

## MUNICIPAL FINANCES

This chapter focuses mainly on the finance of the Kochi Corporation and other local bodies

### 11.1 Structure of the City Finance

The review of the finances involves analysis of the income and expenditure of the local bodies to ascertain the trends on the major sources and uses of funds.

The transactions of Kochi Corporation are carried out mainly under revenue sources and expenditure. The revenue sources include taxes, non-taxes such as rents, fees, fines etc., and grants. Details of the revenue from different sources for a financial year are indicated separately. The taxes include property tax, profession tax, entertainment tax etc.

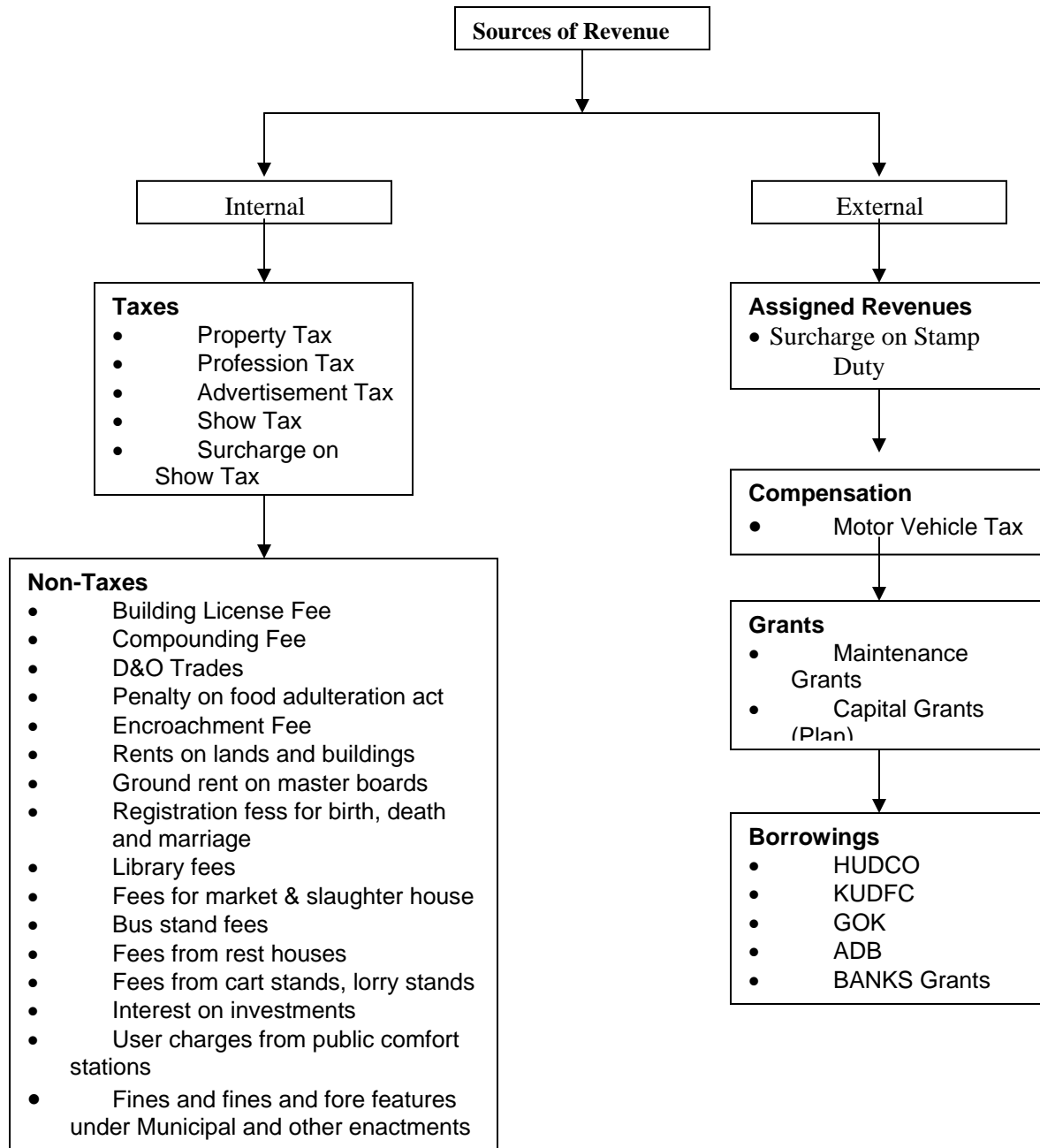
### 11.2 Sources of Fund

- Own source revenue which includes taxes, duties, cess and surcharge, fees from licenses and permissions, income from municipal properties, and income from miscellaneous items;
- Share of the taxes levied by the Government and transferred to the Local Bodies; Grants to the Local Bodies from the Government for the implementation of schemes, projects and plans formulated by them, under non-plan scheme;
- Grants realized to the municipal corporation by the Government for implementation of schemes, projects and plans assigned or entrusted to the municipal corporation under the KM Act 1994; and K.P.R Act 1994; and
- Money raised through donations and contributions from the public and non-governmental agencies.

The KM Act 1994 and the K.P.R Act 1994 mandates the publication, not later than the first week of June, of the annual financial statement of the municipal corporation of the preceding year showing a classified abstract of receipts and payments of the municipal corporation under Revenue, Capital and Debt heads, a demand, collection and balance statement and a statement of the general financial position of the institutions.

*Overview of Finance Sources.* Actual sources of the revenues for the Local Bodies for the last 5 years is analyzed and furnished below.

**Figure 11.1: Sources of Revenue**



**Table 11.1: Details of Income Source of Local Bodies**

<b>Sl. No.</b>	<b>Revenue Source</b>
<b>A</b>	<b>Taxes</b>
1	Property Tax
2	Profession Tax
3	Entertainment Tax
4	Additional entertainment Tax
5	Advertisement Tax
6	Show Tax
7	Surcharge from Show Tax
<b>B</b>	<b>Non taxes-rents, fees, fines etc</b>
1	Rent on land and buildings
2	Rent on Govt. buildings
3	Markets
4	Bus stand fees
5	Ferry service
6	Town Hall
7	Slaughter House
8	Library fees
9	Interest on investments
10	Fees from cart stands
11	Fees from registration
12	Fines
13	Transfer of properties
14	Public comfort stations
15	Road cutting
16	D & O Trades
17	Building application fees
18	Construction of factories
19	Machinery erection
20	Fees collected under PPR Act
21	Fees collected under Cinema Regulation Act
22	Fees collected under PF Act
23	Fees imposed on hospitals & tutorial colleges
<b>C</b>	<b>Grants</b>
1	Vehicle tax compensation
2	General purpose grant
3	Plan grant
4	Non- plan grant
5	source:

### 11.2.1 Revenue Receipts

The Revenue Receipts of the municipal corporation can be classified into 3 types of revenue source.

