2017

Financial Improvement Plan under Atal Mission for Rejuvenation and Urban Transformation (AMRUT)

- **FATEHPUR NAGAR PALIKA PARISHAD (FPNPP)**

IRR Advisory Services Pvt Ltd

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1) BACKGROUND

Introduction

Ministry of Urban Development, Government of India (GOI) has launched “AMRUT” mission for development of urban infrastructure covering 500 cities with population of above one lac. This will be implemented by the respective urban local bodies (ULBs). The financing of the infrastructure development projects will need massive investments. Government of India proposes to invest INR500 billion under “AMRUT” mission and variable contributions from the State Governments depending upon population of the cities in the next 5 years. However, it is anticipated that Central Government and State Government budgeting grants may not be adequate to finance the infrastructure projects and additional investment will be required which may come from private sector to achieve goals set.

Credit rating is one of the reform milestones under “AMRUT” besides; it is also a prerequisite for ULBs to access the Capital Market Borrowings. In order to improve ULBs preparedness for raising market borrowings, The Government of Uttar Pradesh on behalf of Ministry of Urban Development, GOI under the World Bank funded Capacity Building for Urban Development Programme (CBUD) therefore, has engaged “India Ratings & Research Private Limited” (Ind-Ra) for credit rating of Fatehpur Nagar Palika

Based on performance evaluation and credit assessment, a Financial Improvement Plan (FIP) needs to be prepared for enhancement of credit worthiness of the ULB to investment grade. The Financial Improvement Plan will be prepared by IRR Advisory Services Pvt Ltd, a group/associate company of Ind-Ra. IRR Advisory Services Pvt Ltd will also assess the borrowing capacity of the ULBs for the given scenarios. Further, IRR Advisory needs to develop credit scoring models in order to assign credit scores to ULBs based on agreed common indicators to enable ULBs understand the impact of their managerial decisions and performance on their credit quality and facilitate credit decision by lenders to ULBs / ULB projects. Finally, IRB Advisory needs to provide financial, project and other information regarding ULB in standard format to facilitate creation of National Municipal Credit database for use by policy makers, lenders and other stake-holders.

Scope of Work

The scope of work under preparation of financial improvement plan includes:

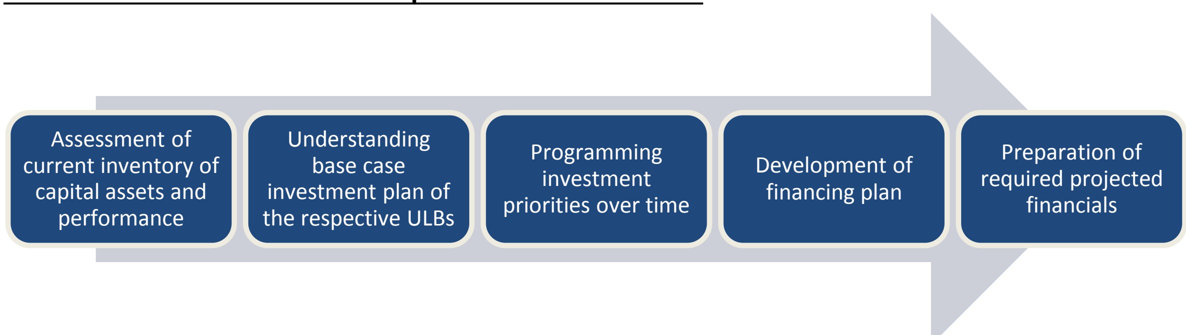
1. Assessing overall performance of the ULBs in both financial and non-financial aspects as prepared during rating exercise

2. Recommending a Road Map for Credit Enhancement Plan including Financial Improvement Plan to improve Credit Rating to investment grade as per SEBI guidelines.
3. Preparing a Financial Improvement Action Plan report for each ULBs
4. Assessing the borrowing capacity of the ULB in base case scenario as well as if 'financial improvement plan' is implemented.
5. Developing a credit scoring model to rate ULBs.
6. Provide inputs to National Municipal Credit Database in the required format.

