited asset ownership of Muslims imply that this impact on AMC finances is quite negligible. Further, many of these establishments are set up in the informal sector and are prone to high evasion and lack of enforcement by the municipal authorities.
With respect to municipal expenditure, majority of the revenue expenditure is incurred on establishment, general and administration expenses of running the municipal operations. Barely 3% of municipal revenues are spent towards services and programs for maintaining public infrastructures. Most of the physical damage during the riots was wrecked on private houses and commercial properties owned by the Muslims, rather than the city's public infrastructure like roads, bridges, and drainage systems. Therefore, the financial impact of the destruction caused is not substantial on the city's fiscal structures. Also, most of the capital works at local government level are undertaken out of capital income, particularly loans and transfers from the state and central governments. While these revenues may suffer if State structures collapse or weaken as a result of widespread city-level conflict, Ahmedabad's case was stark. Not only did the conflict not destabilize State systems, but in fact, the State played a role in abetting the violence. However, the point to note is that the riots, by driving out the Muslims from the inner city, led to their ghettoisation in peripheral areas of the city. Some of these areas such as Vejalpur, Sarkhej and parts of Bombay Hotel are out of the AMC limits and fall within the AUDA area. To compound the situation, the Municipal Corporation neglected the provision of amenities to these riot victims in several of the displacement camps and often discriminated against the Muslim majority areas. Most of the ghettos have abysmal living conditions with no or limited access to water supply, drainage, roads, pound and fire services. Persons deriving their income from the informal sector were hit hardest, as they were unable to re-establish their small-scale businesses under these pecuniary circumstances. These included a variety of job seekers in the unorganized sectors ranging from skilled artisans, craftsmen and tailors to rickshaw-
pullers and vendors. By design, Muslims were systematically polarized from economic activities in the city.

As earlier mentioned, poverty and slum improvement have been included in the list of municipal functions after the 74th CAA. About 22% of AMC's population lives in slums. AMC undertakes some poverty alleviation programs in partnership with non-governmental organizations (NGOs), including the Slum Networking Project commenced in 1998. Several NGOs such as SAATH, SEWA and minority-based organisations such as St Xaviers Social Service Society and SAHRWARU assist in and mobilise support for community development projects. However, since the expenditure on these pro-poor programs is quite small in terms of the overall fiscal framework, the adverse welfare impacts of the riots are not adequately captured in the financial analysis. Also, as a consequence of the forced migration, many of the Muslim victims had to restart their lives in irregular settlements and refugee camps that were often not within the ambit of AMC's developmental activities. As highlighted by Ms Bhatt of the Manila Housing SEWA Trust, an active NGO in Ahmedabad, out of the local government's 45-50 slum area projects, only one was a Muslim majority area.

The relatively longer-term financial implications of the riots for the city are lower remittances and transfers from external non-governmental sources, including donors and the private investors. This is despite Gujarat's progressive measures such as repealing the Urban Land Ceiling Act, rationalizing stamp duties, and being one of the first Indian states to develop a private sector policy.
4.3 Profile of Vadodara Municipal Corporation

The City of Vadodara aptly described by a medieval Jain writer as a “Tilak on the Brove of Lata.” is a nodal center of the costal plain of Gujarat. It is strategically situated at a junction of the main highways linking Gujarat with Rajputana and the Punjab in the north, the Gangetic valley in the north east, Konkan in the south and Khandesh in the south-east. Significantly Vadodara today is a junction on the western railway of the lines leading to Amdavad and Delhi. This confirms the historic role of Vadodara in the communication pattern for movements of people and culture. The history of Vadodara city amply bears out its cultural and commercial activities during the last two thousand years. Apart from the traditional stories; our knowledge of the history of Vadodara is based mainly on Jain literature and a few old inscriptions pertaining to Vadodara.

Mid-Pleistocene Period

Vadodara may not have had a colourful history like Kolkata or seen the rise and fall of great empire builders like Delhi. But then unlike those two cities its history begins only somewhere in the mid-pleistocene Period, when the early man lived on the banks of the river Mahi. This river must have formed the flood plain during that age. The movements of this “food gathering”. Parasites on nature, living on the banks of the river, grumling the roots and killing animals with crude stone tools made out of the cobbles and
pebbles available on the river bank, were necessarily controlled by the availability of convenient raw materials for their tools. There are evidences of the existence of early man in the Mahi river valley at a number of sites within 10 to 20 km to the north-east to Vadodara. No evidences however of the existence of this man are found in and around present Vadodara. This may be because of the absence of gravels and cobbles on the banks of the Vishwamitri rivulet.