- Own source income
- Revenue from assigned and shared taxes; and
- Grants-in-aid from the Government.

Own source income refers to those revenue items, which the Local Bodies are responsible for in terms of their assessment and collection. Assigned and shared taxes are taxes collected by Government; but the revenue is assigned to or shared with the municipal corporations. Grants-in-aid from the Government comes in the form of plan, maintenance of assets and specific purpose grants.

Figure 11.2 Revenue Sources of KMC

**Table 11.2: Revenue Receipts and Expenditure KMC (In Lakhs)**

<b>Year</b>	<b>Receipts</b>	<b>Expenditure</b>
1998-99	3518	2119
1999-00	3886	2197
2000-01	3268	2975
2001-02	4906	3071
2002-03	5388	3489
2003-04	7236	5291
2004-05	5923	3276
2005-06	7260	3651

The review shows that revenue income has grown by 106% from 1998-99 to 2005-06. The split up of the revenue account receipts and expenditure is given in Table 11.3. Figure 11.3 shows the own source revenue split up. Table 11.4 shows the split up of revenue expenditure.

Fig.11.3

### Components of Revenue Income

#### 11.2.2 Government Grants

*Plan Grants.* As per the decentralized planning policy of the Govt. of Kerala approximately 35% of state plan allocation is transferred to local bodies annually for their development works. The annual plans are scrutinized and approved by the District Planning Committee in the case of municipalities and Panchayats and by the State Planning Board in case of Municipal Corporations. The plan allocations for the past five financial years are given below.

Table No. 11.3 Govt. Grant to KMC in Rs. Lakh

2000-2001	2001-02	2002-03	2003-04	2004-05	2005-06
11.29	1136.26	1487.95	2917.81	1395.43	1799.47

The sudden change from 2000-01 to 2001-02 and subsequent years is due to the fact that no remittance towards vehicle tax compension was received from Govt. in 2000-01.

#### 11.2.3 Non-Plan Grants

Based on the 73rd & 74th CAA the Govt. of Kerala has decided that all services providing institutions of the Govt. should be brought under the local bodies. Among them are schools, Hospitals of all systems of Medicine, Krishibhavan, Veterinary hospitals and Social Welfare institutions. All social pensions are also being distributed by the local

bodies. The allocations in the state budget for the above services are transferred to the respective local bodies annually.

**Table 11.4: Revenue Account Receipts**

Year	Revenue Account Receipts (Rs. Lakhs)				
	Tax	Non-Tax	Assigned	Transfers including grants	Total
2001-02	1872	607	385	1367	4906
2002-03	2545	416	536	1625	5388
2003-04	2808	573	751	3102	7236
2004-05	2832	826	587	1677	5923
2005-06	3216	1247	800	1996	7260

**Table 11.5: Revenue Account Expenditure**

Year	Revenue Account Expenditure (Rs. Lakhs)				
	Establishment (wages and salaries)	Operation and maintenance	Interest payment	Others	Total
2001-02	2640.35	425.50	- 0 -	5.15	3071.00
2002-03	3008.27	449.50	- 0 -	31.23	3489.00
2003-04	4904.04	383.09	- 0 -	3.87	5291.00
2004-05	2801.90	472.50	- 0 -	1.60	3276.00
2005-06	3149.50	498.50	- 0 -	3.00	3651.00

#### 11.2.4 Capital Account (Non-Plan)

The non-plan grants received from the Govt. of Kerala are utilized for the maintenance of services of the transferred Govt. service Departments and for the payment of all social pensions including unemployment wages.

#### 11.2.5 Capital Account (Plan)

Approximately 35 % of the annual plan allocation of Govt. of Kerala is being transferred to the rural and urban local bodies of the State, annually in installments. This fund is utilized for projects formulated by the local bodies and approved by the State Planning Board, on the recommendation of the District Planning Committee. Most of them are asset-creating projects. Separate targets are fixed for S.C. and S.T.s in the plan, for their socio-economic development. The receipts and expenditure under the capital account for the past five years are given below as Tables 11.5 and 11.6.

**Table 11.6: Capital Receipts**

Year	Capital Receipts (Rs. Lakhs)						
	State Government				Financing institutions	Market	Total
	Loans	Grants					
Plan		Transfer	UPA				
2001-02	0	1600	0	58	0	0	1658
2002-03	0	1037	0	60	0	0	1097
2003-04	0	828	0	83	0	0	911
2004-05	0	334	0	82	0	0	416
2005-06	0	446.8	0	103.1	0	0	549.9

**Table 11.7: Capital Expenditure**

Year	Expenditure (Rs. Lakhs)	Income (Rs. Lakhs)
2001-02	1254	1658
2002-03	2889	1097
2003-04	5079	911
2004-05	1559	416
2005-06	3320	550

The projects for SC/ST development are implemented with the financial participation of the city and the beneficiaries. An amount of Rs.13 Lakhs is fixed as contribution from the beneficiaries, who are entitled for individual finance support for self-employment and housing. The KMC also earmarked 13 lakhs for the same purpose. Out of the above plan allocation an amount of Rs.27.50 lakhs is exclusively earmarked for the development projects for S/C. and S/T. community. The Govt. of Kerala has restricted the local body from any diversion of this fund for any other projects.