Approach and Methodology

IRR Advisory's recommended process for preparing financial improvement plan consists of following five stages:

Exhibit 1: Process for Financial Improvement Plan of ULBs



- **Assessment of current inventory of capital assets and performance:** The first step involved in preparation of a Financial Improvement Plan is assessment of Current inventory of capital assets and their performance. Several key characteristics of these facilities would guide the ULB's planning process in determining what types and levels of capital investments will be needed in future years.
- **Understanding base case investment plan of the respective ULBs:** With this as the base, ULB's targets for the projected period in terms of physical services to be provided have to be crystallized first. While fixing these targets, ULB's plan, directions of State Government, if any, and the objectives of Atal Mission for Rejuvenation and Urban Transformation (AMRUT) have to be borne in mind.
- **Programming investment priorities over time:** From this inventory and investment plan, the areas of greatest need is required to be examined with respect to existing infrastructure programmes and add potential capital investments to those suggested by the need to provide new services for economic development or social reasons and thus developing priority schedule. This stage requires additional detailed engineering and cost estimation activities, sufficient to establish the approximate costs, and the approximate feasible completion dates for the projects listed in the priority schedule. Based on the preliminary cost estimates and the time schedule established by the technical studies, the initial investment plan schedule will be revised to establish a preliminary five-year investment plan.

- **Development of financing plan:** The fourth stage of the financial investment planning process consists of conducting a detailed financial analysis of the ULB's capacity to undertake the investment programme. Several financial alternatives are considered at this stage. Many capital infrastructure projects have the possibility of directly generating revenues to cover either all or part of the investment. At this stage, the availability of the credit programmes from a variety of internal and external sources must also be taken into account.
- **Preparation of required projected financials:** The fifth and last stage in the financial improvement plan will be to prepare required projected financial statements for enhancing credit worthiness of the ULB.
- **Assessing borrowing capacity of the ULB:** Post preparation of financial improvement plan and projected financial statements in the same respect, IRR Advisory Services Pvt Ltd will recommend on the borrowing capacity of the ULB on the base case scenario as well as considering financial improvement plan implementation.

Further, IRR Advisory will develop a credit rating model for ULBs based on key parameters that influence ratings. Key parameters for the municipal credit scoring model include:

i. Legal Framework
   a. Functional Domain
   b. Taxing Powers
   c. Borrowing Powers
ii. Economic Base & Demographics
   a. Level of Economic Activity
   b. Socio-economic Profile
   c. Other Drivers for Economic growth (diversity of economic activities)
iii. Service Delivery
   a. Current Service Levels
   b. Proposed Investment Plans and Impact on Service Levels
iv. Managerial Assessment
   a. Track Record in:
      i. Property Tax Reforms
      ii. Revising user charges (extent of cost recovery)
      iii. Expenditure Management
      iv. Use of Technology to Improve Service Delivery
      v. Leveraging Resources
v. Financial Performance
   a. Revenue: Growth trends and diversity
      i. Own tax sources
      ii. Grants / Fiscal transfers (level of dependence on State Government)

    iii. User Charges and other Non-Tax Revenues

b. Quality of Expenditure (Establishment expenditure, O&M expenditure)
c. Performance on Revenue Account: Operating surplus, revenue surplus, overall surplus, liquidity
d. Surplus/deficit vis-a-vis the Capital Investments
e. Debt Management
    i. Debt servicing in proportion to revenue receipts
    ii. Interest cover
f. Collection Efficiencies
    i. User charges
    ii. Property tax & other municipal taxes

The municipal credit scoring model will be submitted in an excel format. Further, while no standard format has been finalised for National Municipal Credit database, IRR Advisory has followed the reporting format for smart cities.

Limitations of the Study

This report is primarily based on the information provided to IRR Advisory by Directorate of Urban Local Bodies Uttar Pradesh. The financial statements and other information provided by the ULBs have been assumed to be true and accurate. The financial projections have been based on inputs from the officials of Directorate of Urban Local Bodies Uttar Pradesh. IRR Advisory has reviewed the same and accordingly revised the projections to ascertain the amount of financing it can avail post-financial improvement.

2) Overview of AMRUT Guidelines

Introduction

The Government of India has identified providing basic services (e.g. water supply, sewerage, urban transport) to households and building amenities in cities to improve the quality of life for all as a national priority. An estimate of the funds required over a 20 year period, at 2009-10 prices, was made by the High Powered Expert Committee (HPEC) during 2011. The Committee estimated that INR39.2 lakh crores was required for creation of urban infrastructure, including INR17.3 lakh crore for urban roads and INR8.0 lakh crore for services, such as water supply, sewerage, solid waste management and storm water drains. Moreover, the requirement for Operation and Maintenance (O&M) was separately estimated to be INR19.9 lakh crore. Therefore, the AMRUT Mission has been launched with the following purposes:

- Ensure that every household has access to a tap with assured supply of water and a sewerage connection;
- Increase the amenity value of cities by developing greenery and well maintained open spaces (e.g. parks);
- Reduce pollution by switching to public transport or constructing facilities for non-motorized transport (e.g. walking and cycling).

