

Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL)

**Final Report**

Conversion of City Corporate Plan to Business Plan for  
Mettupalayam Municipality

**May 2007**



**ICRA Management Consulting Services Limited**

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**List of abbreviations**

<b>BOT</b>	Build –Operate –Transfer
<b>CAGR</b>	Cumulative Annual Growth Rate
<b>CIP</b>	Capital Investment Program
<b>CCP</b>	City Corporate Plan
<b>FOP</b>	Financial and Operating Plan
<b>GLR</b>	Ground Level Reservoir
<b>IMaCS</b>	ICRA Management Consulting Services
<b>LPCD</b>	Litres per capita per day
<b>MeM</b>	Mettupalayam municipality
<b>MSW</b>	Municipal Solid Waste
<b>OHT</b>	Over Head Tanks
<b>PPP</b>	Public Private Partnerships
<b>STP</b>	Sewerage Treatment Plant
<b>SWM</b>	Solid Waste Management
<b>TNUDF</b>	Tamil Nadu Urban Development Fund
<b>TNUDP</b>	Tamil Nadu Urban Development Program
<b>TNUIFSL</b>	Tamil Nadu Urban Infrastructure Financial Services Limited
<b>UGD</b>	Under Ground Drainage

## **Executive Summary**

The Tamil Nadu Urban Infrastructure Financial Services (TNUIFSL) mandated ICRA Management Consulting Services (IMaCS) for conversion of City Corporate Plan (CCP) of Mettupalayam Municipality (MEM) into a Business Plan. The CCP for Mettupalayam was prepared in 2002, under the Tamil Nadu Urban Development Project - II (TNUUDP-II) to develop vision, strategies and tasks to be carried out by MEM. Subsequently, MeM has prepared a Vision Plan, identifying various projects that it plans to undertake during 2004-09. The objective of this study is to enable effective implementation of projects envisaged in its CCP and Vision Plan through preparation of this report on conversion of the City Corporate Plan to a Business Plan.

### **City profile and growth potential**

Mettupalayam is an important trading hub and transit centre for hill products including potatoes, vegetables, fruits, arecanut, tea and coffee, which are grown in the Nilgiris. Thus the economic activities in Mettupalayam are predominantly related to trade and tertiary sector. The CCP observes that the growth of the town is mainly seen in the

Parameter	Details
Population (2001)	66487
Decadal Growth (1991-2001)	4.74%
No. of Wards	33
Sex Ratio	995
Literacy rate – 2001	74 %

southern and western directions and there is a need to plan adequate infrastructure to support this growth in an orderly manner. The municipal area of Mettupalayam was constituted as a Single Local Planning area in the master plan and no surrounding villages have been included. This has constrained the growth of the town and is reflected in the stagnating population growth in the last decade. Key recommendations in terms of strategy for economic development and effective land use as recommended in the CCP are highlighted below:

- There is a need to review land use and potential for expansion of urban limit through various steps including implementation of the proposed land use master plan and exploring potential for adding neighbouring areas under the municipal limits.
- Scope for promoting industrial development along the Coimbatore-Mettupalayam corridor should be explored. Given the Coimbatore is a thriving industrial base, creating adequate infrastructure along the Coimbatore-Mettupalayam corridor could support economic development of Mettupalayam.
- Potential for adding tourism related projects along the Mettupalayam - Coonoor corridor on the lines of the existing Black Thunder resort need to be examined.

### **Municipal Services - Status assessment, gaps and actions being taken**

Exhibit 1 presents a summary of service levels and status with respect to select indicators in Water Supply, Sanitation, Transportation, Street lights and Solid Waste Management.

### Exhibit 1 - Status of Municipal services

Sl. no	Parameter / Indicator	Value	Issues and Gaps
<b>A. Water Supply</b>			
1	Total Water Supply (MLD)	11	<ul style="list-style-type: none"> <li>• <b>Storage capacity</b> – The CCP points out the need for augmenting storage in the south and east zones where storage capacity is less than a third of water supplied</li> <li>• <b>Distribution bottlenecks / leakages</b> – Leakage in the distribution network estimated at 15% is another important issue and needs attention.</li> <li>• <b>Scope for adding connections</b> - Water connections account for only 48 % of properties</li> </ul>
2	Water Connections - nos.	~ 8200	
3	Public Fountains - nos.	~ 250	
4	Daily Per Capita Supply (LPCD)	100-110	
5	Storage Capacity / Daily Supply (%)	59 %	
6	Pipe length / Road Length (%)	100 %	
7	Water connections / properties (%)	48%	
<b>Actions required :</b>			
<ul style="list-style-type: none"> <li>• Need for renovation of pumping main</li> <li>• Addition of storage infrastructure in select areas of the town</li> </ul>			
<b>B. Sanitation</b>			
8	UGD network (Yes/No/Partial)	No	<ul style="list-style-type: none"> <li>• There is no comprehensive Sewage and waste water disposal system</li> <li>• Environmental degradation and pollution of Bhavani river due to flow of untreated sewage / waste water into the river</li> </ul>
9	Number of Public conveniences	48	
10	Length of Storm drains (km)	60	
11	Est. access to sanitation (%)	74%	
12	Storm Drains - % of road length	80%	
<b>Actions being taken:</b>			
<ul style="list-style-type: none"> <li>• Investigation and preparation of DPR for comprehensive UGD scheme for Mettupalayam being undertaken by TWAD currently</li> </ul>			
<b>C. Roads, Transportation and Street Lights</b>			
13	Total Length of Roads	75	<ul style="list-style-type: none"> <li>• 92% of the road network is surfaced</li> <li>• MeM recently undertook improvement under Special Roads project at an outlay of Rs. 272 lakh</li> </ul>
14	Total number of Street Lights	~ 2500	
15	BT + CC roads / Road length (%)	92%	
16	Road length per Street Light (m)	28	
<b>Actions being taken / required:</b>			
<ul style="list-style-type: none"> <li>• Upgradation of Coimbatore-Mettupalayam-Coonoor Highway along with bypass for Mettupalayam is required.</li> <li>• Bypass along with adding areas to Mettupalayam municipality could spur future growth of the town.</li> </ul>			
<b>D. Solid Waste Management</b>			
17	Total Waste Generation (MT)	30	<ul style="list-style-type: none"> <li>• Collection efficiency indicates scope for improvement</li> <li>• Source segregation yet to be implemented</li> <li>• Composting yard facilities need upgradation.</li> <li>• Solid waste management action plan under implementation</li> </ul>
18	Collection - % of waste generated	26	
19	Compost yard area -available	10	
20	Compost yard - required (Acres)	6.79	
21	No. of Vehicles for SWM	7	
22	Rated Tonnage of vehicles (MT)	22	
23	Compost Yard - Gap - Acres	3.21	
<b>Actions being taken:</b>			
<ul style="list-style-type: none"> <li>• SWM plan at Rs. 117 lakh outlay has been made. Privatisation of primary collection in 5 wards.</li> <li>• MeM has recently upgraded equipment including procurement of dumper placer and bins.</li> <li>• Aerobic composting at an outlay of Rs. 59 lakh envisaged.</li> </ul>			



## Analysis of financial performance

Exhibit 2 provides a summary of the financials of MeM, along with a) an analysis of the growth and b) change in composition of various revenue and expenditure heads.

### Exhibit 2 - Financial analysis

*Income and Expenditure figures in Rs. Lakh.*

Year	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	CAGR %
<b>INCOME</b>						
<b>Taxes</b>	<b>129</b>	<b>135</b>	<b>143</b>	<b>146</b>	<b>159</b>	<b>5%</b>
Property Tax	120	125	128	135	147	5%
Prof. Tax	9	10	15	11	12	6%
<b>User Charges / Fees</b>	<b>81</b>	<b>67</b>	<b>82</b>	<b>159</b>	<b>184</b>	<b>23%</b>
Water Charges	52	52	56	57	58	3%
Sewerage Charges	-	-	-			
Service Charges / Fees	29	15	26	35	29	0%
Other Income	133	155	57	67	97	-8%
<b>GRANTS /CONTRIBUTIONS</b>	<b>70</b>	<b>78</b>	<b>68</b>	<b>47</b>	<b>33</b>	<b>-17%</b>
<b>ASSIGNED REVENUE</b>	<b>100</b>	<b>21</b>	<b>81</b>	<b>85</b>	<b>25</b>	<b>-30%</b>
<b>TOTAL</b>	<b>513</b>	<b>456</b>	<b>431</b>	<b>437</b>	<b>400</b>	<b>-6%</b>
Prior Period Income (PPI)	6	-	-	-	-	
<b>TOTAL INCOME (incl.PPI)</b>	<b>518</b>	<b>456</b>	<b>431</b>	<b>437</b>	<b>400</b>	<b>-6%</b>
<b>EXPENDITURE</b>						
Salaries	220	214	231	209	208	-1%
Repairs & Maintenance	61	106	111	76	82	8%
Program Expenditure	0	13	3	1	-	
Admin	10	7	10	11	12	4%
Prior Period Expenditure	-	-	-	-	-	
<b>TOTAL OP. EXPENDITURE</b>	<b>291</b>	<b>340</b>	<b>356</b>	<b>296</b>	<b>302</b>	<b>1%</b>
<b>OP. SURPLUS</b>	<b>227</b>	<b>115</b>	<b>75</b>	<b>141</b>	<b>98</b>	<b>-19%</b>
Depreciation	153	136	111	98	-	
Finance Charges	56	23	2	0	5	-46%
<b>TOTAL EXPENDITURE</b>	<b>501</b>	<b>499</b>	<b>469</b>	<b>394</b>	<b>307</b>	<b>-12%</b>
<b>SURPLUS (After Dep and Interest)</b>	<b>17</b>	<b>-44</b>	<b>-38</b>	<b>43</b>	<b>93</b>	<b>53%</b>

Analysis based on accounts of FY 2001 to 2005 and other information obtained from MeM including DCB and Loan statements indicate that MeM faces significant financial burden due to stagnant revenue, declining operating surplus and a growing debt burden.

### Capital Investment Plan

We have compiled the felt needs of the city under various service areas, based on

- Review of projects recommended in the City Corporate Plan
- Status and progress on projects identified as part of the Vision Plan (2004-09)
- Consultations with stakeholders and discussion with officials



Exhibit 3 provides a summary of the CIP for MEM.