The next phase of the pre-historic Vadodara witnessed the first human settlement on the right bank of the river vishwamitri on a group of dunes resting on the alluvium of the river. It also means that men knew about where to set up settlements, as they had selected an elevated land. The Vishwamitri must have been prone to seasonal floods even then. These people still belonged to the Stone Age, crafting their tools with finely grained stones. From their material culture and physical environment, they seem to have belonged to the same culture as those whose implements were found in the Mahi river valley. This human settlement has dated 1000 B.C.

**Old Ankotakka**

Around the beginning of the Christian Era, a small township developed at the same spot as the above mentioned settlement on the right bank of the river. It came to be known as Ankotakka (present day Akota) The mound on which this settlement was established came to be known as Dhantekri. The entire settlement
was developed by clearing grazing land and forest of Ankhol and covered an area of ½ to ¾ sq.km. This is indicative of the presence of thick forests during those times. Due to its location on the ancient trade route between Gujarat and Malva, these small townships flourished into a commercial enter. There was a supposed commercial relation between this township and Rome.

The township of Ankotakka developed during the rules of the Guptas and the Vallabhis. It was subjected to periodical heavy floods. But a severe flood which inundated the renovated public hall, forced the inhabitants to abandon this township and move away from the banks of the Vishwamitri.

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.*

**Revenue Income & Expenditure**

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 years. 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.

Revenue Income

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%. The only contributor to growth in revenue income is tax income, which has grown at a CAGR of around 15% and has increased. 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.

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 by 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. 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%). 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. 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 per year 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 for non materialized 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 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.

Non-Tax Income (Own Source)

The non-tax own revenue sources of the corporation accounted for 5% of the total revenue income. 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 various heads, for general as well as specific purposes. About 9% of total revenue income 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
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.

Revenue Expenditure

The expenditure structure of VMC is dominated by revenue expenditure. During the financial period, it constituted 80% 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.

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 6th Pay Commission, establishment expenses had grown at an annual rate of around 39%. However, due to the implementation of the 6th 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%. 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. However, 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% to 20% critical components of the expenditure are highlighted and 55% of the total revenue expenditure of VMC covers five activities, viz. general administration and collection of taxes, public safety, water supply, conservancy and road cleaning.
**Status of Revenue Account**

VMC’s revenue account has shown surpluses, which almost always contributed to the capital account for taking up new works. 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.

**Capital Income & Expenditure**

**Capital Income**

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.

Capital receipts of VMC have declined steadily 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. 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.

**Capital Expenditure**

Capital expenditure of the corporation has grown at a CAGR of 50%, indicating increased spending. However, capital expenditure 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 to 33% however, 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% to a meagre 8%. A similar trend is seen in conservancy services expenditure; its share has increased from 10% to 18%.

**Finances of City Level Services**

**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.

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\%. This increase can be attributed to increase in the rates of water charges. 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\%. The estimated per capita subsidy for water supply services was around Rs 241 per capita per annum.

**Sewerage**

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, collections from connections beyond city limits and, rates for residential connections beyond city limits were reduced.
In line with water supply service expenditure, conservancy service expenditure too can be categorised into maintenance, new work, and loan charges on loans taken for conservancy services. Maintenance activity is the largest component of conservancy service expenditure, which has grown at an annual growth rate of 11%. Loan charges for conservancy have reduced at an annual rate of 16%. The estimated per capita subsidy for conservancy services was around Rs 97 per capita per annum.

**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.

(B) Accounting Systems in Municipal Corporations

Following accounting policies are used in preparation of financial statements of the municipal corporations.

1. Basis of Accounting

The Financial Statements are prepared on Accrual Basis primarily following the historical cost convention in accordance with Generally Accepted Accounting Principles in India and guidelines provided under National Municipal Accounts Manual published by Ministry of Urban Development, Government of India.
2. **Use of Estimates**

The preparation of financial statements requires estimates and assumptions to be made that affect reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual results and estimates are recognized in the period in which the results are known / materialized.