All these outcomes are valued by citizens, particularly women, and indicators and standards have been prescribed by the Ministry of Urban Development (MoUD) in the form of Service Level Benchmarks (SLBs). However, the pursuit of better outcomes will not stop with the provision of taps and sewerage connections to all (universal coverage). Other benchmarks will be targeted following a step-by-step process after achieving the benchmark of universal coverage. This does not mean that other SLBs are less important, but that in the incremental process SLBs are achieved gradually according to National priorities.

Earlier, the MoUD used to give project-by-project sanctions. In the AMRUT this has been replaced by approval of the State Annual Action Plan once a year by the MoUD, and the States have to give project sanctions and approval at their end. In this way, the AMRUT makes States equal partners in planning and implementation of projects, thus actualizing the spirit of cooperative federalism.

A sound institutional structure is the foundation to make Missions successful. Therefore, Capacity Building and a set of Reforms have been included in the Mission. Reforms will lead to improvement in service delivery, mobilization of resources and making municipal functioning more transparent and functionaries more accountable, while Capacity Building will empower municipal functionaries and lead to timely completion of projects. The Mission will focus on the following thrust areas:

- Water supply,
- Sewerage facilities and septage management
- Storm water drains to reduce flooding
- Pedestrian, non-motorized and public transport facilities, parking spaces
- Enhancing amenity value of cities by creating and upgrading green spaces, parks and recreation centres, especially for children

AMRUT Mission Components

The components of the AMRUT consist of capacity building, reform implementation, water supply, sewerage and septage management, storm water drainage, urban transport and development of green spaces and parks. During the process of planning, the ULBs will strive to include some smart features in the physical infrastructure components. The details of the Mission components are given below:

1. Water Supply
   - 1.1. Water supply systems including augmentation of existing water supply, water treatment plants and universal metering.
   - 1.2. Rehabilitation of old water supply systems, including treatment plants.
   - 1.3. Rejuvenation of water bodies specifically for drinking water supply and recharging of ground water.
   - 1.4. Special water supply arrangement for difficult areas, hill and coastal cities, including those having water quality problems (e.g. arsenic, fluoride)

2. Sewerage
   - 2.1. Decentralized, networked underground sewerage systems, including augmentation of existing sewerage systems and sewage treatment plants.
   - 2.2. Rehabilitation of old sewerage system and treatment plants.
   - 2.3. Recycling of water for beneficial purposes and reuse of wastewater.

3. Septage
   - 3.1. Faecal Sludge Management- cleaning, transportation and treatment in a cost-effective manner.
   - 3.2. Mechanical and biological cleaning of sewers and septic tanks and recovery of operational cost in full.

4. Storm Water Drainage

4.1. Construction and improvement of drains and storm water drains in order to reduce and eliminate flooding.

5. Urban Transport
    5.1. Ferry vessels for inland waterways (excluding port/bay infrastructure) and buses.
    5.2. Footpaths/walkways, sidewalks, foot over-bridges and facilities for non-motorized transport (e.g. bicycles).
    5.3. Multi-level parking.
    5.4. Bus Rapid Transit System (BRTS).

6. Green space and parks
    6.1. Development of green space and parks with special provision for child-friendly components.

7. Reforms management & support
    7.1. Support structures, activities and funding support for reform implementation.
    7.2. Independent Reform monitoring agencies.

8. Capacity Building
    8.1. This has two components- individual and institutional capacity building.
    8.2. The capacity building will not be limited to the Mission Cities, but will be extended to other ULBs as well.
    8.3. Continuation of the Comprehensive Capacity Building Programme (CCBP) after its realignment towards the new Missions.

However, it is to be understood that following components (indicative, not exhaustive) will not be admissible for funding under AMRUT:

- Purchase of land for projects or project related works,
- Staff salaries of both the State Governments/ULBs,
- Power,
- Telecom,
- Health,
- Education, and
- Wage employment programme and staff component.

Fund Allocation under AMRUT

The total outlay for AMRUT is INR50,000 crore for five years from FY 2015-16 to FY 2019-20 and the Mission will be operated as a Centrally Sponsored Scheme. The AMRUT may be continued thereafter in the light of an evaluation done by the MoUD and incorporating learnings in the Mission. The Mission funds will consist of the following four parts:

- Project fund - 80% of the annual budgetary allocation.
- Incentive for Reforms - 10% of the annual budgetary allocation.
- State funds for Administrative & Office Expenses (A&OE) - 8% of the annual budgetary allocation
- MoUD funds for Administrative & Office Expenses (A&OE) - 2% of the annual budgetary allocation

The project fund will be divided among States/UTs at the beginning of each year. An equitable formula will be used to distribute the annual budgetary allocation in which equal (50:50) weightage is given to the urban population of each State/UT (Census 2011) and the number of statutory towns in the State/UT. As the number of statutory towns are notified by States/UTs and will change during the Mission period, the formula will take into account changes in this number every year. The amount of project fund allocated will be informed to the States/UTs at the appropriate time. The Central Assistance for the projects will be in three instalments of 20:40:40 of the approved cost.