**Exhibit 3 Capital Investment Plan along with phasing - Short Term (2006-10 and 2011-15)**

Segment	Outlay as given in			Outlay reqd.* (2006-15)	Remarks on ongoing projects/Projects envisaged
	Vision Plan	CCP	SFC Felt Needs		
Roads, Bridges and Culverts	123	100	27	1000	<ul style="list-style-type: none"> <li>Outlay under special roads project - Rs. 272 lakh. Major road works are likely to be taken up only after UGD scheme implementation</li> </ul>
Storm Water Drains	85	120	33	200	<ul style="list-style-type: none"> <li>Based on CCP estimates and revision based on discussion with municipal officials</li> </ul>
Water Supply	30	75	16	300	<ul style="list-style-type: none"> <li>Based on modified estimates for projects identified by MeM including renovation of transmission main and distribution bottlenecks in select areas.</li> </ul>
Solid Waste Management	60	80	25	125	<ul style="list-style-type: none"> <li>Based on the proposals for SWM prepared by MeM. SWM Action plan outlines an outlay of Rs. 117 lakh</li> </ul>
Street Lights	11	24	1	25	<ul style="list-style-type: none"> <li>Based on identified projects as per Vision Plan</li> </ul>
Remunerative Enterprises	86		0	40	<ul style="list-style-type: none"> <li>Includes projects relating to slaughter house and markets.</li> </ul>
Education	78		8	32	<ul style="list-style-type: none"> <li>Based on existing proposal for renovating school building</li> </ul>
Sewerage and Sanitation	14	2000	0	2000	<ul style="list-style-type: none"> <li>Includes the proposed UGD scheme recommended in the CCP.</li> </ul>
Others	49		28	45	<ul style="list-style-type: none"> <li>Includes projects in the areas of graveyards, parks, health, slum development, noon meal centres and green town.</li> </ul>
<b>TOTAL</b>	<b>534</b>	<b>2399</b>	<b>138</b>	<b>3767</b>	

**Priority Projects**

Priority projects identified by MEM are listed below:

1. Proposed Underground Drainage Scheme
2. Transportation projects including a new railway level crossing/Road overbridge and a road connecting the town with the new scheme road in Shanthi Nagar and shifting of alignment of the existing level railway level crossing in Kattur.
3. New vegetable market in the periphery of the town

Apart from the above projects, council members stressed that the Highways department should taken up the proposed widening and expansion of the National Highway connecting Coimbatore-Mettupalayam-Ooty be taken up on priority, along with a bye-pass road for Mettupalayam, so that new developments including markets can be taken up along the alignment of the bypass road.



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## **Reform Agenda**

The report provides the details of reform agenda. MeM's ability to improve on its financial performance hinges primarily on its ability to sustain and improve on the revenue growth.

### ***ULB level***

MeM could potentially increase its own income to Rs. 400 lakh through focused interventions in the following areas:

1. **Property tax:** – through revision in ARV, widening assessee base and closer scrutiny.
2. **Professional tax** – sustaining a growth in assessments of 8% in the assessments through widening tax base among traders and self-employed professionals
3. **User charges** – MeM should target at least 12000 water connections. Implementation of UGD scheme structured partly on public deposits and user charges could also add to revenues and investment capacity. Implement graded tariffs / metered tariffs to improve revenue realisation and explore collecting connection deposits on instalment basis.
4. **PPP / remunerative projects** – MeM also needs to explore land development as a revenue enhancement mechanism and should focus on attracting private sector participation through appropriate BOT/ SPV structures for implementing remunerative projects. Development of vegetable market appears amenable to PPP and private investment.
5. **Energy costs** - A savings of 10-15% reduction in energy costs appears imminently achievable. A comprehensive energy audit is required in this regards.
6. **Collection Efficiencies** - While current collection efficiency in taxes have improved, arrears collection efficiency is an area of concern.
7. **NGOs / Corporate participation** - Intensify focus on attracting NGOs/advertising revenue for city beautification projects.

### ***Actions from GoTN and GoTN agencies***

1. Review of land use pattern to identify additional areas for development and exploring scope for bringing peripheral areas under the ambit of MeM.
2. Promote investments along the Coimbatore - Mettupalayam - Ooty corridor in industrial and tourism projects. Specifically, GoTN could consider the feasibility of developing an Industrial park or a food processing park near Mettupalayam on the Mettupalayam-Coimbatore corridor and Tourism projects such as resorts, amusement parks etc along the Mettupalayam Ooty corridor.
3. Revise ARV for property taxes, pending since 1998 at the earliest.
4. Develop model concessions / formats for involving Private sector in various areas including Solid waste, STP O&M, street light maintenance and remunerative projects
5. Incentivise energy conservation and implementation of SWM guidelines through specific grants
6. GoTN should continue its thrust on e-governance, accounting systems and capacity building/training. Specific actions on this have been identified in the report.

## FOP, borrowing capacity and investment capacity

The factor for concern for Mettupalayam municipality is that even after factoring a substantial improvements in revenues (detailed in section 6.5 for potential improvements), the debt servicing capacity of MeM is severely constrained by its outstanding loans of Rs. 12 crore as of FY 2005, which was approximately 2.7 times the revenue for FY 2005. Thus MeM is severely burdened with existing debt which constrains its capacity to take up major investments through loan financing. The borrowing capacity has been computed as the minimum of NPV of operating surplus, 30% of revenues during the projection period and works out to Rs. 433 lakh.

### Exhibit 6.10 – Summary of results of FOP

<b>Summary of FOP results</b>	
Revenues – FY 2006 (Rs. Lakh)	455
Revenues – FY 2015 (Rs. Lakh)	786
Revenue CAGR % - FY 2006-15	6.2%
Avg. Cash Operating Surplus	147
Avg. TE (excluding depreciation)/TR (%)	77%
Average Debt Servicing/TR (%)	28%
<b>Borrowing Capacity as a minimum of NPV of</b>	
NPV of 50% of Cash Surplus (without new loans)	433
NPV of 30% of Revenue	1,219
<b>Borrowing Capacity</b>	<b>433</b>
Investment Capacity	865
Investment Requirement	3,767
IC/ IR	<b>23%</b>

As can be seen, the sustainable investment capacity of ULB is negligible, even with potential improvements. MeM's existing loans constrain its investment capacity and there is need for some radical measures to bail out this ULB in the form of grants and reduction in interest on loans. Further given its spatial constraints for growth, the scope for growth through adding nearby areas also may need to be explored for the long-term sustainability of the municipality's finances.

# 1. Introduction

## 1.1 Background to the study

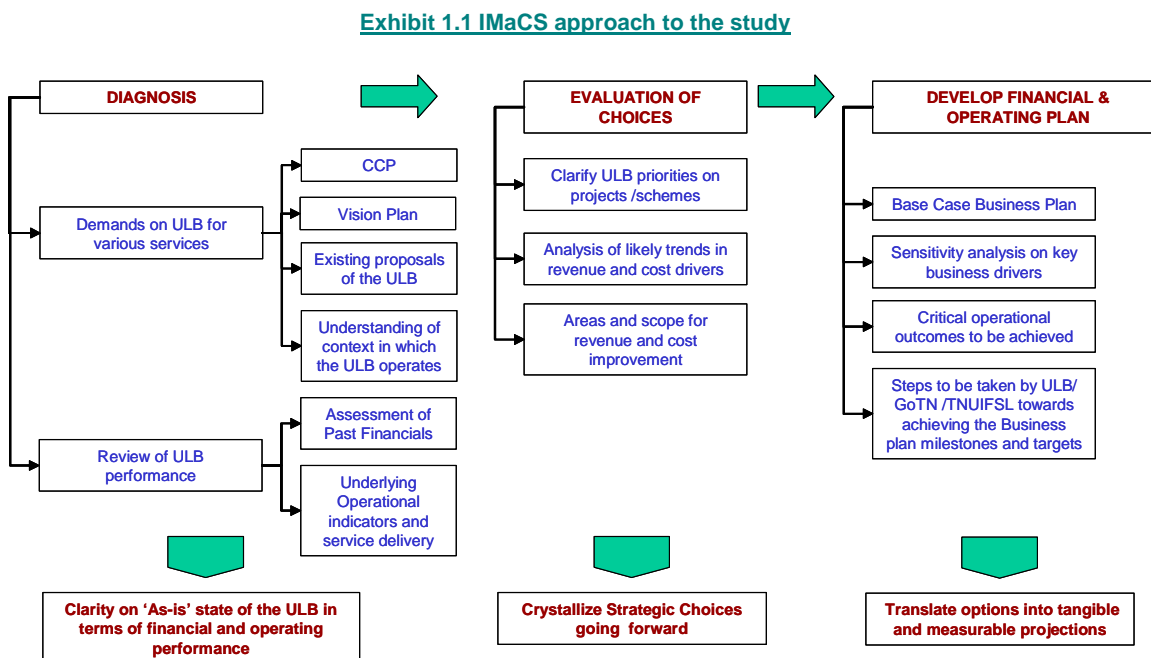
Mettupalayam municipality (MeM) was upgraded as a selection grade municipality in 1998 and has an area of 7.20 sq. km under its limits. Under the Tamil Nadu Urban Development Project - II (TNUDP-II), a City Corporate Plan (CCP) was prepared for MeM in 2004. The objective of the CCP was to outline a vision for development of the city and to identify strategies and tasks to be carried out by MeM. Subsequently, MeM has also developed a 5-year Vision Plan (2004-09), identifying projects that it plans to undertake during this period. In order to enable effective implementation of projects envisaged in its CCP and Vision Plan, the Tamil Nadu Urban Infrastructure Financial Services (TNUIFS) mandated ICRA Management Consulting Services (IMaCS) for conversion of City Corporate Plan (CCP) into a Business Plan (BP).

## 1.2 Scope of work

The scope of work for the study covered a) assessment of the financial and operating aspects of MeM, b) Review issues relating to revenue realisation and cost management and identification of improvement (revenue enhancement and cost reduction) measures and c) Development of a Financial and Operating Plan (FOP), taking into account potential revenue enhancement and cost reduction measures.

## 1.3 IMaCS approach to the study

Exhibit 1.1 gives a snapshot of IMaCS' approach to the study. IMaCS's approach to the study involved three steps as detailed below:



### **1.3.1 Step I – Diagnostic review**

The diagnostic review involved an assessment of the current status of MeM, its activities and financial performance, review of the City Corporate Plan (CCP) and discussions with TNUIFSL and MeM. We had the opportunity to interact with the Commissioner and had extensive interactions with officials and select ward members of the municipality during our field visits.

We collected relevant information on the performance (operational and financial) from MeM. Our review was focused on the following areas:

- Financial position
- Operational performance
- Demands on urban services in the town/municipality

The diagnostic review was directed towards achieving a clear understanding of the operating and financial performance of MeM.

### **1.3.2 Step II – Evaluation of options for financial improvement and projects**

Based on the diagnostic review, we crystallised the options for MeM covering a) analysis of potential for revenue enhancement and cost management and b) Felt needs in terms of projects and estimate of capital outlay.

### **1.3.3 Step III – Projection of financial statements and estimation of investment and borrowing capacity**

We have projected financial statements for MeM under two scenarios namely, a) base case and b) with potential improvements. Under both scenarios, the optimum borrowing capacity and sustainable investment capacity have been computed.

### **1.3.4 Step IV - Consultations and Finalisation**

The Draft Final Report for the study was presented to the office of CMA, officials of MeM and TNUIFSL in April 2006.

Subsequently, the report was presented to the Council in March 2007 during which inputs from the stakeholders were solicited and obtained. The same has been factored while finalising this report.

#### **1.4 Structure of the report**

This report presents our findings and recommendations from the study and is organised as follows:

- **Section 1** Introduction
- **Section 2** Mettupalayam - a brief profile
- **Section 3** Review of operating performance
- **Section 4** Analysis of financial performance
- **Section 5** Potential areas for improvement
- **Section 6** Business plan and investment capacity of MeM

## 2. Mettupalayam - a brief profile

### 2.1 Location and connectivity

Mettupalayam town is located at the foot of the Nilgiris range of hills and is situated at an altitude of 304.8 m above Mean Sea Level. Mettupalayam falls on the Coimbatore-Udhagamandalam route and is located at a distance of 36 km and 46 km from Coimbatore and Udhagamandalam respectively. Mettupalayam is linked to Udhagamandalam and Coonoor through a narrow gauge railway line and is also connected to these two cities and Coimbatore through State Highways.