The chart below shows the income from the Revenue & the capital accounts of K.M.C. derived during the year 2005-2006. The total expenditure under the Revenue & the capital heads are also presented. Revenue account shows surplus while the capital account shows a deficit. However there is a net surplus

**Table No.11.8 Income / Expenditure of KMC 2005-06 (Rs. Lakh)**

	Income	Expenditure	Revenue Surplus	Net Surplus
Revenue	7260	2636.47	<b>4623.53</b>	
Capital	549.92	3320.12	-2770.2	
Net Surplus				<b>1853</b>
<b>Total</b>	<b>7809.92</b>	<b>5956.59</b>		

Figure 11.4

## **Income from Revenue & Capital accounts**

### **Own Source Revenue**

The components of the revenue income presented in fig 11.3 indicate that property tax is the critical component in the own source revenue.

The graph (Fig 11.5) shows the trend of increase in the property tax during the past 9 years. The analysis shows that there is scope for substantial increase in the income from the property tax by changing the tax base from ARV to the assessment based on unit area, by revising the tax, increasing the compliance in payment, by introducing computerization in the assessment system, & by simplifying the collection procedure. The efficiency of collection can also be increased to bring in more revenue.

**Table no. 11.9 Revenue from Property Tax - KMC (Rs. Lakhs)**

YEAR	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Property Tax	917.69	1376.71	1544.58	1528.4	1178.41	1756.31	2053.8	2097.97	2290

**Figure 11.5 Property Tax of KMC**

Compound average growth rate 14.5%

Proposals to improve the property tax base

The aim of K.M.C is 100% assessment & at least 95% compliance .It is expected that by adopting measures as detailed below the property tax can be increased from 2290 lakhs in 2005-06 to 5244 lakhs in 2006-07 & to 123007 lakhs by 2007 -08. Thereafter an average growth rate of 15.5% is expected. The basis for projection are given in Annexure

**Table no. 11.10 Property tax projection (Rs. Lakh)**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Property Tax	5244	12307	14215	16418	18963	21902	25297	29218	33747	38978	45020	51998	60057	69366	80118

## Figure 11.6 Property Tax Projection

### Profession Tax

Profession tax is the second largest item in own source revenue. K.M.C. is collecting profession tax from employees of Govt. & private offices & other institutions. The amount of tax depends on the half yearly income. The review of the profession tax collection data reveals that the compound average growth rate is 21%..The revenue from this source has increased from Rs.136.62 lakhs in 1997-98 to 420 lakhs in 2005-06. From 2002-03 till 2005-2006, lower collection efforts has resulted in reduction in revenue.

Table no. 11.11      **Revenue from Profession Tax**

<b>YEAR</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Profession Tax	136.62	125.48	274.06	332.56	282.53	446.88	395.11	396.1	420

Figure 11.7

**Profession Tax - KMC**

**Future plans**

KMC has plans to widen the base of the profession tax. In addition to offices & institutions, other establishments like jewelry, hotels, shops etc & self-practicing professionals can be brought under the tax cover. Efficient monitoring of the assessment and collection system will generate more revenue by way of profession tax. Appointing banks & similar agencies for collection will enhance the compliance. The mega projects envisaged in the C.D.P. area will increase the number of employees which will increase the revenue from this source.,

The trend shows an average compound growth rate of 21%. Increase in collection efficiency is likely to increase the revenue by 25% in the current year. Widening the base, increase in compliance, computerization of assessment system, simplified collection procedures,& increase in collection efficiency are likely to increase the revenue by 20%,5%,5%,10%,&25% respectively in 2007-08 thereby increasing the profession tax to 12692 lakhs in2007-08.

**Table no. 11.12 Profession Tax Projection (Rs. Lakh)**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Profession Tax	635	1269	1561	1920	2362	2905	3573	4395	5406	6650	8179	10060	12374	15220	18721

Figure 11.8

**Profession Tax Projection**

**Other items of own revenue**

Entertainment tax, advertisement tax, receipts from municipal properties & municipal fees are the other major items contributing to own source revenue.

The entertainment tax shows average growth of only 1.63%. K.M.C. expects to increase this revenue by timely monitoring & collection of tax & by imposing tax on all exhibitions, games events, & shows which are not taxed at present.

Table No. 11.13 **Revenue from Entertainment Tax - KMC (Rs. Lakh)**

YEAR	1997-08	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Entertainment Tax	465.69	471.64	483.48	559.03	398.56	326.67	337.76	314.42	465

Figure 11.9

**Entertainment Tax - KMC**

Table no. 11.14 **Entertainment Tax Projection( Rs.Lakh)**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Entertainment Tax	591	1009	1059	1112	1168	1226	1288	1352	1420	1491	1565	1644	1726	1812	1903

Figure 11.10

**Entertainment Tax Projection**

Advertisement Tax Compared to other revenue the volume of advertisement tax is low. However, it shows a compound average growth trend of 32% Strict measures to bring all types of advertisements within the tax frame & by insisting to exhibit the sanction order number of the U.L.B. on the boards and levying the market rates can increase the revenue.

**Table no. 11.15 Income from Advertisement Tax**

YEAR	1997-08	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Advertisement Tax	9.49	13.44	19.28	31.75	13.21	18.59	23.71	24.13	41.5

**Figure 11.11 Advertisement Tax - Trend**



**Table no.11.16 Advertisement Tax - Projection**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Advertisement Tax	62.68	98.1	132	179	241	326	440	594	802	1082	1461	1972	2663	3595	4853