State Fund (Administrative & Office Expenses) will be utilised for capacity building programmes and will not be used for purchase of vehicles, construction and maintenance of buildings, creation of posts, payment of salary and purchase of furniture and fixtures, etc. The MoUD Fund (Administrative & Office Expenses) will be utilized at the National Mission Directorate level (including the Urban Transport Division) for capacity building, Mission Directorate, convening National & regional workshops, giving awards and recognition of best practices, up-scaling and replication of best practices and smart solutions, commissioning of research and applied studies through, say, Centres of Excellence and other institutions and international cooperation for capacity building and technology development.

The funding pattern of projects indicating the share of Central Government/State Government/ ULBs/private sector is given below:

Exhibit 2: Funding Pattern for AMRUT Projects

No.	Components	Funding Pattern
1	Water Supply: ♦ New, augmentation and rehabilitation of water supply system. ♦ Rejuvenation of water bodies for water supply and recharge of ground water. ♦ Special arrangements for difficult areas, hills and coastal cities.	♦ One-third of the project cost as grant from GoI for cities with a population of above 10 lakh. ♦ One-half of the project cost as grant for cities/towns with population up to 10 lakh. ♦ Balance funding by State Governments / ULBs or through private investment. ♦ The tender will include O & M for five
2	Sewerage: ♦ New, augmentation and rehabilitation of	

	sewerage systems and treatment plants. ♦ Recycling water for beneficial purposes and ♦ Reuse of waste water.	years based on user charges. For the purpose of calculation of the project cost, the O&M cost will be excluded; however, the States/ULBs will fund the O&M through an appropriate cost recovery mechanism in order to make them self-reliant and cost-effective. ♦ The SLIPs will first provide for provision of water and sewerage connections to all households.
3	Septage: ♦ Faecal sludge management – (cleaning, transporting and treatment), particularly mechanical & biological cleaning of septic tanks and sewers.	
4	Storm water drains: ♦ Construction & improvement of drains and storm water drains	
5	Urban transport: ♦ Sidewalks, foot over bridges, nonmotorized transport, buses, BRTS, multilevel parking, waterways and ferry vessels.	
6	♦ Development of green spaces and parks with special provision for child-friendly components. For parks, ULBs will have to establish a system for maintenance with local resident participation.	♦ One-half of the project cost by GoI and the total expenditure on these projects will not exceed 2.5% of the State Annual Action Plan (SAAP).
7	♦ Capacity Building and Reforms support	♦ Full (100%) by GoI, based on existing norms and unit costs set by the Apex Committee.
8	♦ A&OE (PMU/PIU/DPR cost, etc.)	

Preparation of SLIP

The primary purpose is to cover all households with water supply and sewerage (including septage). For this the Service Level Improvement Plan (SLIP) has to be prepared by each ULB and the strategic steps are given below.

- **Assess the service level gap:** The AMRUT builds on the available data, information and plans on water supply and sewerage with the States/ULBs. The number of households in the zone having water tap/ sewerage connections and those not having these facilities will be taken from the Census (2011) or the baseline survey done by the MoUD. The zone-wise gaps will be added to arrive at the service level gap in water supply and sewerage in the ULB.
- **Bridge the gap:** Once the gap between the existing number of households having water and sewerage/ septage connections against the total number of households is computed, plans will be prepared to bridge the gap. All households in a zone will be covered and this exercise will be done separately for water supply and sewerage and will be a part of the SLIP.