### 2.2 Social and demographic characteristics

**Mettupalayam with a total land area of 7.20 sq. km had a population of 66,487 in 2001.**

The population of Mettupalayam was 66,487 in 2001, implying a growth of 4.74 % over the population of 63,479 in 1991. Population density has increased from 8817 persons per sq.km in 1991 to 9235 persons per sq.km in 2001. Exhibit 2.2 below shows that the population growth has slowed down during the last few decades. The population increase in the 70s and 80s is attributed to the development of industrial activities in Coimbatore and the agricultural activities in Nilgiris. The CCP observes that lack of adequate industrial growth and employment opportunities, apart from inadequate provision for expansion of the town have been the key reasons for decline in population growth.

**Exhibit 2.1 Population trend**

Year	Population		Growth rate in %	
	Population	Variation	Decade	Annual
1951	27516	-	-	-
1961	30,496	2,980	32.64	1.08
1971	48,365	17,869	32.52	5.86
1981	59,537	11,172	23.10	2.36
1991	63,479	3,942	6.62	0.66
2001	66,487	3,008	4.74	0.47

Source: CCP, Census of India

Mettupalayam has recorded a literacy rate of 74 % in 2001 with a female literacy rate of 68%.Mettupalayam also had a balanced sex ratio of 995 females per 1000 males in 2001, up from 961 in 1991.

Though there has been a substantial decline in the population growth, the population density has increased over the last few decades. Population density in Mettupalayam was 9235 persons per sq.km in 2001 and ranged from 55380 persons per sq.km in ward 29 to 2472 persons per sq.km in ward 2. Out of the 33 wards, 15 wards exhibit lower population density (less than 15000 persons per sq.km) indicating scope for additional growth. The growth is expected to be in the south-west part of the town.

## **2.3 Economic Development**

### **2.3.1 Composition of workforce**

The working population comprises 37 % of the total population with a majority of them engaged in tertiary activities. 64 % of the work force is engaged in tertiary activities. Nearly 23 % of the work force is engaged in secondary sector and about 13% of the workforce is engaged in primary sector, mainly in tea plantations and agricultural activities.

### **2.3.2 Economic development**

Mettupalayam is an important trading hub and transit centre for hill products including potatoes, vegetables, fruits, arecanut, tea and coffee, which are grown in the Nilgiris. Thus the economic activities in Mettupalayam are predominantly related to trade and tertiary sector.

#### ***Industrial activity***

Mettupalayam's industrial developments are mainly along the railway line and also along the Bhavani river. While there are also a few industrial activities along Sirumugai road and Ooty road, there are no large scale industrial units within Mettupalayam other than the United Bleacher Company and a few sawmills.

#### ***Commercial activity***

Vegetable trade forms the most important commercial activity in the town. An estimated 4,000 to 4,500 hectares is under potato cultivation in the Nilgiris. The vegetable market in Mettupalayam is particularly known for trading in 'Ooty potato' which is considered to have better taste and bigger in size compared to the other varieties. Every day, 100 to 110 loads of potato (each load being 10 tons) arrive at Mettupalayam. Apart from this, Mettupalayam also acts as a transshipment hub for other hill vegetables like carrot and cabbage.

The commercial activities of Mettupalayam town are mainly concentrated in and around the Old Municipal office area, which lies at the intersection of Ooty road and Sirumugai road. Major commercial developments are mainly concentrated along the major arterial roads including Ooty road, Bungalamadu road, Annur road, which occupy 9% of the developed area in the town. The CCP highlights the need for better market and warehousing facilities including truck terminal to support the commercial development in the town in view of its position as an aggregation centre for agricultural /horticultural products.

### **2.3.3 Land use**

The administrative boundaries of Mettupalayam extends for an area of 7.2 sq.km of which 3.56 sq.km area has been classified under urban use and the remaining under non-urban uses as agriculture. The

municipal area of Mettupalayam was constituted as a Single Local Planning area in the master plan and no surrounding villages have been included. This has constrained the growth of the town.

Land use details of Mettupalayam as prepared in 1991 and as proposed in 2001 are given in exhibit 2.2 below. It can be observed that residential activity accounts for a large portion of the land-use. The master plan of 2001 proposes increase in residential land use by conversion of agricultural land to support the likely growth in the town.

**Exhibit 2.2 Land-use in Mettupalayam**

Sl. No	Type	1991		2001	
		Area (hect)	% of total	Area (hect)	% of total
1	Residential	247	34	396	55.0
2	Commercial	31	4	38	5.2
3	Industrial	15	2	10	1.4
4	Educational	14	2	24	3.4
5	Public and semi-public	47	7	35	4.9
6	Agriculture	366	51	170	23.6
7	Green Belt			47	6.5
	<b>Total</b>	<b>720</b>	<b>100</b>	<b>720</b>	<b>100</b>

Though, Mettupalayam is a hub of wholesale trade in agricultural produce from its rural hinterland, commercial activities account for only 5.2 % of the land use pattern in 2001. The commercial use is mainly concentrated around the old municipal office area and the market areas are concentrated around three areas namely

- Central business area - around the bus stand
- Central shopping area - Ooty road
- Highway service and shopping centre - Karamadai road, Annur road and Sirumugai road

The CCP observes that the growth of the town is mainly seen in the southern and western directions and there is a need to plan adequate infrastructure to support this growth in an orderly manner. There is also a need to protect the environs by creating a green belt around river Bhavani, which is currently facing degradation due to pollution. Key recommendations in terms of strategy for economic development and effective land use are highlighted below:

- There is a need to review land use and potential for expansion of urban limit through various steps including implementation of the proposed land use master plan and exploring potential for adding neighbouring areas under the municipal limits.
- Scope for promoting industrial development along the Coimbatore-Mettupalayam corridor should be explored. Given the Coimbatore is a thriving industrial base, creating adequate infrastructure along the Coimbatore-Mettupalayam corridor could support economic development of Mettupalayam.
- Potential for adding tourism related projects along the Mettupalayam - Coonoor corridor on the lines of the existing Black Thunder resort need to be examined.



### 3. Review of operating performance

This section presents a review of the status of infrastructure development in Mettupalayam municipality.

#### 3.1 Water Supply

##### 3.1.1 Supply source

Mettupalayam is provided with protected water supply from river Bhavani. The headworks are located at Thekkampatti village. Details of water supply schemes are given in Exhibit 3.1.

**Exhibit 3.1 Water supply sources**

	Old scheme	Combined scheme	New scheme
Source	Bhavani river		
Location of Head works	Thekkampatti village		
Distance from the City	2.5 km		
Year of Installation of water works	1948	1963	2001
Transmission Type	Pumping	Pumping	Pumping
Collection	Suction well / Channel	Suction well	Suction well / Channel
Quantity (MLD)	1	4.9	6
Hours of pumping	11	23	15
Discharge (LPM)	1513	3987	6672

About 11 MLD of water is pumped to serve Mettupalayam and other wayside villages. Apart from the above schemes, water supply is augmented through ground water supply through bore wells and open wells. There are more than 90 bore wells and 4 open wells supplying approximately 0.193 MD.

##### 3.1.2 Transmission and distribution

Mettupalayam has a transmission line of about 10.339 km from the three sources to the treatment facilities consisting of filter beds and sedimentation tanks. At present nearly 11.9 MLD of water is distributed through 4 OHTs and 1 GLR at various locations in the municipality. The CCP indicates the water supply is adequate to serve the needs of the existing population but highlights the need for augmenting storage capacity in the South and East zones of the municipality. The total length of distribution main is about 70 km.

##### 3.1.3 Level of access

As of March 2005, Mettupalayam had 8149 water connections and 251 public fountains. Supply ranges from 100-110 LPCD. In terms of population coverage, the individual service connections cover close to 50 % of the total population through organised water supply system. The public fountains and bore wells cover more than 30 % of the population. Thus, nearly 80 % of population

have access to organised water supply. Exhibit 3.2 provides a snapshot of service levels of water supply in Mettupalayam town.

**Exhibit 3.2 Water Supply – Service level**

	Actual	Norm
Per Capita Supply (LPCD)	110	90
Leakage / Losses (% of supply)	30	5-10
Net per capita supply (LPCD)	80	90
Distribution coverage (% of road length)	100	100
Water connections (Nos)	8149	
Coverage (% of properties assessed)	45%	
Public stand posts (Nos)	251	

Source: SFC questionnaire, IMaCS analysis

### 3.1.4 Key issues

Some of the key issues with respect to water supply are highlighted below:

- **Storage capacity** - The CCP points out the need for augmenting storage in the south and east zones of the municipality where storage capacity is less than a third of water supplied
- **Distribution bottlenecks / Leakage** – While the existing distribution network covers the entire town, the CCP observes that there are heavy losses in the distribution network, estimated at more than 15%. The CCP highlights the need for a comprehensive leak detection program.
- **Scope for adding water connections** – Water connections account for only 45 % of the number of properties assessed and indicate the scope for adding more connections.

### 3.1.5 Plans

Plans outlined in MeM's Vision Plan with respect to water supply are detailed below

- OHT at Sankar nagar/Augmenting distribution main : Rs. 14 lakh
- Construction of Underground sump at KK Nagar OHT : Rs. 8 lakh
- Replacement of motors : Rs. 5 lakh
- Other Improvements to head works : Rs. 3.5 lakh
- **Total : Rs. 30.5 lakh**

## 3.2 Sanitation

**Absence of a comprehensive UGD scheme and lack of adequate access to sanitation facilities is causing environmental degradation and pollution of Bhavani river**

Mettupalayam does not have an organised underground drainage system. The CCP observes that nearly 56 % of the households have septic tanks and 14 % have access to low cost sanitation. At present, Mettupalayam has 48 public conveniences, which covers only about 6 % of the population and are inadequate especially near tourist attractions and in low-income areas. It is estimated that more than 24% of the population do not have access to protected sanitation facilities, leading to

pollution and environmental hazards. The absence of an UGD scheme has led to pollution of Bhavani river due to disposal of untreated sewage and wastewater through open drains. Exhibit 3.3 provides details of the sanitation system available to households in MeM.

**Exhibit 3.3 Sanitation facilities – coverage of population**

	<b>% of households</b>
Septic tanks	56
Low cost sanitation	15
Dry latrines	-
Public conveniences/ISP	6
Total	77
% of households without access	23

Source: CCP

Storm water drains are provided in approximately 80 % of the total road length within MeM limits.

### 3.3 Solid Waste Management

Mettupalayam generates nearly 30 MT of solid waste per day, while collection is estimated about 26 MT per day (implying nearly 86 % collection). Exhibit 3.4 gives the current status of solid waste generation and management system of MeM.