**Figure 11.12 Advertisement Tax -Projection**



**Other taxes**

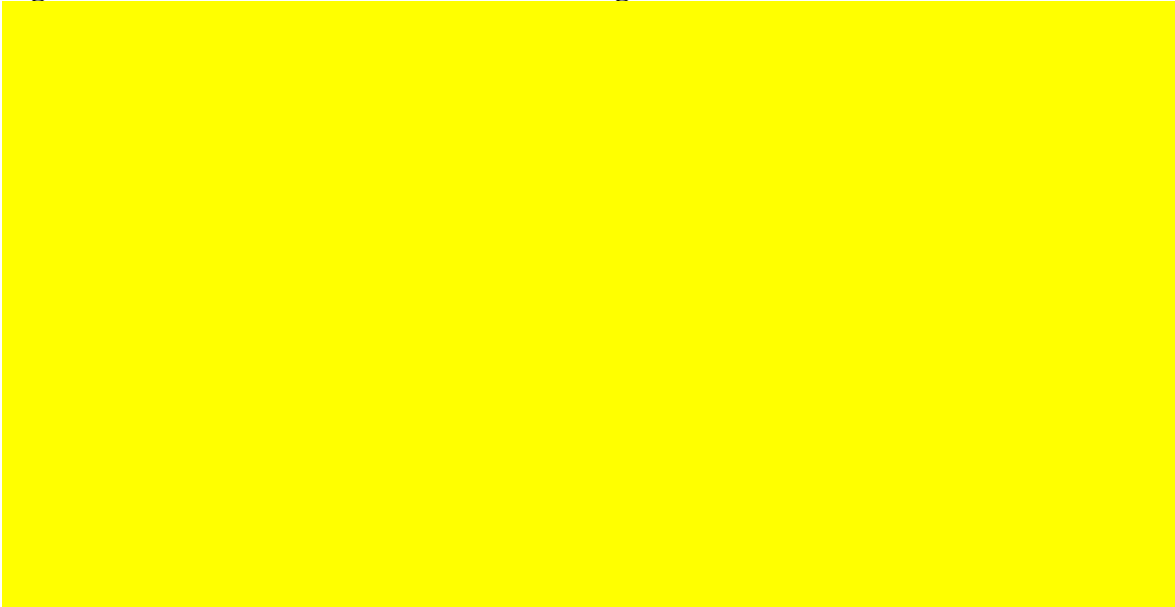
Other taxes levied by the corporation show a compound average growth trend of 12%

**Table no. 11.17**                      **Other Taxes (Rs. Lakh)**

<b>1997- 08</b>	<b>1998- 99</b>	<b>1999- 2000</b>	<b>2000- 01</b>	<b>2001- 02</b>	<b>2002- 03</b>	<b>2003- 04</b>	<b>2004- 05</b>	<b>2005- 06</b>
0.85	1.75	1.21	2.35	3.14	2.47	2.4	0.79	0.52

**An annual growth rate of 13% is expected in revenue from this source**

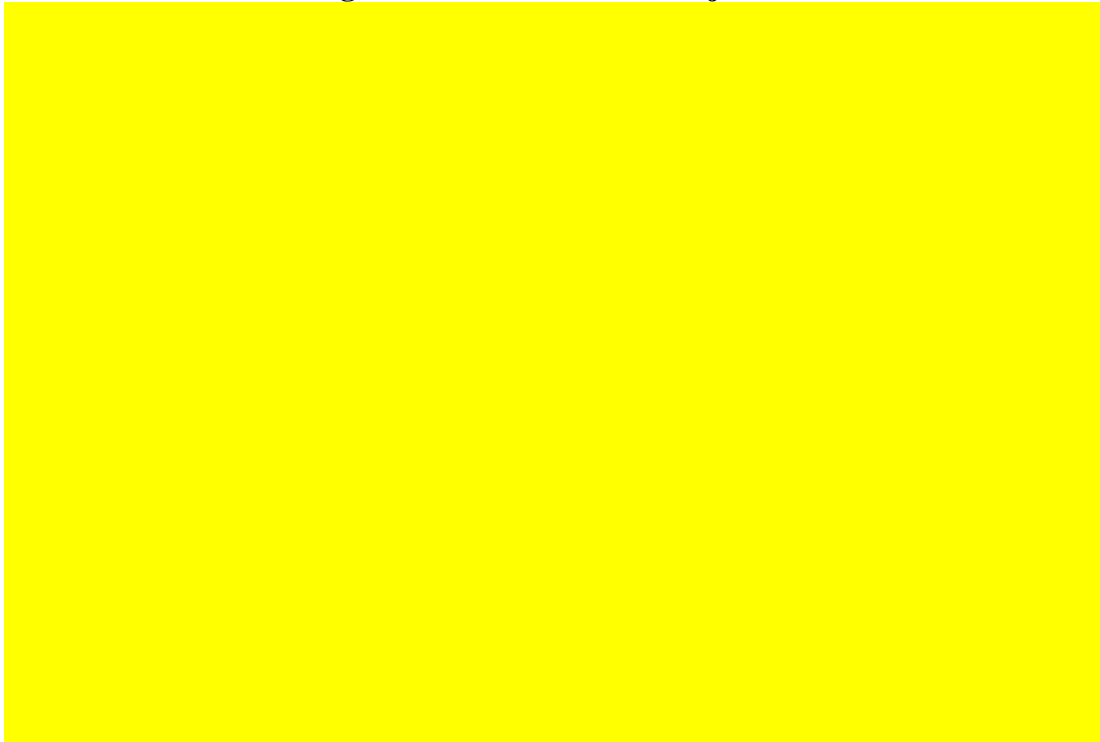
**Figure 11.13                      Other Taxes – Existing Trend**



**Table No. 11.18 Other Taxes - Projection**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Other Taxes	0.58	0.7	0.79	0.89	1.01	1.14	1.29	1.46	1.65	1.86	2.1	2.38	2.69	3.03	3.43

**Figure11.14 Other Taxes Projection**



**Receipts from Municipal properties**

Rent & other charges collected from the properties of K.M.C fall under this head. The properties include buildings, community halls, markets, slaughter houses, comfort stations, hospitals etc .A compound average growth rate of 31.5% is seen on reviewing the past figures. Many of the Municipal assets are being letout free of cost at present. Hence, it is expected that an average rate of increase of 40% can be achieved by exploiting the commercial potential of the assets, & by increasing the efficiency in collection, by charging usage fee for all properties, levying parking charges etc

Table no. 11.19 **Receipts from Municipal Properties- KMC (Rs.Lakh)**

	1997-08	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Receipts from Municipal properties	185.48	167.82	190.87	333.41	454.22	266.8	374.74	346.65	837

Figure 11.15 **Receipts from Municipal Properties - Trend**



Table No.11.20 **Receipts from Municipal Properties**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Receipts from Municipal properties	1097	2443	3420	4788	6704	9385	13139	18395	25753	36054	50475	70665	98931	138503	193905

Figure 11.16 **Receipts from Municipal Properties - Projection**

### **Municipal Fees**

K.M.C. is collecting license fee for trade, building construction, running lodges, construction of factories, installation of plants & machinery etc. Revenue shows an increasing trend at compound average growth rate of 30%. Revision of the rate of fees based on the income slab for D&O license will bring in additional revenue under this head. An average growth rate of 30% can be expected in the next 15 years.