- **Examine alternatives:** The ULBs will have to examine alternatives available to them. For example, in sewerage, some States/ ULBs may choose a mix of centralized and decentralized systems. A State/ULB with high urban densities may choose centralized network based systems. Moreover, considering the cost of sewerage network systems, some ULBs may opt for efficient septage management systems. Therefore, a one-size-fits-all approach will not work and alternatives should be generated in order to do more with fewer resources and do it in a way that the benefits reach the people in the form of taps and toilets.
- **Estimate the cost:** The cost (both capital and O&M) of each project will be prepared based on line (or abstract) estimates. An important output will be the total requirement of funds for achieving universal coverage for water supply and sewerage (Master Plans) for each ULB. All relevant and appropriate technical and financial norms prescribed in the JnNURM will apply to the AMRUT Mission; no contingencies or cost escalation will be permissible and no incomplete or already started projects will be included.
- **Prioritize:** The maximum amount the Central Government will give as project finance is already specified. If sufficient resources are not available to achieve universal coverage in the ULB and the Mission has to be implemented in several years, the ULB will prioritize the zones to be taken up in the first, second, third, fourth and fifth year of the Mission. Universal coverage will start with water supply followed by sewerage in that order. Depending on availability of funds, universal coverage of water supply and sewerage can also be done together. After universal coverage is achieved, the State/ULBs will decide on the next priority – a ULB may decide to construct storm water drains or fund urban transport depending on whether the local priority is to reduce frequent flooding or reduce vehicle induced pollution.
- **Out-of-box thinking:** There should be a 'decisive break with the past' during the preparation of the SLIPs by the ULBs. For example, instead of pumping water from long distances involving huge capital and electricity consumption costs, the States/ULBs should examine alternatives, such as water recycling and reuse. The benchmark is that at least 20 percent of the waste water generated in ULBs should be recycled.
- **Conditionalities:** Non-availability of land or delayed availability was one of the key factors that had delayed projects in the earlier Mission. Another connected issue is obtaining clearances from other departments. Therefore, in the AMRUT no projects should be included which do not have land available and no project work order should be issued if all clearances from all the departments have not been received by that time. Moreover, the cost of land purchase will be borne by the States/ULBs. Finally, the AMRUT funds should not be used to complete some components in the JnNURM which were shown in the Detailed Project Report submitted and approved by the MoUD.
- **Financing:** Financing of projects, including the O&M costs, are a key aspect of the SLIPs. For each option, the capital cost and O&M cost has to be estimated. Different sources of finance have to be identified. At the ULB level, the contribution from internal sources (e.g. taxes, fees, others), external sources (e.g. transfers from States, project fund from Central/ State Governments/ others) and

possibilities of debt, bonds and others has to be assessed. The challenge is to motivate citizens to share the additional cost.

- **Reforms:** Implementation of Reforms is an important objective of the SLIP. The ULBs have to prepare a roadmap for Reforms which will be consolidated by the State Mission Director and included as part of the SAAP.

State Annual Action Plan (SAAP)

The basic building block for the SAAP will be the SLIPs prepared by the ULBs. At the State level, the SLIPs of all Mission cities will be aggregated into the SAAP. Therefore, the SAAP is basically a State level service improvement plan indicating the year-wise improvements in water-supply and sewerage connections to households.

The States will decide on the inter-ULB allocation based on gap analysis and financial strength of ULBs and choose those ULBs in the first year that have higher gaps in provision of water supply and sewerage. The prioritization of ULBs for funding will be done after consultation with local MPs, Mayors and Commissioners of the concerned ULBs. Financially weaker ULBs can be financed to a greater extent. Urban Local Bodies with a high proportion of urban poor could receive a higher share. Moreover, the potential Smart cities will be given first preference because the Smart Cities Mission and the AMRUT are complementary.

Based on prioritization by the States and resources available, the States will send the SAAP up to three times the Central Assistance (CA) allocated to the State during one fiscal year (because a project is likely to take three years for completion and the funding will be given in three instalments) and the outstanding CA of the previous year plus the annual allocation of the year in the subsequent years. As a result, different ULBs within a State may become entitled to different funding patterns, but the share of the Centre will be fixed as given in these Guidelines.

Experience with past programs has shown that once projects are completed the ULBs pay little attention to the operation and maintenance of infrastructure assets created. Therefore, projects being proposed to the MoUD in the SAAP will include O & M for at least five years to be funded by way of levy of user charges or other revenue streams. However, for the purpose of calculation of the project cost, the O&M cost will be excluded and the States/ULBs will fund the O&M through an appropriate cost recovery mechanism in order to make them self-reliant and cost-effective.

Financing is an important element of the SAAP. The States/ULBs have to plan for the remaining resource generation at the time of preparation of the SAAP. The financial share of cities will vary across States. In some States, the ULBs may be in a position to contribute significantly to the project cost as compared to a ULB in another State. Accordingly, States have to decide during formulation of the SAAP how the residual financing (over and above Central Government share) is shared between the State, ULBs and any other source identified by the State/ULB (e.g. PPP, market borrowing). However, the State contribution to the SAAP will not be less than 20 percent of the total project cost.

Importantly, at the State level the SAAP should only contain those projects where complete project cost is completely linked with revenue sources. This will include dovetailing with other sectoral and financial programs of the Centre and State Governments. A useful way is to create a Financial Intermediary, also a Reform in the AMRUT, in order to pool funds from all sources and release funds to ULBs in time. Such intermediaries will also be able to access external sources of finance, such as debt and bonds, which small and financially distressed ULBs are unable to access. The potential opened by the promulgation of Regulations by the SEBI for municipal bonds can be fully realized by such an intermediary. During the process of developing the SAAP, the States/UTs should explore the possibility of using Public Private Partnerships (PPP), which should be the preferred execution model. The PPP should include appropriate Service Level Agreements (SLAs) with strong citizen feedback built into it. This will lead to the People Public Private Partnership (PPPP) model.