**Exhibit 3.4 Solid Waste Management - current status**

Generation / day	30 MT
Collection / day	26 MT
<b>No. of Vehicles used</b>	
Push carts	32
Lorries	3
Mini Lorries/tractors etc.	3
Door-step Collection in	All 33 wards
No. of wards in which door – to – door collection has been privatised	5 wards

MeM has **privatised garbage collection in 5 wards** and is contemplating user charges for door-to-door collection. MeM had prepared a comprehensive plan for Solid Waste management involving an overall outlay of Rs. 117 lakh. As part of its initial efforts, MeM is currently in the process of procuring equipment / vehicles (at an outlay of Rs. 52 lakh) covering

- a) Purchase of push carts ~ Rs. 10 lakh
- b) Purchase of 2 dumper placers and 40 bins ~ Rs. 42 lakh

MeM has a compost yard of 10 acres and aerobic composition is being planned. MeM envisages an outlay of Rs. 59 lakh for improving its compost yard.

### 3.4 Roads

Exhibit 3.5 provides details of the road network under the jurisdiction of MeM.

**Exhibit 3.5 Road network**

Type	Municipal Roads	
	km	%
Cement Concrete pavement	18.408	27%
BT. Roads	44.531	65%
W.B.M roads	5.640	8%
<b>Total</b>	<b>68.579</b>	<b>100.00</b>

MeM maintains a road network of 68.58 km of which surfaced roads (both B.T. and CC) constitute 92 %. In addition, about 6 km of state highway road traverses the MeM area. During 2005-06, MeM plans to undertake road upgradation works in about 23 km of roads at an outlay of Rs. 2.72 crore under the Special Roads scheme.

### 3.5 Street lights

Exhibit 3.6 provides details of streetlight infrastructure in Mettupalayam. Nearly 80 % of the lights are tube lights and 20 % are sodium vapour lamps. Tube lights are provided in interior streets, while sodium vapour lamps are provided at the major roads and junctions. The average length of road per street light works out to 28 m as against the municipal norm of 30 m.

**Exhibit 3.6 Existing Street Lighting Facilities**

	Total	
	No	%
Tube lights	1941	80%
Sodium Vapor Lamps	471	20%
Mercury Vapor Lamps	0	-
High Mast lamps	1	-
<b>Total</b>	<b>2413</b>	<b>100.0%</b>

### 3.6 Bus stand

Mettupalayam has an A grade bus stand with 51 bus bays and 47 shops. The bus stand provides a range of facilities to the commuters including restaurants, vehicle parking, toilets, cloak room and high mast lights. The Vision Plan highlights the need for better seating and drainage facilities in the bus stand. A proposal for constructing shops in the bus stand complex (estimated outlay Rs. 43 lakh) has been kept in abeyance in view of the weak financial condition of the municipality.

### **3.7 Capital Investment Plan**

We have compiled the felt needs of the city under various service areas, based on

- Review of projects recommended in the City Corporate Plan prepared earlier under TNUDP - II
- Status and progress on projects identified as part of the Vision Plan (2004-09) prepared by MeM
- Consultations with Council Members
- Discussion with MeM officials

Exhibit 3.7 provides a brief snapshot of the Capital Investment needs of MeM over the next ten years for various services and the estimated outlay for implementing these projects. As MeM already has an outstanding loan of more than Rs. 12 crore, municipal officials mentioned that there is no plan for undertaking any major projects in the immediate future, except the proposed Underground Drainage Scheme.

**Exhibit 3.7 MeM - Felt needs (2006-15) (Rs. Lakh)**

Segment	Outlay as given in			Outlay reqd.* (2006-15)	Remarks on ongoing projects/Projects envisaged
	Vision Plan	CCP	SFC Felt Needs		
Roads, Bridges and Culverts	123	100	27	1000	<ul style="list-style-type: none"> <li>Outlay under special roads project - Rs. 272 lakh. Major road works are likely to be taken up only after UGD scheme implementation</li> </ul>
Storm Water Drains	85	120	33	200	<ul style="list-style-type: none"> <li>Based on CCP estimates and revision based on discussion with municipal officials</li> </ul>
Water Supply	30	75	16	300	<ul style="list-style-type: none"> <li>Based on modified estimates for projects identified by MeM including renovation of transmission main and distribution bottlenecks in select areas.</li> </ul>
Solid Waste Management	60	80	25	125	<ul style="list-style-type: none"> <li>Based on the proposals for SWM prepared by MeM. SWM Action plan outlines an outlay of Rs. 117 lakh</li> </ul>
Street Lights	11	24	1	25	<ul style="list-style-type: none"> <li>Based on identified projects as per Vision Plan</li> </ul>
Remunerative Enterprises	86		0	40	<ul style="list-style-type: none"> <li>Includes projects relating to slaughter house and markets.</li> </ul>
Education	78		8	32	<ul style="list-style-type: none"> <li>Based on existing proposal for renovating school building</li> </ul>
Sewerage and Sanitation	14	2000	0	2000	<ul style="list-style-type: none"> <li>Includes the proposed UGD scheme recommended in the CCP.</li> </ul>
Others	49		28	45	<ul style="list-style-type: none"> <li>Includes projects in the areas of graveyards, parks, health, slum development, noon meal centres and green town.</li> </ul>
<b>TOTAL</b>	<b>534</b>	<b>2399</b>	<b>138</b>	<b>3767</b>	

\* Based on review of Capital Investment Plan along with municipal officials and Council members

### 3.8 Priority projects

Comments of Council on some of the specific priority projects identified by MeM are outlined below:

4. **Proposed Underground Drainage Scheme** – TWAD has initiated investigation for implementation of UGD scheme in Mettupalayam. Council members have expressed concerns on the implementation issues. They mentioned that the ongoing investigation and DPR preparation should include extensive public consultations and discussion with municipal council before finalisation. They also wanted the detailed implementation plan (in terms of location of STP, phasing of the project, timeframe and cost for completion along with milestones) to be discussed and agreed up prior to commencement of the project with the council and the ULB officials.
5. **Transportation projects** - Members spoke about the specific transportation problems in the town and requested that initiatives with respect to railway crossing were needed on priority. Members stressed that there was need for a new railway level crossing/Road overbridge and a road connecting the town with the new scheme road in Shanthi Nagar. The other project was to shift the alignment of the existing level railway level crossing in Kattur so that the road geometry was improved to facilitate better traffic movement.
6. **New market in the periphery of the town** - In view of the town serving as an aggregation centre for vegetables like potatoes, there was need for better infrastructure for markets and cold storage. They mentioned that market areas were in the centre of the town causing congestion and needed to be shifted to the periphery for alleviating this. However, since there wasn't enough land available for development and shifting of markets on the periphery within municipal limits there were no initiatives possible in this regard. They mentioned that addition of nearby areas would facilitate such developments. The land identified for shifting of the markets falls outside the municipal area and hence the municipality is not keen to undertake this project due to possible decline in revenue for MeM. Therefore, this project has not been taken as part of the capital investment plan for the municipality.

Apart from the above projects, council members stressed that the Highways department should taken up the proposed widening and expansion of the National Highway connecting Coimbatore-Mettupalayam-Ooty be taken up on priority, along with a bye-pass road for Mettupalayam, so that new developments including markets can be taken up along the alignment of the bypass road.

## 4. Analysis of financial performance

This section provides a summary analysis of the financial performance of MeM.

### 4.1 Income and Expenditure summary

Exhibit 4.1 provides a summary of the income and expenditure of MeM.

**Exhibit 4.1 Income and Expenditure of MeM - Last five years**

Year	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	CAGR %
<b>INCOME</b>						
<b>Taxes</b>	<b>129</b>	<b>135</b>	<b>143</b>	<b>147</b>	<b>148</b>	<b>3%</b>
Property Tax	120	125	128	138	138	4%
Prof. Tax	9	10	15	10	10	2%
<b>User Charges / Fees</b>	<b>81</b>	<b>67</b>	<b>82</b>	<b>70</b>	<b>70</b>	<b>-3%</b>
Water Charges	52	52	56	44	44	-4%
Sewerage Charges	-	-	-	-	-	
Service Charges / Fees	29	15	26	26	26	-3%
Other Income	133	155	57	57	57	-19%
<b>GRANTS /CONTRIBUTIONS</b>	<b>70</b>	<b>78</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>-1%</b>
<b>ASSIGNED REVENUE</b>	<b>100</b>	<b>21</b>	<b>81</b>	<b>81</b>	<b>81</b>	<b>-5%</b>
<b>TOTAL</b>	<b>513</b>	<b>456</b>	<b>431</b>	<b>423</b>	<b>424</b>	<b>-5%</b>
Prior Period Income (PPI)	6	-	-	-	-	-100%
<b>TOTAL INCOME (incl.PPI)</b>	<b>518</b>	<b>456</b>	<b>431</b>	<b>423</b>	<b>424</b>	<b>-5%</b>
<b>EXPENDITURE</b>						
Salaries	220	214	231	231	231	1%
Repairs & Maintenance	61	106	111	111	111	16%
Program Expenditure	0	13	3	3	3	306%
Admin	10	7	10	10	10	-1%
Prior Period Expenditure	-	-	-	-	-	
<b>TOTAL OP. EXPENDITURE</b>	<b>291</b>	<b>340</b>	<b>356</b>	<b>356</b>	<b>356</b>	<b>5%</b>
<b>OP. SURPLUS</b>	<b>227</b>	<b>115</b>	<b>75</b>	<b>67</b>	<b>68</b>	<b>-26%</b>
Depreciation	153	136	111	111	111	-8%
Finance Charges	56	23	2	23	23	-20%
<b>TOTAL EXPENDITURE</b>	<b>501</b>	<b>499</b>	<b>469</b>	<b>490</b>	<b>490</b>	<b>-1%</b>
<b>SURPLUS (After Dep and Interest)</b>	<b>17</b>	<b>(44)</b>	<b>(38)</b>	<b>(67)</b>	<b>(66)</b>	

### 4.2 Revenue streams of ULB in Tamil Nadu

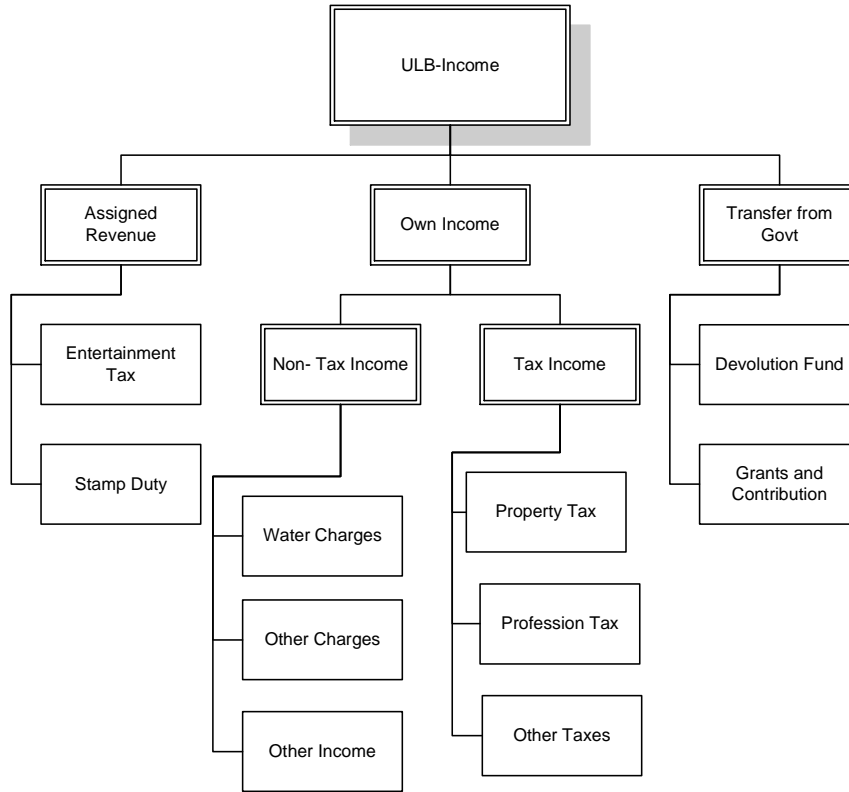
Revenue of ULBs in Tamil Nadu can be categorised along three areas:

- **Own Revenue** - comprising taxes (property tax and professional tax), user charges (water, sewerage, solid waste etc.) and other non-tax income (lease and rents, sale & hire charges etc)
- **Assigned Revenue** - Income generated revenues shared with the ULB
- **Grants and Contributions** - Grants and transfers made by GoTN



Exhibit 4.2 provides a detailed classification of the revenue streams.