Table no. 11.21 **Income from Municipal Fees - KMC (Rs.Lakh)**  
1997-

	08	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Municipal fees</b>	143.21	138.98	167.14	317.3	104.34	67.67	115.88	306.05	308.49

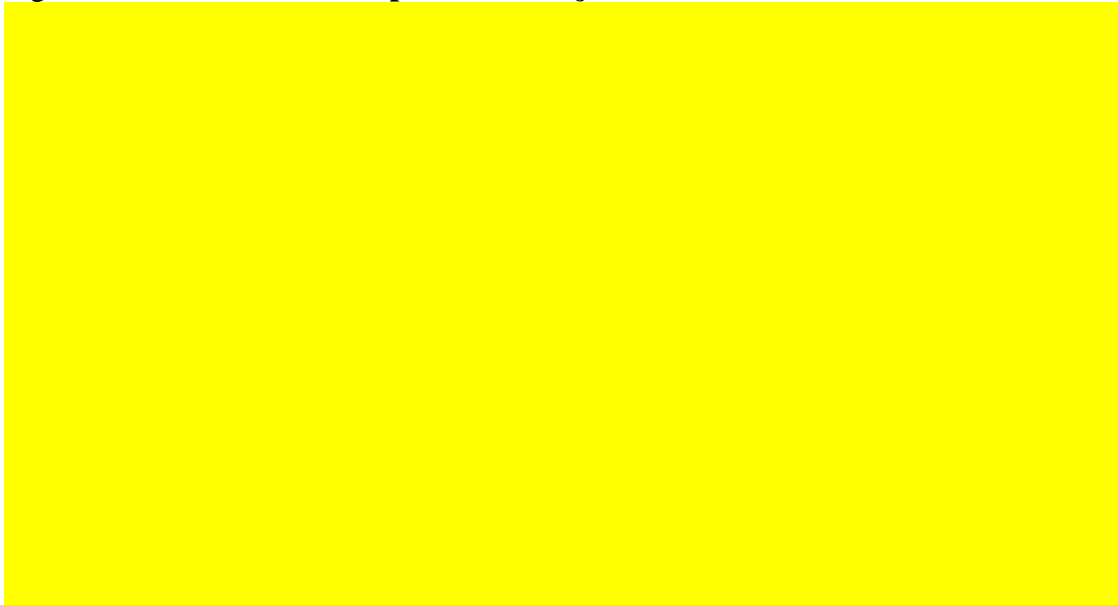
Figure 11.17

### **Income From Municipal Fees**

Table No.11.22 **Municipal Fees - Projection**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Municipal Fees	404	696	940	1268	1712	2312	3121	4213	5688	7679	10366	13994	18892	25504	34431

Figure 11.18 **Municipal Fees - Projection**



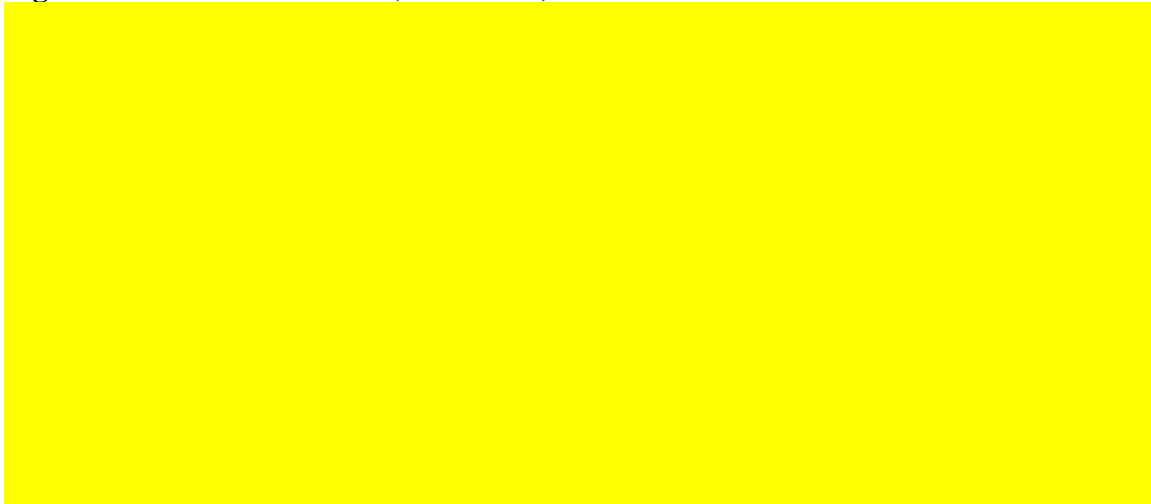
**Other non tax revenue** This includes fines, penalties etc levied by the local body. The review of the last 9 year period shows a compound average growth rate of 67.5%. Due to the increased compliance in collection expected in the coming years, decrease in penalties can be predicted. The average growth rate is kept lower at 50%

**Table no.11.23**

**Others (Non – Taxes)**

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Others (Non-Taxes)</b>	17.22	9.5	10.56	58.34	48.62	81.42	82.28	173.11	101.66

**Figure 11.19 Others (Non – Tax)**



**Table No.11.24 Others (Non – Taxes)**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Others (Non - Taxes)	170	235	353	529	793	1190	1785	2677	4015	6023	9034	13551	20327	30490	45736