3. **Principles of Consolidation**

The financial statements of all the funds have been consolidated on line by line basis by adding together the values of the like items of assets, liabilities, income and expenses after eliminating intra fund balances and the unrealized profits or losses of intra fund transactions. The Financial Statements accordingly include Balance Sheet of following funds.

a) Municipal Main Fund

b) Capital Grants & Loan Funds

c) Revenue Capital Fund

d) Public Deposit Funds

e) Advance Fund.

f) Jawaharlal Nehru National Urban Renewal Mission

g) Gas Project.
4. **Revenue Recognition**

   a) **Tax**

   For Tax (which includes Property Tax, Water Tax, Education Cess and Fire Tax) revenue is recognized as and when bill is generated, except in case where the bills are disputed.

   **Other Income**

   In respect of other incomes of the Corporation (Including non-tax income, warrant fees, penalties, notice fees, reconnection fees, name transfer fees, tender fees, gas connection shifting fees, safe custody fees) are recognized on accrual basis, as and when these are accrued. Accrual in case of Warrant fees and notice fees is on the date of default by the user of the respective services.

   b) **Rent including Lease Rent**

   Rent income is recognized on Accrual Basis at the beginning of the period for which the rent is to be charged.
c) **Lease Premium**

The amount of Lease Premium is recognized on Accrual Basis as and when the highest bidder gets approved by Standing Committee and General Board.

The amount received as Lease Premium is treated as Capital Income in Revenue Capital Budget Fund. 25% of Lease Premium is transferred to Earmarked Fund and utilized for the purpose of Land Acquisition by the Corporation or for refund in case of cancellation of the Lease.

**d) Gas Bills**

Revenue is recognized on accrual basis, as and when the bill is generated, same as taxes

**5. Fixed Asset**

For Balance Sheet

a) Fixed Assets are valued as per the valuation report by an independent valuer appointed, who has taken Market value as the basis for valuation. However, some of the assets may be impaired and impairment losses are not evaluated for the presentation of the balance sheet.
b) In view of accounting the assets existing as on Market value basis, the borrowing cost is not attributed to the qualifying Assets. Difference between the book value and value recognized as per valuation report is credited to Main Fund except, for which the difference has been credited to the said Project account.

6. Inventories

Inventories are valued at Cost determined on the basis of the last purchase rate of the inventory item. Where the last purchase rate of the item is not available, Corporation has taken the value at NIL, despite these assets being in usable condition. The corporation has not provided for the obsolescence of the inventory.

7. Tasalmat(Advances)

Balances in Tasalmat represent advances given to the departments for specific work order or for specific activity. The expenses incurred from the above advances are treated as expenses and respective adjusting entries are made in the respective tasalmat given. The adjusting entries have been accounted on Cash Basis.
8. Current Liabilities

The current liabilities of the Corporation consist of deposits received in the form of Participation in Auction for Leases, payments due to the contractors, payments due to the employees, refund of advances received for availing various services from citizens etc. These are amount due but not paid.


Provisions are recognized only when there is a present obligation as a result of past event and when a reliable estimate of the amount of the obligation can be made. Contingent Liabilities are disclosed for (i) Possible obligations which will be confirmed only by the future events not wholly within the control of the Corporation or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Contingent assets are not recognized in the financial statement.

10. Prepaid Expenses

Expenses such as insurance paid during the year, (a proportion of which may relate to a part of the succeeding
financial year) have not been apportioned over the actual period to which such expenditure relates. This is because of the difficulty in capturing necessary data cost effectively and the consequential difficulty in scientific apportionment of composite expenditure.

11. **Deposits Received**

Deposits Received by department includes, advances received which are to be adjusted against the bills and accordingly revenue shall be recognized as and when bills are generated.

12. **Impairment of Assets**

An asset is treated as impaired when the carrying cost of assets exceeds its recoverable value. An impairment loss is charged to the Income & Expenditure Account in the year in which an asset is identified as impaired. The impairment loss recognized in prior accounting period is reversed if there has been a charge in the estimate of recoverable amount.

13. **Investments**

Current investments are carried at the lower of cost and quoted / fair value, computed category wise. Long Term Investments are stated at cost. Provision for diminution in the
value of long-term investments is made only if such a decline is other than temporary in the opinion of management.

14. Employee Retirement Benefits

Provisions relating to Gratuity on account of employee benefits valued on actuarial basis have not been made. Once the valuation on actuarial basis is completed the necessary provisions will be created.