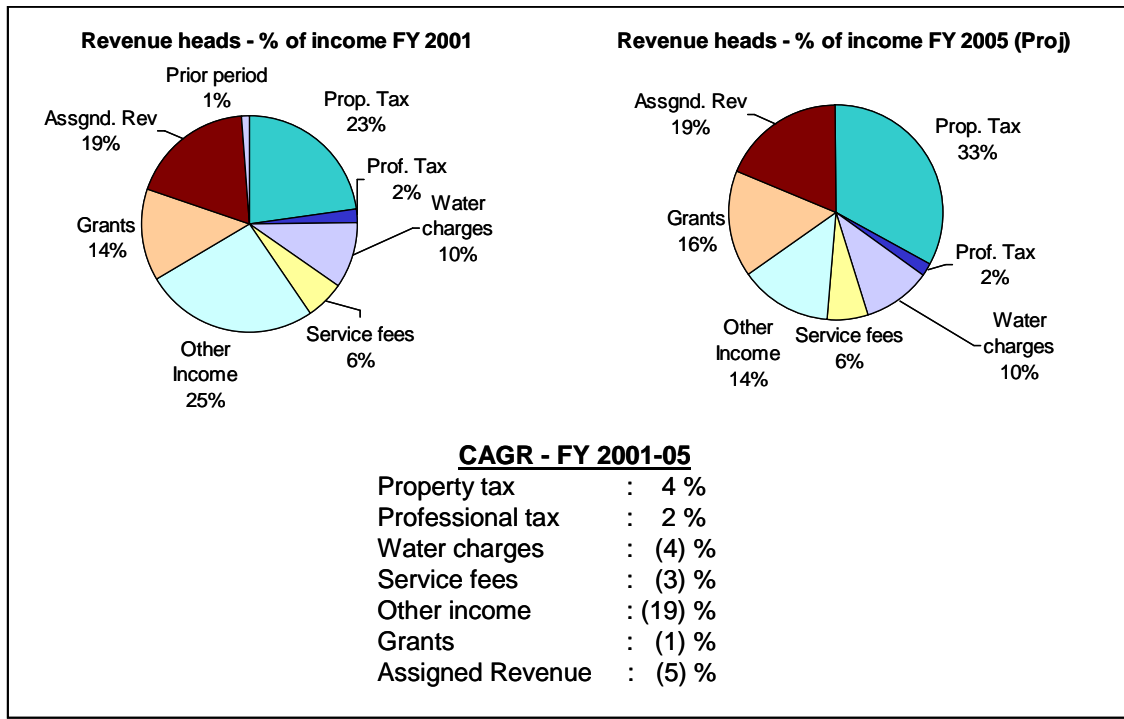
**Exhibit 4.2 Revenue streams - ULBs in Tamil Nadu**



**4.3 Revenues**

Exhibit 4.3 provides details of revenue of MeM along various heads in FY 2001 and FY 2005.

**Exhibit 4.3 Analysis of Revenues**



**4.3.1 Tax Income**

Tax income has grown at a CAGR of 3 % over the last five years aided by a 4 % growth in Property tax and 2 % growth in Profession Tax. Overall share of tax revenue has increased from 25 % of income to 35 % of income.

**Property Tax**

Property tax alone accounted for more than 33% of the income of MeM in FY 2005 and is an important contributor of revenues to MeM. Exhibit 4.4 provides a summary.

**Exhibit 4.4 Property tax - analysis of key revenue drivers**

Year	Collection Efficiency			Properties		
	Arrears	Current	Total	Numbers	Tax/property	Growth %
2000-01	20%	90%	79%	14741	873	NA
2001-02	29%	91%	78%	15225	883	3%
2002-03	27%	93%	78%	15743	888	3%
2003-04	49%	96%	87%	16369	840	4%
2004-05	13%	96%	85%	16789	822	3%

Following are the key issues in property tax:

- a) **Decline in average tax per property** – While the number of properties assessed has grown at a CAGR of 3%, the average tax per assessment has declined from Rs. 873 to Rs. 822. **The quinquennial revision of Annual Rental Value (ARV) due in 2003 has not been undertaken as of date.**
- b) **Collection efficiency** - Current collection efficiency has been high at more than 95% during the last five years, leading to an overall collection efficiency of 85%. However, there is a need to improve on the arrear collection efficiency.
- c) **Break-up of assesses** - Residential segment contributes 86% of the total assessments and 59% of the total property tax demand. Exhibit 4.5 below gives the detailed break-up of assesses

**Exhibit 4.5 Property Tax - breakup of assessees**

Category of Property	Number of Assessments	%	Annual Tax Demand (Rs. lakh)	%
Residential	13815	76.3%	5119	78.0%
Commercial	2778	15.3%	788	12.0%
Industrial	142	0.8%	428	6.5%
State Government Properties	48	0.3%	227	3.5%
Exempted Properties	1319	7.3%	-	-
<b>Total</b>	<b>18102</b>	<b>100.0%</b>	<b>6562</b>	<b>100.0%</b>

### **Professional tax**

Exhibit 4.6 provides an analysis of key drivers for professional tax revenue.

**Exhibit 4.6 Professional Tax - revenue drivers**

Year	Collection Efficiency			Assesses		
	Arrears	Current	Total	Nos	Demand/ Assessee	Total
2000-01	70%	89%	85%	2050	466	NA
2001-02	49%	80%	74%	2123	414	4%
2002-03	73%	93%	90%	2245	436	6%
2003-04	93%	99%	98%	2355	405	5%
2004-05	78%	98%	96%	2431	392	3%

- a) **Share of professional tax in total income** has remained at 2 %.
- b) **Demand per assessment** has increased from Rs. 2050 in FY 2001 to Rs. 2431 in FY 2005
- c) **Collection efficiency** has been high at about 96%.
- d) **Composition of professional tax assessments** - Exhibit 4.7 below shows the composition of assessments. Government employees account from just 12% of the assessees and contribute to nearly 78% of the total demand. There is a need to widen tax base among the other categories.

**Exhibit 4.7 Professional Tax – assessee break up**

Category	Number of Assessments	%	Annual Tax demand	%
State/Central/Quasi Govt. Employees	1400	59%	501	50%
Traders	900	38%	422	42%
Self-employed professionals	55	2%	86	8%
<b>Total</b>	<b>2355</b>	<b>100%</b>	<b>1009</b>	<b>100%</b>

**4.3.2 User Charges / Fees**

User charges have shown a negative growth. Share of user charges in total income has remained at about 16% of total income.

**Water charges**

Exhibit 4.8 provides an analysis of key drivers for water charges.

**Exhibit 4.8 Water charges - revenue drivers**

Year	Collection Efficiency			Connections		
	Arrears	Current	Total	Numbers	Charges/ connection	Growth rate
2000-01	74%	69%	70%	7150	582	NA
2001-02	86%	84%	85%	7394	583	3%
2002-03	44%	84%	76%	7626	528	3%
2003-04	60%	89%	83%	7815	565	2%
2004-05	47%	86%	79%	8097	549	4%

- a) **No. of connections** - There has been an increase in the number of connections from 7150 in FY 2001 to 8097 connections in FY 2005. Water connections account for less than 50 % of properties assessed, indicating scope for increasing the number of connections.
- b) **Water tariff / connection** has decreased marginally from about Rs. 582 per year per connection to Rs.549 per connection in FY 2005.
- c) **Collection efficiency** - Current collection efficiencies have ranged from a low of 70% (FY 2001) to a high of 85 % (FY 2002) and have not shown a linear trend. Arrears collection efficiency has been even more volatile and has ranged between 44% and 86%. The overall collection efficiency of 79 % should be improved upon.

**Exhibit 4.9 Water charges - category wise connections and tariff**

Connections	Metered	Un-metered	Total	%	Billing system
Domestic	7199	380	7579	93%	Meter / Flat rate
Commercial	515	0	515	6%	Meter Reading
Industrial	55	0	55	1%	Meter Reading
Total	7769	380	8149	100%	
<b>Metering %</b>	<b>95.3%</b>	<b>4.7%</b>	<b>100%</b>		

Connection Type	Flat rate	Per KL
Domestic	Minimum Rs30/-PM	Rs 3.00/-
Commercial	Minimum Rs60/-PM	Rs 6.00/-
Industrial	Minimum Rs90/-PM	Rs 9.00/-

### 4.3.3 Assigned Revenue

The contribution of this source to total income revealed a mixed trend. Overall the share decreased from 19.2% in 2000-01 to 18.7% in 2002-03. The assigned revenue is little below Rs 100 lakh in 2000-01 whereas in 2002-03 the corresponding value for the same is approximately Rs 80.7 lakh.

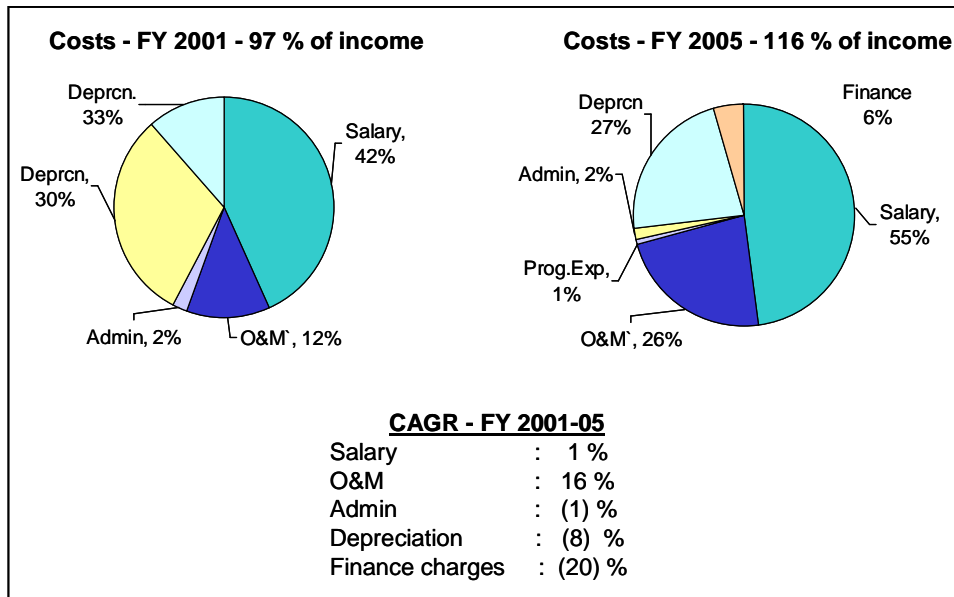
### 4.3.4 Grants/Contributions

Devolution fund is another major source of income for a municipality. Though in absolute terms it declined from Rs 70.34 lakhs in FY2001 to Rs 67.63 lakhs in FY2003, its share in total income increased from 13.6% in FY2001 to 15.7% in FY2003. This is also due to relatively greater decline in sources of income other than devolution fund.