**Figure 11.20 Others (Non- Taxes) Projection**



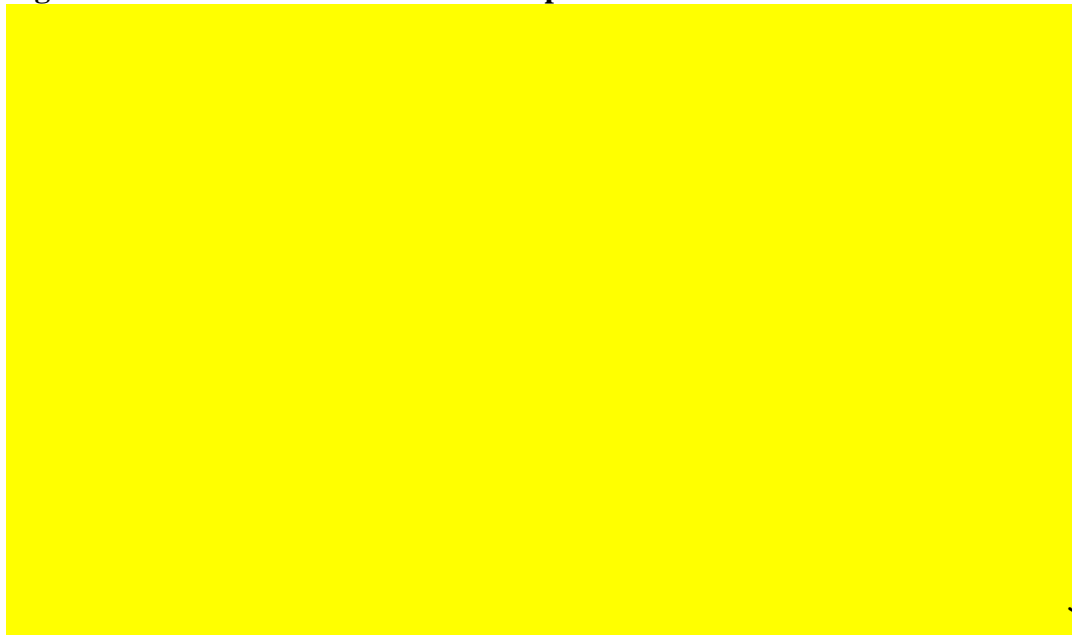
**Shared revenue** This comprises of transfers from state Government in the form of corporation's share of taxes levied & collected by the state govt from the establishments / operations within the corporation's limit. Surcharge on stamp duty & vehicle tax compensation are the major items under this head. The flow of assigned share has grown from 453.9 lakhs to 800 lakhs

**Government Grants** These consist of non plan grant for general & specific purposes, maintenance grants & grants for running institutions transferred from Government.

**Table No.11.25 Total Revenue Receipts**

1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2004-05	2005-06
2551	3518	3889	3268	4906	5388	5923	7260

**Figure 11.21 Revenue Receipts**



**Revenue Expenditure:**

Revenue expenditure of Corporation broadly classified under the following heads:

- a. General management and collection of taxes
- b. Public works
- c. Town planning
- d. Education
- e. Water supply and drainage
- f. Public health and sanitation

- g. Street lights
- h. Municipal properties
- i. Running expenses of transferred institutions
- j. Miscellaneous expenses.

Management & collection of taxes, public works and public health and sanitation hold substantial part of the revenue expenditure.

Figure 11.22 **Components of Revenue Expenditure**

Following figure shows the growth rate of revenue expenditure during the review period.

Table No.11.26

**Revenue Expenditure**

	1999-								
	1997-98	1998-99	2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure	1939	2119	2197	2976	3071	3489	5291	3276	3651

Figure 11.23

**Revenue Expenditure - KMC**

The compound average growth rate in revenue expenditure is below the growth rate of 16% in revenue income. Also it is much below the growth rate reported in own source revenue. Both of them are favourable indicators of expenditure management of KMC.

Table No. 11.27

**Management & Collection of Taxes**

	1997- 98	1998- 99	1999- 2000	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05	2005- 06
Management & Collection of Taxes	329	379	433	646	426	449	383	472	498

Figure 11.24

**Management and collection of taxes**

One of the major component of revenue expenditure, management and collection of taxes, reported compound average growth rate of 6.3% in the review period. Its share in the total expenditure was about 15. It can be seen that this component has shown increased and decreased trend during the review period. This indicates the potential of expenditure control on management and collection of taxes.

Salaries and pension account for a major share of the expenditure under the head, management and collection of taxes. The other items under this head includes rent of building, electricity charges of office, traveling allowance, water charges, printing & stationery etc.

**Public health and sanitation**

About 35% of the revenue expenditure of KMC was spent for public health and sanitation. Compound average growth rate of 8.8% can be observed on this component during the review period.

Table No. 11.28

	<b>Public Health</b>								
	<b>1999-</b>			<b>2001-</b>		<b>2003- 2004-</b>			
	<b>1997-98</b>	<b>1998-99</b>	<b>2000</b>	<b>2000-01</b>	<b>02</b>	<b>2002-03</b>	<b>04</b>	<b>05</b>	<b>2005-06</b>
Public Health	827	937	1087	1221	865	1052	1246	1353	1451

Figure below shows the flow of expenditure in this head.

Figure 11.25

**Public Health**

Salaries and allowances of contingent employees is the major item of expenditure in public health and sanitation. Salaries and allowances of health establishment, repairs and maintenance of vehicles used for sanitation, cost of medicine etc. also falls under this head. KMC can control the use of vehicles and thereby reduce related running expenses and maintenance cost.

**Public Works**

Public works takes 23.32% share in the total revenue expenditure during the review period. There was 29.5% compound average growth rate in this component.

Table No. 11.29

	<b>Public Works</b>								
	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Public works	250.17	240	229	638	595	631	519	508	851

Figure 11.26

**Public Works**

Salaries and allowances of engineering establishment and repairs and maintenance of roads, bridges, building etc. are the main expenditure under this head. There is a scope for reduction in repairs and maintenance by proper planning and cost study before making payment.

Table No.11.30 **Revenue Income, Revenue Expenditure & Surplus**

	<b>1997- 98</b>	<b>1998-99</b>	<b>2000- 01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003- 04</b>	<b>2004- 05</b>	<b>2005- 06</b>	
Revenue Income	2551	3518	3888	3268	4906	5388	7236	5923	7260
Revenue Expenditure	1939	2119	2197	2976	3071	3489	5291	3276	3651
Surplus	612	1399	1691	292	1835	1899	1945	2647	3609

**Figure 11.27**

**Revenue Account**

KMC has consistently maintained revenue surplus during the period from 1997-98 to 2005-06. Revenue surplus of KMC has increased from Rs. 1768 lakhs to Rs. 3609 lakhs during this period with compound average growth rate of 91.25%.

Table No.11.31

**Surplus**

	<b>1997-08</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Surplus	612	1399	1691	292	1835	1899	1945	2647	3609

Figure 11.28

**Revenue Surplus - KMC**

The steps taken by KMC for enhancing the revenue income and controlling the expenditure as discussed in the earlier paragraphs will boost the upward trend of revenue surplus of KMC in future.