The SAAP will be approved by the MoUD once a year according to the schedule given by the Apex Committee. The Apex Committee may revise the SAAP, approve with conditions or return it for rectification of gaps.

Project Execution

Projects will be executed by ULBs. In case the ULBs do not have adequate capacity to handle projects, the State Government may recommend in SAAP, upon a Resolution passed by the ULB, for the execution of the projects by specialized parastatal agencies of the State or Central Governments. Such arrangements should necessarily be executed by way of a tripartite Memorandum of Understanding (MoU) amongst the State Government, the specialized Parastatal agencies and the concerned Municipality. In such a case, the capacity of the ULBs will be augmented through the capacity building component of the AMRUT. The maintenance and upkeep of the created assets will be the responsibility of the ULB and the State Government.

The MoUD will not give project-by-project approvals or technically sanction project DPRs; the States/UTs will be solely responsible for these activities. The MoUD has prepared comprehensive manuals and issued guidelines and advisories on solid waste management, sewerage, water supply, urban transport, etc. The State Level Technical Committee (SLTC) will ensure compliance with these technical documents.

3) CORPORATION OVERVIEW

Introduction: Uttar Pradesh

Uttar Pradesh, abbreviated as UP, is the most populous state in the Republic of India as well as the most populous country subdivision in the world. The state, located in the northern region of the Indian subcontinent, has over 200 million inhabitants. Lucknow is the capital city of Uttar Pradesh. The main ethnic group is the Hindi people, forming the demographic plurality.

The state is bordered by Rajasthan to the west, Haryana, Himachal Pradesh and Delhi to the northwest, Uttarakhand and Nepal to the north, Bihar to the east, Madhya Pradesh to the south, and touches the states of Jharkhand and Chhattisgarh to the southeast. It covers 243,290 square kilometres (93,933 sq mi), equal to 7.33% of the total area of India, and is the fourth largest Indian state by area. Hindi is the official and most widely spoken language in its 75 districts along with English. Uttar Pradesh is the third largest Indian state by economy, with a GDP of ₹9,763 billion (US$150 billion) and the fourth-largest contributor to India's net domestic product. Agriculture and service industries are the largest parts of the state's economy. The service sector comprises travel and tourism, hotel industry, real estate, insurance and financial consultancies

Uttar Pradesh was home to powerful empires of ancient and medieval India. The two major rivers of the state, the Ganges and Yamuna, join at Allahabad and then flow as the Ganges further east. The state has several historical, natural and religious tourist destinations such as Varanasi, Allahabad, Agra, Lucknow to name a few.

Overview: Fatehpur Nagar Palika Parishad

Fatehpur is a city in the state of Uttar Pradesh, India. The city lies between two holy rivers Ganga and Yamuna, was founded by Rishi Purwar and later on he became the King of city. It is well connected with most of the major Indian cities through railways and roadways. Fatehpur is well known for its monuments and holy places. The known history of Fatehpur is as old as the Vedic era. Cunnigham has written about "Bhitaura" and "Asani" places of this district, while discussing about the residuals of the Vedic era . There are proofs that Chinese traveller Huen Tsang visited the Asani place of this district.

In village Renh, which is 25 km south-west of Fatehpur town, some articles of archeological interest have been found which are of time 800 BC. Many articles like coins, bricks, idols etc. of Maurya period, Kusan period and Gupta period have been found throughout the area which are very important from the archeological point of view. Golden coins of period of Chandragupta II have been recovered from village Bijauli. The bricks used in fort of Asani are also of Gupta Period. The Khajuha town, situated on Mughal road is very old town. Its description has been found in old Hindu scripture "Brahma Purana", which is 5000 years old. In 1561 AD, Moghal emperor Humayun passed through this town while invading Jaunpur state. On January 5, 1659, Moghal emperor Aurangzeb had a fierce battle with his brother prince Shahshuja, and killed him near this place. To celebrate the victory, he constructed a large beautiful garden "Badshahi Bagh" and a big lodge having 130 rooms.