## 4.4 Analysis of Costs

Exhibit 4.10 provides details of costs of MeM along various heads in FY 2001 and FY 2005.

**Exhibit 4.10 Costs (as a % of income – FY 2001 and FY 2005)**



#### 4.4.1 Salary and wages

Salaries account for the highest expenditure in a municipality. The proportion of this component in total expenditure has remained well above 42% for all the years (2000-01 to 2002-03). Salaries increased from about Rs 220 lakhs in FY01 to Rs 231 lakhs in FY03. Its share in total expenditure has also increased 43.9% in FY01 to 49.3% in FY03. Exhibit 4.11 gives the details of segment wise salaries for FY 2001 to FY 2003.

**Exhibit 4.11 Segment wise salary expenditure**

	2000-01	2001-02	2002-03
General Administration	18%	16%	18%
Water Supply	12%	12%	11%
Public Health	63%	67%	65%
Public Works	4%	3%	3%
Street Lighting	2%	1%	2%
<b>Total Salaries</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### 4.4.2 Operations and Maintenance

Operating and maintenance form the other major component of expenditure. Operating expenses almost doubled from Rs 61 lakh in 2000-01 to Rs 112 lakh in 2002-03, translating to a CAGR of more than 35 % during the period. Exhibit 4.12 provides a sector wise break-up

**Exhibit 4.12 Repair and maintenance expenditure - Sector wise break up**

Item	2000-01	%	2001-02	%	2002-03	%
Roads	6.21	10.2%	7.7	7.2%	15.23	13.7%
Water & Sewerage	31.76	52.1%	82.17	77.2%	68.27	61.3%
Street Lights	19.34	31.7%	15.68	14.7%	24.79	22.3%
Others	3.66	6.0%	0.92	0.9%	3.11	2.8%
<b>Total</b>	<b>60.97</b>	<b>100.0%</b>	<b>106.47</b>	<b>100.0%</b>	<b>111.40</b>	<b>100.0%</b>

Water supply accounted for the major part of the operating expenses. It has shown a fluctuating trend during FY 2001-03. Expenditure on street lights account for the other major part of operating expenses.

#### **Power costs**

Total power charges increased from Rs. 19.8 lakh in 2000-01 to about Rs 38.9 lakh in 2004-05 and accounts for more than 60% of the O&M expenditure. Total non-power charges increased from Rs.12 lakh in 2000-01 to more than Rs 24 lakh in 2004-05. But the share of the same in the total O&M charges remained constant during the period. Exhibit 4.13 gives the details of power costs out of the total repair and maintenance expenditure relating to Water & Sewerage and Street lights.

**Exhibit 4.13 Share of Power cost**

Item	2001	%	2002	%	2003	%
<b>Water Supply</b>						
Power	27.08	85%	72.54	88%	63.57	93%
Non power	4.68	15%	9.63	12%	4.7	7%
<b>Total</b>	<b>31.76</b>	<b>100%</b>	<b>82.17</b>	<b>100%</b>	<b>68.27</b>	<b>100%</b>
<b>Street Lights</b>						
Power	13.26	69%	12.78	82%	23.89	96%
Non power	6.08	31%	2.9	18%	0.9	4%
<b>Total</b>	<b>19.34</b>	<b>100%</b>	<b>15.68</b>	<b>100%</b>	<b>24.79</b>	<b>100%</b>
<b>Overall Operating Expenses</b>						
Power	40.34	66%	85.32	80%	87.46	79%
Non power	20.63	34%	21.15	20%	23.94	21%
<b>Total</b>	<b>60.97</b>	<b>100%</b>	<b>106.47</b>	<b>100%</b>	<b>111.40</b>	<b>100%</b>

**Power costs accounted for 79 % of the total O&M expenditure in FY 2003**

#### 4.5 Trends in Capital Expenditure

Exhibit 4.14 gives details of capital expenditure by MeM over the last five years and estimated capital outlay to address the felt needs of MeM over the next ten years.

**Exhibit 4.14 Capital Expenditure - Last five years**

Segment	Actual				
	2000-01	2001-02	2002-03	2003-04	2004-05
Roads	134.96	22.81	39.31	9.23	28.27
Bridges and culverts			-	-	-
Storm water drains	28.07	23.22	12.39	14.99	11.92
Water supply					
Solid Waste Management			29.5		
Street lights	8.44	0.91			
Remunerative enterprises					
Education	5.88				
Sewerage and sanitation			21.44	0	3
Others	28.38	25.46	102.64	24.22	43.19
<b>Total</b>	<b>205.73</b>	<b>72.40</b>	<b>205.28</b>	<b>48.44</b>	<b>86.38</b>

#### 4.6 Loans and Finance charges

Exhibit 4.15 gives the details of outstanding loans of MeM for FY 2005. All the loans are on long-term basis. It appears that MeM faces significant financial burden. The outstanding loan of 1217 lakh appears very high in the context of declining revenue and lack of operating surplus. Highest amount of loan is taken for water supply. The municipality has not provided the figures for outstanding loans for the past five years.

**Exhibit 4.15 Loans outstanding (FY 2005)**

S.No	Lending Agency	Amount of Loan	Year of drawal	Interest Rate %	Repayment period (years)	Total loan repaid			Outstanding loan amount
						Principal	Interest	Total	
1	TNUDF	84.49	1995	14.0%	15	42.11	83.88	125.99	53.08
2	TUFIDCO	80.00	1982	9.75%	20	80.00	80.01	160.01	0.00
3	TUFIDCO (LCS)	23.78	1988	9.75%	25	12.28	23.32	35.60	16.67
4	TNUDF (Sp Roads)	102.58	2000	15.50%	20	5.58	12.78	18.36	151.71
5	Govt Loans	125.82	1998	NA	20	36.34	14.65	50.99	115.29
6	Water Supply	880.58	NA	NA	20	0.00	0.00	0.00	880.58
	<b>Total</b>	<b>1297.25</b>				<b>176.31</b>	<b>214.64</b>	<b>390.95</b>	<b>1217.33</b>

**To summarise,**

- a) Analysis of MeM's financials is constrained by non-availability of accounting statements for the last two financial years.
- b) However, analysis based on accounts of FY 2001 to 2003 and other information obtained from MeM including DCB and Loan statements indicate that MeM faces significant financial burden due to stagnant revenue, declining operating surplus and a growing debt burden.



## 5. Potential areas for improvement

### 5.1 Regional and local initiatives for economic growth

Economic growth potential in Mettupalayam has been limited due to lack of stimulus for adequate industrial / commercial activity beyond its intrinsic position as an aggregation centre for horticultural and agricultural produce from the Nilgiris. A comprehensive land use strategy, backed by a regional development plan is critical to spur economic growth in Mettupalayam and to improve the financial position of MeM.

Though Mettupalayam is located in the vicinity of Coimbatore, an important industrial cluster and Udhamandalam, an important tourist attraction, Mettupalayam has not been able to leverage this locational advantage to spur economic growth. MeM in particular has not been able to benefit from tourism related developments such as the Black Thunder resort, which are outside its municipal limits and hence do not directly contribute to revenues of MeM. Improving MeM's overall performance would involve a combination of **Regional initiatives** involving *investment promotion in industrial and tourism based projects* along the Coimbatore-Mettupalayam-Ooty corridors and **Local initiatives** with respect to a) *review of land use pattern to identify additional areas for development* and b) *exploring scope for bringing peripheral areas under the ambit of MeM*.

- 1. Promote investments along the Coimbatore - Mettupalayam - Ooty corridor in industrial and tourism projects. Specifically, GoTN could consider the feasibility of developing**
  - Industrial park or a food processing park near Mettupalayam on the Mettupalayam-Coimbatore corridor.
  - Tourism projects such as resorts, amusement parks etc along the Mettupalayam Ooty corridor.
- 2. Review land-use pattern and identify additional land area for commercial and residential development**

### 5.2 Initiatives for Environment protection

Mettupalayam does not have a comprehensive underground drainage system and sewerage / wastewater finds its way into the Bhavani river through open drains leading to pollution and environmental hazards.

- 3. MeM should undertake a feasibility study for developing a comprehensive solution for handling sewage / sullage water and to prevent pollution of the Bhavani river.**

### 5.3 Public private partnerships (PPP)

We understand that MeM has already privatised door-to-door solid waste collection in select wards. MeM should actively augment its own resources through use of PPPs. PPPs have been found to be very effective in addressing efficiency and asset management (through pre-defined service levels and accountability for operations and maintenance) aspects of infrastructure development.

4. CMA, GoTN should develop a **framework for PPP** including specific policies and guidelines.
5. MeM should develop its **proposed remunerative projects** namely, a) slaughter house, and b) municipal market development through public private partnerships.
6. MeM should actively encourage **corporate / NGO partnerships** for city beautification projects including bus stops, street lighting, parks
7. MeM should consider addition of more **pay-and-park zones** in the town
8. TNUIFSL should provide assistance covering **necessary capacity building (in terms of evaluating mechanisms - BOT, SPV etc) and financing for developing projects** through private sector participation.

### 5.4 Potential for revenue enhancement from existing sources of income

#### 5.4.1 Property Tax

While Mettupalayam has reasonably high collection efficiency, we believe that there is still scope for improvement. Exhibit 5.1 highlights the key issues and recommended interventions with respect to property tax. While a substantial improvement in property tax is contingent upon implementation of ARV revision (due in 2003), there are other interventions that would enable effective property tax realisation.