Projected growth of revenue surplus of KMC for the next fifteen years is presented in following figure. KMC expects that its revenue surplus will grow at a compound rate of 91.25% in the projected period.

Table No. 11.32 **Revenue Surplus - Projection**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Revenue Surplus</b>	<b>7446</b>	<b>17460</b>	<b>21320</b>	<b>26171</b>	<b>32316</b>	<b>40152</b>	<b>50215</b>	<b>62945</b>	<b>80195</b>	<b>101963</b>	<b>134303</b>	<b>171585</b>	<b>224198</b>	<b>295102</b>	<b>391237</b>

Figure 11.29 **Revenue Surplus - Projection**

Item wise compound average growth rate of revenue income for the review period and projected period is displayed in the following table.

Table No.11.33 **Revenue Receipts - Projection**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Total Revenue Receipts</b>	<b>11825</b>	<b>22760</b>	<b>27795</b>	<b>34163</b>	<b>42276</b>	<b>52679</b>	<b>66106</b>	<b>83259</b>	<b>106344</b>	<b>135826</b>	<b>176397</b>	<b>229269</b>	<b>299971</b>	<b>394991</b>	<b>523317</b>

Figure 11.30

**Revenue Receipts Projection**

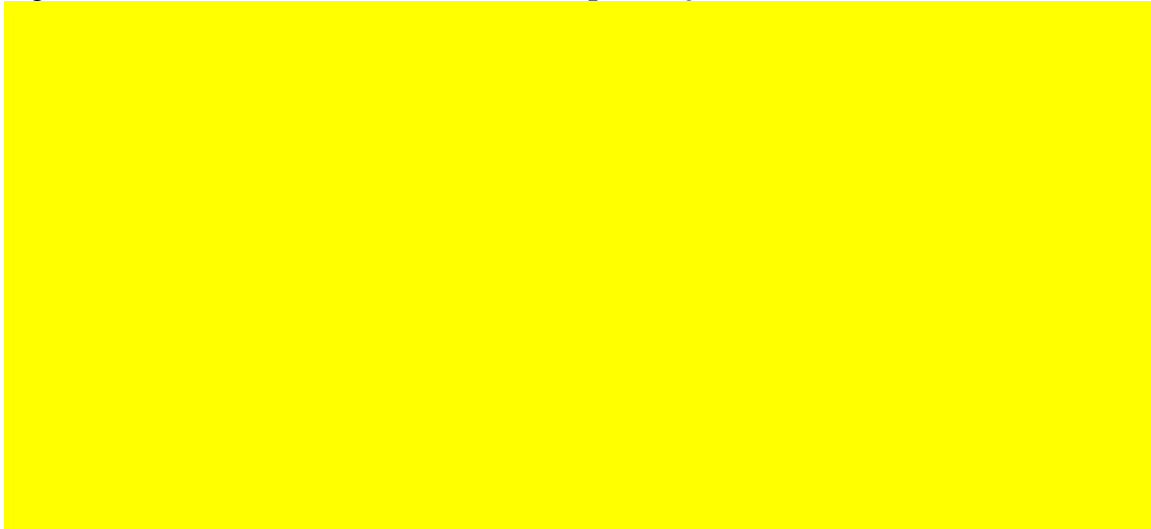


Table No. 11.34

**Revenue Receipts, Expenditure & Surplus**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Total Revenue Receipts</b>	<b>11825</b>	<b>22760</b>	<b>27795</b>	<b>34163</b>	<b>42276</b>	<b>52679</b>	<b>66106</b>	<b>83259</b>	<b>106344</b>	<b>135826</b>	<b>176397</b>	<b>229269</b>	<b>299971</b>	<b>394991</b>	<b>523317</b>
Total Revenue Expenditure	4379	5300	6475	7992	9960	12527	15891	20314	26149	33863	42094	57684	75773	99889	132080
<b>Revenue Surplus</b>	<b>7446</b>	<b>17460</b>	<b>21320</b>	<b>26171</b>	<b>32316</b>	<b>40152</b>	<b>50215</b>	<b>62945</b>	<b>80195</b>	<b>101963</b>	<b>134303</b>	<b>171585</b>	<b>224198</b>	<b>295102</b>	<b>391237</b>

Figure 11.31

**Revenue Receipts, Expenditure & Surplus**

Table No.11.35 Growth rate of Revenue Income (Trend)

Sl. No.	Item	Review Period	Projected Period
1	Property Tax	14.5%	15.5%
2	Profession Tax	21%	23%
3	Entertainment Tax	1.63%	5%
4	Advertisement Tax	32.92%	33%
5	Receipts from Municipal Properties	31.05%	40%
6	Municipal Fees	31%	35%
7	Other Income – Taxes	12%	13%
8	Other Income – Non Taxes	67%	50%
9	Government Grant –	29.5%	30%

The compound average growth of advertisement tax and profession tax were high compared to growth rate of other revenue.

Income by way of penalty and fines will reduce in the projected period due to the expected increase in the compliance in payment of taxes. This will result reduction in growth rate of other non tax income in the projected period.

### **Capital Account**

The capital account deals with the non-recurring receipts and payments of the corporation. The corporation had capital surplus in 1997-98 and 2001-02, capital deficit in 1998-99, 1999-00, 2000-01, 2002-03, 2003-04 and 2004-05. The deficit in capital account was met by the revenue surplus for that year and accumulated revenue and capital surplus.

### **Capital Receipts**

Capital receipts come mainly in the form of grants released by Government for implementation of specific schemes and projects.

A compound average of 31% growth can be observed in the release of fund from Government to KMC for plan schemes.

### **Capital Expenditure**

The corporation classifies capital expenditure in the following heads:

- a. Management
- b. Municipal development
- c. Education

- d. Water works and drainage
- e. Public health
- f. Street lighting
- g. Endowment
- h. Poverty eradication
- i. Kerala development project
- j. Transferred institutions

### **Debt Account**

Debt account includes receipt and payment of deposits and advances, collection and payment of library cess, pension and PF allotment from Government, contribution paid to pension and PF etc.

### **Key financial indicators**

The review of the financial status and performance of KMC has generated certain key financial indicators on resource mobilization and expenditure management.