15. Provision for Current and Deferred Tax

Provision for current tax is not made as income of Corporation is exempt under Section 10(10D). The provision for the deferred tax is also not required to be made as there is no effect of tax calculation on the financial statements.


The financial statements, prepared as per Cash Basis approved by General Board. These financial statements, on the basis of information collected, were modified so as to account for accrued assets and liabilities and recognize value as fixed assets. Inter Fund Transactions (Balances) have been adjusted to reflect
the balances with net effect. This adjustment is necessary in view of fund based accounting system.

1. **Municipal Fund:**

   The balance in Municipal Fund represents the surplus from earlier years including the accrued income less accrued expenses and the effect of capitalization of the fixed assets is presented.

   Fixed Assets are valued as per the valuation report by an independent valuer, who has taken Market Value as the basis of valuation. The difference arising due to valuation is added to Municipal Fund being capital reserves.

2. **Earmarked Funds**

   Earmarked funds are those which have been set aside for specific purpose or are reflected against specific Grants/Deposits including JNNURM funding.

3. **Reserves**

   Reserves constitute the surplus from Income & Expenditure Account including the balance from earlier years. In addition, Capital Contribution received for implementing various Government sponsored schemes is also reflected hereunder.
4. **Grants and Contributions for Specific Purposes**

Grants and Contributions for Specific Purposes consist of all the specific grants which are received with specific instructions for their utilization from M.P. and M.L.A funds which are set aside by the Union Government/State Government for Urban Development.

5. **Secured Loans**

Secured Loans taken by the Corporation is open market loans

6. **Unsecured Loans**

Unsecured Loans are all loans received from bilateral and multi-lateral agencies. These are neither secured by any guarantee nor by any other assets of Corporation. The loans may have been drawn under specific project requirements or being given for general development.

7. **Deposits Received and Deposit Works**

These consist of the amounts received as security deposits from contractors for various works to be performed. The balance also includes deposits which are unclaimed/not payable.
8. **Other Liabilities (Sundry Creditors)**

The values in this head represent the other liabilities i.e. sundry creditors of the Corporation. The amounts represent the payables to employees of the corporation as retirement benefits and also other outside creditors. For this statement the values are based on the details provided by the departments and the verification of the payments vouchers after the cutoff date.

9. **Provisions**

The provisions are given effect as per accrual basis only for the items where income is recognized and is doubtful of recovery or where there are disputed cases for the recovered income. Provisions relating to Gratuity on account of employee benefits valued on actuarial basis have not been made.

10. **Fixed Assets**

Fixed Assets of the Corporation are shown in Balance Sheet. This being the Closing Statement of Affairs on Accrual basis, Corporation has given the effect of the addition of FIXED ASSETS into the FIXED ASSETS included in the Opening Statement of Affairs which were not accounted since inception of the Corporation.
The value of Assets provided by the valuer, which includes both assets earlier not capitalized and capitalized by the Corporation. However, the valuation of the Assets does not include value of assets for which documentation is under process. The valuation to that extent will be in corporate in the accounts on completion/ identification of necessary documentation.

11. Investments-General Funds and Investments-Other Funds

The investments of the Corporation consist of only the Fixed Deposits with the various banks and accumulated interest thereon. The deposits are not earmarked against the various funds.

The interest on these deposits is accrued based on the certificates given by the bank for such accrual. Where such certificates are not available, Corporation has a process to calculate the interest accrued as on the last day of the year and the accounting of the interest is done accordingly.

12. Stock In Hand (Inventories)

The quantity and the value of inventory are introduced through these financial statements. The value that is reflected under this Schedule is based on the figures certified by the various
stores and departments entrusted with maintaining the inventory records.

Inventories are valued at Cost, determined on the basis of the last purchase rate of the inventory item. Where the last purchase rate of the item is not available, Corporation has taken the value at NIL rates although these are in usable condition. Corporation has not provided for the obsolescence of the inventory.

13. **Sundry Debtors (Receivables)**

Sundry Debtors consists of Gross Amount Outstanding i.e. amount receivable by the Corporation. The receivables consist of Tax Demand pertaining to both Prior period and Current period, Octroi, Rent, Education Cess and Administrative Charges.

14. **Prepaid Expenses**

Prepaid Expenses are not considered in preparation of Balance Sheet as the details relating to such expenses are not available with the Corporation.
15. Cash and Bank Balances

Cash and Bank Balances as shown in the Balance Sheet are as per the books and no accrual effect need be given.