**Exhibit 5.1 Key issues and suggested measures**

Issues	Recommended Interventions	Agency
Revision of Annual rental Value (ARV) has fallen due in 2003. The revision is yet to be implemented.	<b>9. GOTN should implement the SFC recommendation of revision of property tax every three years, linked to inflation. This is will ensure gradual and stable increase, rather than the existing quinquennial revision.</b>	GoTN
In 1998 when the ARV scheme for assessing property tax was introduced, the old assesses were allowed to pay taxes based on capital value with marginal increase, leading to distortions and non-uniform rates.	<b>10. All assesses should be taxed on the same basis through a uniform and transparent approach to property tax assessment. Existing anomalies need to be removed at the earliest.</b>	GoTN / MeM

Issues	Recommended Interventions	Agency
<p>Survey of properties happens only when the ARV revision takes place.</p> <p>Apart from addition in properties without getting assessed, addition to area in existing properties or conversion of property from residential to commercial category also goes unnoticed leading to revenue loss</p>	<p>11. Initiate a one-time survey to prepare a comprehensive database of properties available with it with updated information on the area / type and property tax details</p> <p>12. Institutionalise a mechanism for conducting surprise checks on a sample basis in all the zones under the municipality on an ongoing basis and mandatory re-assessment of properties every five years.</p> <p>13. Streamline procedures for assessment/ approvals of new properties / expansion of existing properties to encourage self-disclosure of property development / modification</p> <p>14. Computerise and web-enable property tax assessment and billing processes</p> <p>15. Develop a GIS based system for effective data capture and monitoring</p>	MeM
<p>On an absolute basis, property tax arrears have shown an increasing trend.</p>	<p>16. Launch a focused drive on existing arrears</p> <p>17. Conduct one time settlement scheme for old arrears and incentivise payments through marginal rebates for arrears pending for more than 5 years.</p> <p>18. Work with GOTN to moot creation of a special tribunal for speedy disposal of properties under litigation</p> <p>19. Make provisions for the debtors and take steps for writing off bad debts</p>	GoTN/MeM
<p>While Property tax is payable on a semi-annual basis, no interest /penal charges are levied on late payment.</p>	<p>20. Implement Payment Due Date along with a 90 day grace period during which payments would involve a nominal interest payment.</p> <p>21. Payments beyond the grace period should include a steep penal charge to encourage payments on time.</p>	GoTN/MeM
<p>Tax Dispute cases where the assessee approaches legal recourse without paying any tax.</p>	<p>22. In case of disputed property tax, the assessee should first pay the tax under protest as in the case of excise or customs and then take the necessary legal recourse. The Act should be modified in such a way that no legal recourse should be available to the assessee without paying the tax under protest.</p>	GoTN / MeM
<p>Blanket Exemptions to institutions reduce the property tax potential</p>	<p>23. Exemptions from tax should be provided only to needy institutions.</p> <p>24. All exemptions lead to a revenue loss to</p>	GoTN / MeM

Issues	Recommended Interventions	Agency
	the ULBs and should be compensated by GoTN.	

#### 5.4.2 Professional Tax

Professional tax income has grown at a CAGR of 4% over the last five years. Given that Mettupalayam is an important commercial centre, there appears to be scope for increasing professional tax income. Specifically,

- 25. MeM should focus on widening its professional tax base** by bringing more traders and independent professionals within the ambit of professional tax. Specifically, MeM should consider **tapping into databases of potential professional tax assesses** including
- **Professional associations** including Institute of Chartered Accountants of India (ICAI), the Bar Council, Medical Council etc.
  - **Commercial Taxes Department, GoTN** to get details of sales tax registrations (existing and new) within MeM.

#### 5.4.3 User charges

MeM has been fairly successful in progressively increasing user charges, as reflected in the increase in the average water charges per collection and could augment its revenues through focused interventions including the following.

- 26. Increase penetration of connections for water supply.** Currently water connections account for less than 50 % of the properties assessed. MeM should target achieving at least 12,000 connections over the next five years.
- 27. Provide water fountains only in areas with a predominantly low-income population to minimise revenue loss.**
- 28. Improve revenue per connection through implementation of either a graded water tariff scheme (as is being considered by CMA, GoTN) or a metering based tariff.** While the metering based system would a better system in principle (charges on the basis of usage) and in terms of incentivising water conservation, ULBs have faced resistance in implementation of metered tariffs. MeM should also consider judicious increase in water tariffs which appear to be lower than several ULBs in Tamil Nadu.
- 29. Consider implementing user charges for door-to-door collection** of Solid Waste.
- 30. Adopt measures to improve collection efficiency.** Overall collection efficiency in water charges is very low and needs to be improved. MeM should consider stiff penalties for non-payment of user charges. Specifically MeM should consider implementation of late payment fines and in case of extreme overdue situations, disconnecting supply.

## 5.5 Measures for cost management

### 5.5.1 Energy efficiency

MeM needs to take steps to address its power costs, which comprise nearly 60% of its operations and maintenance costs. The following steps are needed in this direction:

31. MeM should conduct a **comprehensive energy audit** to identify areas for reducing power consumption and related costs.
32. MeM should implement **automatic time based dimmers** on street light network and ensure that all **pumps / motors are energy efficient**.
33. MeM indicated that leakages in its distribution network are in the region of 10-15 %, as against a norm of 5%, which adds to overall cost of service delivery. A focused study is needed to assess the level of leakages and to recommend measures to minimise the same.
34. GoTN should also consider a **specific grant / capital subsidy scheme to incentivise energy conservation initiatives** for not just MeM, but for all ULBs.
35. **CMA, GoTN and TNUDF should develop and implement minimum standards related to energy conservation including installation of energy efficient motors, right sized pumps etc.**

## 5.6 Other measures / interventions

### 5.6.1 Accounting /Audit

While all ULBs in GoTN have implemented a double entry accounting system, most of the ULBs including MeM require significant improvement in their accounting practices. Several ULBs have redundant systems involving manual and computerised book keeping and errors often creep into MIS. Often, the MIS in the form of DCB statements and information provided in accounting statements are not reconciled. At the time of our field visits in February 2006, Mettupalayam municipality was yet to finalise audited accounts for FY 2004.

36. CMA, GoTN should consider an **outlay for technical assistance** to ULBs to **improve their accounting systems and practices** and to provide adequate training to staff on the concepts of double entry book keeping.
37. Property tax system has been computerised but the software for accounting developed seems to have some errors. TNUDF should take steps to eliminate these teething problems in the accounting software.
38. GoTN should issue an order for phasing out manual books like the property tax DCB registers as the same data is being maintained both manually and also in computer database.

39. The LFA should also be given training in auditing through computer so that the manual books can be avoided in future.
40. GoTN should **insist and implement closing of accounts and audit of the same within a fixed time period** subsequent to the completion of financial year. The government should continue to provide for the payment of common accountants and computer assistant to work in the ULB which it was providing till date. GoTN should also evaluate the option of employing a local CA firm to give guidance and training to ULB staff on a regular basis. CMA,
41. TNUDF should consider a grading system to categorise ULBs on the basis of accounting and reporting practices

## 6. Business plan and investment capacity

### 6.1 Financial and Operating Plan – time horizon and scenarios

The FOP has been prepared for a ten-year period i.e., FY 2006-2015 for 2 different scenarios as given below:

- **Scenario I** - Base projections
- **Scenario II** – Projections with ‘potential improvements’

The basis and assumptions underlying income and expenditure projections for the FOP are detailed in section 6.2

### 6.2 Basis and assumptions

#### 6.2.1 Revenues

##### Property tax

Property tax projections have been arrived at as a product of average tax per assessment and the number of properties assessed. Assumptions on these revenue drivers are given below:

- **Scenario I – Base case**
  - ❖ Assessments growth – 3.31% per annum (in line with the CAGR over the last five years), with a cap on the number of assessments at 20,000 properties. The base number of assessments has been taken as 16789 properties.
  - ❖ Average tax per property - Rs. 822 per property assessed, in line with the average tax per property collected in FY 2005.
  - ❖ Arrears collection efficiency - 49 % for FY 2006 (maximum during FY 2001-05) in FY 2004 and assumed to increase by 2 % every year (51% in FY 2007 and so on)
  - ❖ Current collection efficiency - 90 % for FY 2006 and assumed to increase by 1 % every year (91% in FY 2007)
- **Scenario II – with improvements**
  - ❖ Assessments growth – 8% per annum, with a cap on the number of assessments at 20,000 properties.
  - ❖ Average tax per property - Rs. 822 per property assessed in FY 2006 with a one-time upward revision of 25% in FY 2007
  - ❖ Collection efficiency are kept at the same levels as Scenario I

##### *Profession tax*

Profession tax has been arrived at as a product of average tax per assessee and the number of assessments. Assumptions on these revenue drivers are given below:

- **Scenario I –Base case**
  - ❖ Assessments growth – 2.68 % per annum (assumed as the CAGR over the last five years is very low), with a cap on the number of assessments at 3000. The base number of assessments has been taken as 2431 assessments.
  - ❖ Average tax per assessment - Rs. 392 per assessment, in line with the average in FY 2005. No revision has been assumed for the base case.
  - ❖ Arrears collection efficiency – 93% for FY 2006 (maximum during FY 2001-05) in FY 2004 and assumed to increase by 1 % every year (94% in FY 2007 and so on)
  - ❖ Current collection efficiency –99 % for FY 2006 (maximum during FY 2001-05) in FY 2004.
- **Scenario II – with improvements**
  - ❖ Assessments growth – 5 % per annum (in line with the CAGR over the last five years), with a cap on the number of assessments at 3000.
  - ❖ Average tax per assessment - Rs. 392 per assessment, in line with the average in FY 2005.
  - ❖ Collection efficiency are kept at the same levels as Scenario I

#### **Water Charges**

Water charges have been arrived at as a product of average water charges per connection and the number of connections.

- **Scenario I –Base case**
  - ❖ Assessments growth – 3.16 % per annum (assumed as the CAGR over the last five years is very low), with a cap on the number of assessments at 10,000. The base number of assessments has been taken as 8097 assessments.
  - ❖ Average tax per assessment - Rs. 549 per assessment, in line with the average in FY 2005. No revision has been assumed for the base case.
  - ❖ Arrears collection efficiency – 86% for FY 2006 (maximum during FY 2001-05) in FY 2002 and assumed to increase by 1 % every year (87% in FY 2007 and so on)
  - ❖ Current collection efficiency –89 % for FY 2006 (maximum during FY 2001-05) in FY 2004 and assumed to increase by 1% every year (90% in FY 2007 and so on).
- **Scenario II – with improvements**
  - ❖ Assessments growth – 5 % per annum (in line with the CAGR over the last five years), with a cap on the number of assessments at 10,000.
  - ❖ Average tax per assessment - Rs. 549 per assessment, in line with the average in FY 2005, with a tariff increase of 5% every three years.
  - ❖ Collection efficiency are kept at the same levels as Scenario I

#### **Other income**

The assumptions made in case of other income is summarised in the table below:



### Exhibit 6.1 Assumptions for other income

Item	Base Amount (in Lakhs)	Growth (CAGR %)	Assumptions
Service Charges & Fees	25.92	Negative Growth	CAGR of 4% on the base amount for FY 2005.
Other income	57.42	Negative Growth	CAGR of 1% on the base amount for FY 2005.
Assigned Revenue	80.65	Negative Growth	CAGR of 7% on the base amount for FY 2005.
Devolution Fund	67.63	Negative Growth	CAGR of 10% on the base amount for FY 2005.

### 6.2.2 Assumptions - Expenditure

The assumptions for projection in revenue expenditure based on the past performance is as follows:

### Exhibit 6.2 Expenditure

Item	Base Amount (in Rs. Lakh)	Growth (CAGR %)	Assumptions
Salaries	231.24	1.3%	CAGR of 3% with cost of FY 2005 as the base
Operating Expenses	111.40	16.3%	The expenditure has been assumed as 5% of the gross block of fixed assets (in line with the average over the last five years). An inflation of 5% has also been considered.
Programme Expenses	2.71	-	CAGR of 2% on the base amount for FY 2005.
Administrative Expenses	10.23	Negative Growth	The growth rate has been assumed at a nominal rate of 5% and has been applied on the base amount, which is for the year 2004-2005.
Depreciation	-	-	Expenditure assumed as 5% of the gross block of fixed assets
Finance Expenses	-	-	Refer 6.2.3 below.