Following table provides performance of various key financial indicators of KMC during the review period along with comparison with certain desirable bench marks.

Table No.11.36 Assessment of the Financial Position of KMC

Particulars	Average in the review period	Bench mark	Remarks
Operating Ratio	0.64	Less than 1.00	Favourable
Own Source Revenue to Total Revenue Expenditure	96%	More than 50%	Favourable
Capital Utilization Ratio	2.8	1	Satisfactory
Debt Service Ratio	0.00	Less than 25%	Favourable
Share of Own Source in Total Revenue	63%	More than 50%	Favourable
Management Expenditure as percentage of Total Revenue Income	10%	Less than 25%	Favourable

Own source to Government Grants (Revenue Account)	2.5	More than 1	Favourable
Current Property Tax Collection Performance	70%	More than 75%	Not satisfactory
Overall Property Tax Collection Performance	90%	More than 95%	Satisfactory

Operating ratio, ratio of revenue expenditure to revenue income, of KMC shows a favourable indication. Operating ratio of 0.64 indicates that KMC is able to set aside 39% of its revenue as surplus.

Also, KMC has 96% more of own source revenue than expenditure. KMC depends on own sources for its running expenses. It earns 2.5 times more revenue from its sources comparing to the support from the Govt.

KMC utilizes about 2.8 times of its capital receipts. Though there is variation from the benchmark, the total expenditure (Revenue + Capital) is only about 74% of the total income.

The debt service by KMC has no significant effect in the total revenue expenditure. Management expenditure of KMC comes to only 10% total revenue expenditure.

Collection performance of demand of property tax in the current year itself is only 70% and KMC has taken steps to enhance its collection efficiency.

### **Projection of finances**

Projected revenue account and CDP project account for the next fifteen years have been given. The projections have been made considering future plans of KMC discussed in the earlier paragraphs. The future trends are calculated based on past trend and expected increase in revenue caused by changes in the system and proposed remedial action for the weakness of KMC reported in past years.

All the above key financial indicators shows favourable sign of the financial strength of KMC. Availability of surplus fund in revenue account is projected.

### **Key issues and conclusions**

#### **Revenue and Capital account status**

Both revenue and capital account together has net surplus during the ten years under review. KMC has revenue surplus in all the years and it is increasing from year to year. Revenue surplus of 2005-06 was 6 times more than that of 1997-98. There was deficit

and surplus in capital account during the past ten years. However the net result in capital account during the ten years comes with surplus.

### **Revenue Realisation**

KMC is able to generate revenue from its own sources, without depending government grants, nearly to meet the total revenue expenditure. Own source revenue combined with the government grants gives surplus to revenue account. However there is potential for enhancement of revenue collection.

Areas, which require improvement:

➤ **Collection efficiency of tax: -**

There were redeployment of the entire staff for organizing ward level meetings, preparation of project plans and compilation of annual plans as stipulated in the guidelines issued by government under the decentralized planning process. The staff untrained to take up this task under the People's Planning Campaign and preparation of participatory plans was regularly trained for this purpose. In view of this, their services could not be effectively utilised for normal functions like collection of taxes, fees etc. Now the system of decentralized planning process has been regularized. KMC is now in a position to strengthen its regular functions. It is expected that with energized tax collection process KMC would be able to enhance the collection of its demanded tax.

➤ **Simplification of collection procedures:-**

The present system of collection of taxes is inconvenient to the tax payer. A few of the tax assessees are not remitting the tax due to this inconvenience. The proposed action of KMC to appoint banks and other agencies as tax collection agencies and introduction of self assessment system will take away the inconvenience of the tax payer.

➤ **Tax assessment system:-**

The present system of valuation and assessment of tax fails to identify the properties modified after original assessment and thereby shortage of demand is occurring. It is roughly estimated that around twenty thousand buildings have escaped assessment. The earlier Municipality Act envisaged revision of tax in every 5 years. Such a revision based on physical verification of building was carried out in 1988. At the next revision in 1993 due to various reasons the physical verifications could not be carried out and what is generally termed as 'table revisoin' was done with just 25% increase in the earlier assessment. Such a process helped a number of properties, which, had undergone area and structural change, escape taxation. It is hoped that with the present proposed revision in 2006 all the buildings within the city would be physically verified and assessed. It will substantially increase the tax demand.

➤ **Monitoring system**

At present, there is no monitoring system for making appropriate demand and collect the tax in time. KMC has taken steps to enhance the system by making persons responsible for the timely demand and collection. The computerization of the assessment system will support to make the demand of tax in time.

**Budgeting**

The present budgeting system of the Corporation does not achieve its desired targets. Data used for budgeting may not tally with actual results. At present, there is no system to study the variance of actual figures with budgets and take corrective action. Budget for receipts and payments for each fiscal year have to be prepared based on previous year actual results and anticipated events in the coming year. The results of the current year have to be compared with the budget figures. The shortcomings, if any, should be studied carefully and corrective action should be taken eventually. A separate expert team has to be set up to prepare budgets, compare actuals with budgets and suggest remedial actions.

**Bank and Treasury Accounts**

The present system of control on bank and treasury accounts is not sufficient to prevent the possible loss, if any, to the KMC by way of errors and mistakes. Timely reconciliation of bank and treasury accounts with books maintained by the Corporation will help to monitor the receipts and payments from the bank and treasury accounts. This will help to rectify errors and mistakes, which may occur in the bank and treasury accounts.

**Conclusion.** The analysis of the income and expenditure of the local bodies for the past 3 years under Revenue, (Taxes, rents, fees, fines etc. and grants) and expenditure (Salaries, wages, electricity charges, fuel charges, street lighting etc.) reveal that the expenditure is increasing considerably. Plan grants are utilized mainly for asset creating projects formulated by local bodies and approved by the State Planning Board / District Planning Committee. The non-plan grants are utilized for the maintenance of services of transferred Govt. Departments and for the payment of social pensions. In order to meet the long term financial strategy the revenue income of the Corporation needs to be substantially improved in comparison with the expenditure to have a cash balance of at least 30%. The measures to bring about this includes, Overall expenditure control, Private sector participation in projects & service delivery, Debt management and Maximization of equity and efficiency.