Exhibit: Regional Setting of Fatehpur

Source: Google Maps

Key Statistics of Fatehpur Nagar Palika Parishad is as follows:

	Fatehpur
Total Population (2011)	193801
Area (Sq Km)	56.98
Sex Ratio	908
No. of Households(2011)	34,745
Literacy (%)	76.48%
Water Supply Connection (% Households)	37.4
Per Capita Water Supplies (lpcd)	125.3
Coverage of Latrines (% Households)	35.9
Coverage of Sewerage Network (%)	NA

Source: Census 2011, Fatehpur Nagar Palika Parishad

Status under 74th Constitutional Amendment

Since the Early 1990s, Government of India (GoI) has undertaken several initiatives aimed at decentralisation urban governance. The 74th Constitutional Amendment Act (CAA), 1992 was one such initiative, which gave constitutional recognition to the urban local bodies along with the constitutional right to exist. It aims to enable urban local bodies to perform effectively as vibrant democratic units of self-government. The 12th Schedule of the 74th CAA envisages the transfer of functions to the ULBs in order to strengthen their working. Under the Panchayati Raj system, Fatehpur Nagar Palika Parishad interacts directly with the state government, though it is administratively part of the district it is located in. The members of the nagar palika are elected representatives for a term of five years. The town is divided into wards according to its population and representatives are elected from each ward. The members elect a president among themselves to preside over and conduct meetings. A chief officer, along with officers like an engineer, sanitary inspector, health officer and education officer who come from the state public service are appointed by the state government to control the administrative affairs of the nagar palika.

Urban Governance System in Uttar Pradesh

Uttar Pradesh has more metropolitan cities than any other state in India. The absolute urban population of the state is 44.4 million, which constitutes 11.8% of the total urban population of India, the second highest of any state. According to the 2011 census, there are 15 urban agglomerations with a population greater than 500,000. There are 14 municipal corporations, while Noida is specially administered by a statuary authority. The 60 cities of Uttar Pradesh covered under AMRUT includes 14 Nagar Nigam/Municipal Corporation and 46 Nagar Palika Parishads, later on NPP Ayodhya also included in to list so now there are 61 AMRUT Cities.

Uttar Pradesh in India (Census 2011)

Indicators	India	Uttar Pradesh	%age of UP in India
Total Population	121.02 Cr	19.96 Cr	16%
Urban Population	37.71 Cr	4.45 Cr	12%
% Urban Population	31.16%	22.28%	-
Statutory Towns	4,041	648	16%
Census Towns	3,894	267	7%
Decadal Urban PopulationGrowth (2001-2011)	9.10 Cr	1.0 Cr	10.95%

Government has taken concerted initiatives to provide good quality of life and improve the living conditions of the urban citizens. Urban poverty has posed a major threat to equitable growth and development. Government is now focusing its efforts towards growth oriented policies and that the infrastructure development has been given a major thrust for the sustained growth of the urban areas. It is the aim and objective of the Government to develop the Urban Local Bodies into self-reliant institutions of local governance. Fatehpur Nagar Palika Parishad is responsible for below functions :

- To ensure running and maintenance of civic services and facilities such as water supply, sewage system.
- To issue license/permits for shops, business establishments.
- To regulate opening/closing shops and markets.
- To run public health services.
- To maintain record of land and properties owned by it.

Status of Reforms in Uttar Pradesh

Uttar Pradesh has been one of the pioneer states in the implementation of 74th CAA and decentralisation of function to the local government. The state Government of Uttar Pradesh has accordingly made amendments in Uttar Pradesh Municipalities Act 1959 incorporating the provision of 74th constitutional amendment. Following table presents the status of state level reforms in Uttar Pradesh:

No	Reforms	Present Status
1	E-Governance	Work in progress
2	Constitution & Professionalization of cadre	Work in progress
3	Augmenting double entry accounting	Partially accomplished
4	Urban Planning & City level plans	Work in progress
5	Devolution of funds and functions	Partially accomplished
6	Review of building by-laws	Work in progress
7	Set up of financial Intermediary at the state level	Work in progress
8	Credit Rating	Work in progress
9	Energy and Water Audit	Work in progress

Source: Government of Uttar Pradesh

However, in most of the urban local bodies, the planning process is yet to be strengthened and made participatory. The basic urban services like public transport, affordable housing, piped water supply, sewage and solid waste management continue to elude a substantial portion of existing urban population. Managing this accelerated urbanization and the need to create vibrant sustainable and inclusive urban spaces, there is a need to prioritize planning and infrastructure provisioning efforts. It recognizes the need to frame perspective planning at an urban agglomeration level taking into account extended areas and peripheries of large Corporations and Municipalities.

Key Issues in Fatehpur Nagar Palika Parishad

- Ward Committees is not yet formed.
- Key E-governance IT applications such as GIS, MIS etc. are yet to be implemented by Nagar Palika, resulting in the inability of the Nagar Palika to effectively assess the revenue potential and service delivery in areas under its administration.
- The staff is not aware of the latest tools, technologies, best practices being deployed for better urban administration, governance and for service delivery.