### 6.2.3 Assumptions - Assets and liabilities

Since the balance sheets were given only for 2000-01 and 2001-02, we have assumed the figures for 2002-03, 2003-04 and 2004-05 are same as the figures for 2001-02. The other major assumptions adopted for projection of assets and liabilities is given below:

#### *Other assets*

### Exhibit 6.4 Assumptions - Assets

Asset Head	Assumptions
Stock Account	The closing balance as given in the last balance sheet by the ULB has been taken as the base figure for projection. It has been assumed that

Asset Head	Assumptions
	the stock will be 95% of the last year balance
Debtors	This head represents the debtors for the three heads property tax, profession tax and water charges. As they form the major portion of revenue their debtors also have been grouped separately. The calculation of debtors has been done based on the current demand under each category of income and the collection efficiency for each of the category
Other Receivables	The closing balance as given in the last balance sheet by the ULB has been taken as the base figure for projection. It has been assumed that other receivables will be 95% of the last year balance.
Bank Account	This account is the balance based on the cash flows for particular year

The detailed projections for each of the 4 cases are provided in section 6.3.

### Loans

All loans taken by the ULB are long-term. The ULB has a loan outstanding of Rs.1217.33 lakhs and the scheduling of these loans and interest has been taken into account in the FOP.

**Exhibit 6.5: Loan Statement as on 30.09.2005 (Rs in lakhs)**

S.No	Lending Agency	Amount of Loan	Year of drawal	Interest Rate %	Repay ment period (years)	Total loan repaid			Outstandi ng loan amount
						Principal	Interest	Total	
1	TNUDF	84.49	1995	14.0%	15	42.11	83.88	126.00	<b>53.08</b>
2	TUFIDCO	80.00	1982	10%	20	80.00	80.01	160.01	<b>0.00</b>
3	TUFIDCO (LCS)	23.78	1988	10%	25	12.28	23.32	35.60	<b>16.67</b>
4	TNUDF (Sp Roads)	102.58	2000	16%	20	5.58	12.78	18.36	<b>151.71</b>
5	Govt. Loans	125.82	1998	9.8%	20	36.34	14.65	50.99	<b>115.29</b>
6	Water Supply	880.58	2004	10%	20			0.00	<b>880.58</b>
	<b>Total</b>	<b>1297.25</b>				<b>176.31</b>	<b>214.64</b>	<b>391.00</b>	<b>1217.33</b>

### New Loans

The requirement of new loans is related to capital expenditure (Capex) the ULB wants to execute. The loans has been taken as 60% of the total Capex while the grants is assumed at 30% and the own contribution by the ULB is pegged at 10% of the total Capex. The terms of the new loans is assumed as follows

**Exhibit 6.6 New loans**

Particulars	Assumptions
Rate of Interest on new loan	8% p.a.

Repayment Period of new loan	15 years (inclusive of moratorium)
Principal moratorium period	2 years

**Other liabilities**

**Exhibit 6.7 Other Liabilities**

<b>Liabilities</b>	<b>Assumptions</b>
Grants	Closing balance as given in FY 2005 has been taken as the base figure. Grants assumed at 30% of the Capital expenditure, which would be added to grants balance every year.
Current Liabilities	Closing balance as given in FY 2005 has been taken as the base figure. Current Liabilities assumed at 90% of the previous year's balance.
Accumulated depreciation	Closing balance as given in FY 2005 has been taken as the base figure. Every years depreciation has been added to the balance of the accumulated depreciation
Accumulated Surplus	Closing balance as given in the FY 2005 has been taken as the base figure. Every year the cash surplus is added to this account while the contribution for the project from its own funds are deducted from the accumulated surplus.

**6.3 Estimation of borrowing and investment capacity**

We have arrived at the borrowing capacity based on the Income and expenditure projections including debt servicing of existing loans as of FY ending 2005. We have arrived at the borrowing capacity of MeM as the minimum of

- NPV of 30% of revenue projections and
- NPV of Operating Surplus projections.

The overall financing mix has been assumed to include 50% loans, 40% Grants and 10% own funds in order to arrive at the overall investment capacity. Thus, we have computed the investment capacity as borrowing capacity (arrived at as explained above) divided by 0.5.

**6.4 Financial projections**

**6.4.1 Income and expenditure projections**

Exhibit 6.8 captures the Income and Expenditure projections for FY 2006-15 with potential improvements.

### Exhibit 6.8 Income and Expenditure projections

INCOME	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>OWN INCOME</b>	<b>291</b>	<b>307</b>	<b>368</b>	<b>393</b>	<b>398</b>	<b>399</b>	<b>422</b>	<b>435</b>	<b>503</b>	<b>509</b>
Property tax	149	161	217	235	236	236	236	236	295	295
Profession tax	10	11	11	12	12	12	12	12	12	12
Water Charges	47	49	51	57	58	58	61	61	61	64
Sewerage Charges	0	0	0	0	0	0	18	29	36	36
Service Charges & Fees	27	28	29	30	32	33	34	35	37	38
Sale & Hire Charges	0	0	0	0	0	0	0	0	0	0
Other Income	58	59	59	60	60	61	62	62	63	63
<b>ASSIGNED REVENUE</b>	<b>86</b>	<b>92</b>	<b>99</b>	<b>106</b>	<b>113</b>	<b>121</b>	<b>130</b>	<b>139</b>	<b>148</b>	<b>159</b>
<b>TRANSFERS</b>	<b>71</b>	<b>75</b>	<b>78</b>	<b>82</b>	<b>86</b>	<b>91</b>	<b>95</b>	<b>100</b>	<b>105</b>	<b>110</b>
Devolution Fund	71	75	78	82	86	91	95	100	105	110
Grants & Contributions	0	0	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>448</b>	<b>474</b>	<b>545</b>	<b>581</b>	<b>597</b>	<b>611</b>	<b>647</b>	<b>674</b>	<b>757</b>	<b>777</b>
<b>EXPENDITURE</b>										
<b>OPERATING EXPENSES</b>	<b>387</b>	<b>401</b>	<b>417</b>	<b>432</b>	<b>449</b>	<b>465</b>	<b>483</b>	<b>502</b>	<b>521</b>	<b>541</b>
Salaries	238	245	253	260	268	276	284	293	302	311
Repairs & Maintenance	135	142	149	157	164	173	181	190	200	210
Programme Expenses	3	3	3	3	3	3	3	3	3	3
Administrative Expenses	11	11	12	12	13	14	14	15	16	17
<b>FINANCE EXPENSES</b>	<b>125</b>	<b>117</b>	<b>108</b>	<b>99</b>	<b>91</b>	<b>83</b>	<b>76</b>	<b>69</b>	<b>62</b>	<b>58</b>
<b>DEPRECIATION</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>	<b>135</b>
<b>TOTAL</b>	<b>648</b>	<b>653</b>	<b>660</b>	<b>667</b>	<b>675</b>	<b>684</b>	<b>694</b>	<b>705</b>	<b>717</b>	<b>734</b>
<b>Surplus (excl. Depreciation)</b>	<b>(64)</b>	<b>(44)</b>	<b>21</b>	<b>49</b>	<b>58</b>	<b>63</b>	<b>88</b>	<b>103</b>	<b>174</b>	<b>179</b>

### 6.5 Impact of potential improvements

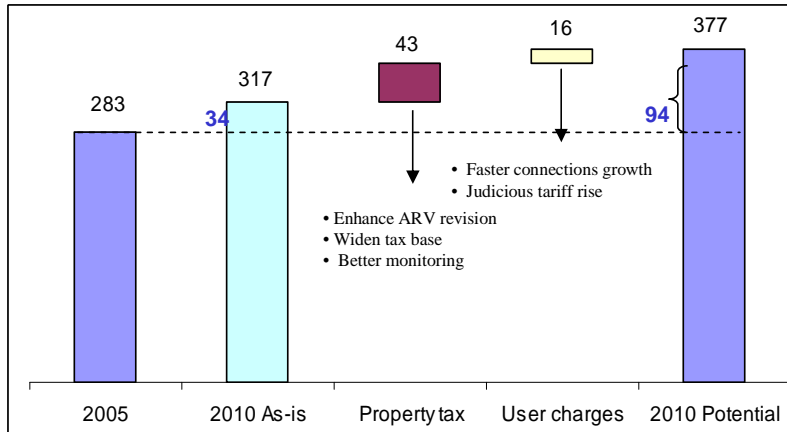
On an 'as-is' basis, MeM's own revenues (comprising taxes, user charges and other income) could grow from Rs. **283 lakh** in FY 2005 to **Rs. 317 lakh** by FY 2010. MeM has limited areas for increasing its own income in the short term, in view of the spatial constraints discussed. Areas for revenue enhancement in the short term include:

- **Property tax** – through an enhanced revision in ARV, widening assessee base and closer scrutiny
- **User charges** - MeM could potentially generate an incremental Rs. 16 lakh annually by FY 2010 by adding water connections (increase of tariff by 5% every two years).

**MeM also needs to explore scope for private sector participation** for development of bus stand infrastructure, market complex and slaughter house projects. However, this potential has not been taken into account while arriving at the borrowing / investment capacity of MeM. While there is potential for expenditure control in certain areas (as in the case of energy costs and leakage in water supply), **the focus of cost management should be to shift expenditure from administration to better asset management and service levels.** We have not factored in any cost reduction in the FOP

and have assumed that any savings generated from cost reduction would go into augmenting service levels and better asset management.

**Exhibit 6.9– Potential for Revenue Improvement (figures in Rs. Lakh)**



A comprehensive energy audit is required, given that 80% of its operations and maintenance expenditure on electricity charges. Plugging leakage in the water supply network and installation of timers and energy savers on the street light network are important interventions needed in the context of MeM’s high power costs.

### 6.6 Key results

The factor for concern for Mettupalayam municipality is that even after factoring a substantial improvements in revenues (detailed in section 6.5 for potential improvements), the debt servicing capacity of MeM is severely constrained by its outstanding loans of Rs. 12 crore as of FY 2005, which was approximately 2.7 times the revenue for FY 2005. Thus MeM is severely burdened with existing debt which constrains its capacity to take up major investments through loan financing.

The borrowing capacity has been computed as the minimum of NPV of operating surplus, 30% of revenues during the projection period and works out to Rs. 945 lakh.

**Exhibit 6.10 – Summary of results of FOP**

FOP summary	
Revenues – FY 2010 (Rs.Lakh)	597
Revenue CAGR % - FY 2006-15	6.3%
Avg. Op. Surplus (Rs. Lakh)	150
Avg. TE /TR (%)	90%
Avg. DS /TR (%)	26%
Borrowing Capacity (Rs.lakh) computed as NPV of	
Operating surplus projections	452
30% of Revenue projections	1246
Summary of Investment and Borrowing Capacity	

<b>Borrowing Capacity (BC) – Rs. lakh</b>	<b>452</b>
Investment Capacity (IC) - BC/0.4 Rs. Lakh	<b>1130</b>
Investment Requirement (IR) Rs. Lakh	<b>3767</b>
IC / IR	<b>30 %</b>

As can be seen, the sustainable investment capacity of ULB is only 30%, even with potential improvements. MeM's existing loans constrain its investment capacity and there is need for some radical measures to bail out this ULB in the form of grants and reduction in interest on loans. Further given its spatial constraints for growth, the scope for growth through adding nearby areas also may need to be explored for the long-term sustainability of the municipality's finances.



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