16. Loans, Advances and Deposits

Loans, Advances and Deposits consist of Loans and Advances given to the employees of the Corporation for various purposes. This schedule also shows the amounts pertaining to Cheques Dishonored.

Balances in Tasalmat generally represent advances given to the departments for specific work order or for specific activity to be carried out. Tasalmat given for administrative and repairs-maintenance work is outstanding in the name of Wards and Zones.

The adjusting entries received from the departments are being accounted presently on Cash Basis.

17. Other Assets

The Other Assets consists of Refundable Deposits, accepted by the various Departments and which remains outstanding.
18. Miscellaneous Expenditure

Miscellaneous Expenditure is to be shown to the extent written-off.


Provisions are recognized only when there is a present obligation as a result of past event and when a reliable estimate of the amount of the obligation can be made. Contingent Liabilities are disclosed for (i) Possible obligations which will be confirmed only by the future events not wholly within the control of the Corporation or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Contingent assets are not recognized in the financial statement.

20. Tax Revenue

Tax Revenue is the main source of the income of the Corporation. This consists of various taxes and charges recovered and recoverable as from the citizens being users of the services provided by the Corporation. Receivable Tax and charges of the Corporation are shown at the values as per the details
provided by the E.D.P. department and bifurcated in parts, namely Current Year Demand and Prior Period Demand.

21. **Assigned Revenues and Compensation**

This is represents the collection done by agency appointed by the Corporation for the collection of its revenues.

22. **Rental Income from Municipal Properties**

This is broadly represents the amount received or receivable by the Corporation as Rent form its properties. The amount of rent receivable under various heads is ascertained on the basis of details provided by respective departments of Corporation.

23. **Fees & User Charges**

Fees and User Charges consists of the various fees and also charges collected by the Corporation pertaining to Land Revenue, Administration Charges, Removal of Dangerous Structures, Water meter charges, etc. Also, receivable fees and user charges are incorporated in the Income and Expenditure Account.
24. **Sale & Hire Charges**

Sale and Hire Charges consists of the sale of forms, scrap, equipments, Hire charges of vehicles, etc. Also, receivable Sale and Hire charges are incorporated in the Income and Expenditure Account.

25. **Revenue Grants, Contributions & Subsidies**

Revenue Grants, Contributions & Subsidies consist of the amount received by the Corporation and shown in Main fund.

26. **Interest Earned**

Interest Earned consists of Interest earned from Fixed Deposits. To give accrual effect, interest received and receivable are added together.

27. **Other Income**

Other Incomes of the Corporation consists of various other sources not included in above mentioned heads. The values are taken as per the books of account.
28. **Inventory**

This is represents the amounts of closing inventories with various departments of the Corporation. The materiality of the amounts relied upon is as per the information and statements provided by various departments of the Corporation.

29. **Establishment Expenses**

Various expenses for establishment which are related to employee benefits, Vehicles etc are incorporated in this head. Also the expenses accrued but not paid up are given.

30. **Administrative Expenses**

Expenses pertaining to administration of the Corporation are shown under this head. The expenses paid and accrued but not paid are incorporated and given.

31. **Operation and Maintenance**

Expenses pertaining to Operation and Maintenance like Office maintenance; rents, rates & taxes, communication, and other legal, audit, consulting fees, etc are incorporated under this head. As per accrual based accounting, those expenses which are payable but not paid.
32. **Interest and Finance Charges**

In this schedule, the interest and other financial charges pertaining to Open Market Loans, World Bank Loans, Central and State Government Loans, which are paid and payable, are added together.

33. **Program Expenses**

Expenses related to various social and political programs are shown under this head. Expenses made and payable but not paid are added together and shown in the Financial Statements.

34. **Revenue Grants, Contributions & Subsidies**

The amount represents the transfer and contribution to grants from Main fund.

35. **Miscellaneous Expenses**

Miscellaneous Expenses represents the amounts expended for paying off Fringe Benefit Tax and transfers of Net Revenue Surplus to Capital Account. The amounts paid and payable shown in this head.
36. **Prior Period Items**

All the Income heads i.e. schedules which consisted of prior period incomes, such income heads are grouped together and shown separately in this schedule. It is identified that certain amounts are payable but not paid.