4) UTTAR PRADESH STATE ANNUAL ACTION PLAN

Introduction

State Annual Action Plan (SAAP) of Uttar Pradesh under AMRUT for the year 2015-16 was prepared on the basis of Service Level Improvement Plan (SLIPs) submitted by mission towns under AMRUT. The estimated cost of projects proposed for the year 2015-16 under SAAP amounted to INR1697.61 crores. As per the SAAP, Water supply and Sewarage facilities & Septage management will be the key focus areas.

The summary of the contribution of funds for the year 2016-17 is shown below:

Sector Wise Proposed Total Project Fund and Sharing Pattern for FY 2016-17								
Amount in Rs. Crore								
Sr. No	**Sector**	**No of Projects**	**Centre**	**State**	**ULB**	**Convergence**	**Others**	**Total**
1	**Water Supply**	58	825.96	680.47	510.99			2,017.42
2	**Sewerage & Septage Management**	31	771.09	589.48	435.27			1,795.84
3	**Drainage**	-	-	-	-	-	-	-
4	**Urban Transport**	-	-	-	-	-	-	-
5	**Others(Green Space & Parks)***	114	40.95	24.57	16.38	-	-	81.9
	Grand Total	**203**	**1,638.00**	**1,294.52**	**962.64**	**-**	**-**	**3,895.16**
*** Mughalsarai does not have any land and existing park**								

Source: Uttar Pradesh SAAP 2016-17

While the guidelines suggest that under AMRUT, the fund allocation between GoI, state and ULB will be 50:20:30, the State/ ULB share for Uttar Pradesh is more than 50% as 7 cities have population more than 10 lakhs and hence GoI share is only 33%. Meanwhile, under AMRUT guidelines, there are 11 set of reforms milestones and timelines for AMRUT cities The Uttar Pradesh Government has already initiated the reforms and made considerable progress.

Meanwhile, the abstract plans for achieving service level benchmarks are as follows:

State Level Plan for Achieving Service Level Benchmarks									
State: Uttar Pradesh				Current Mission Period: 2016-17					
Proposed Priority Projects	Total Project Cost (Rs Cr)	Indicator	Baseline	Annual Targets Based on Master Plan (Increment from the Baseline Value)					
				FY 2016		FY 2017	FY 2018	FY 2019	FY 2020
				H1	H2				
Water Supply									
9587.95		**1.Household level coverage of direct water supply connections**	**53.71%**		2%	5%	5%	7%	-
		2.Per capita quantum of water supplied	**161 LPCD**						
		3.Quality of water supplied	**93%**			2%	2%		
Sewerage and Septage Management									
30781.61	**646.48**	**4.Coverage of latrines(individual or community)**	**90%**		1%	3%	3%	3%	
		5.Coverage of sewerage network services	**34%**			2%	5%	5%	5%
		6.Efficency of collection of sewerage	**30%**			2%	5%	5%	5%

Source: Uttar Pradesh SAAP 2016-17

Project cost and cost distribution among centre, state and ULBs

The abstract of project funds allocated for the ULBs covered by IRR Advisory are as follows:

Name of the ULB (INR Million)	Water Supply	Sewerage and Septage Management	Drainage	Urban Transport	Green Space	Total
Azamgarh	118.1	107	0	0	3.15	228.25
Ballia	17	150	0	0	6.68	173.68
Maunath	134.4	0	0	0	5	139.4
Fatehpur	20	0	0	0	3.2	23.2
Jaunpur	80	0	0	0	7.97	87.97
Mughalsarai	89.1	0	0	0	0	89.1
Ghazipur	59.6	200	0	0	5.98	265.58
Mirzapur	298	400	0	0	2.84	700.84
Bahraich	78.6	0	0	0	7.06	85.66
Gonda	55	0	0	0	3.73	58.73
Sultanpur	64.4	0	0	0	10	74.4
Akbarpur	28.1	0	0	0	2.41	30.51
Ayodhya	NA	NA	NA	NA	NA	NA
Faizabad	205.4	0	0	0	9	214.4
Gorakhpur	880	980	0	0	20	1880
Deoria	70.8	0	0	0	10	80.8
Basti	25	0	0	0	37	62
Total	**1042.3**	**857**	**0**	**0**	**58.02**	**1957.32**

Source: Uttar Pradesh SAAP 2016-17

Name of the ULB (INR Million)	Total	Share of GoI	Share of State	Share of ULBs
Azamgarh	228.24	114.27	68.34	45.63
Ballia	173.67	86.84	52.1	34.73
Maunath	139.4	69.7	41.8	27.9
Fatehpur	23.2	11.6	6.96	4.64
Jaunpur	87.96	43.98	26.39	17.59
Mughalsarai	89.1	44.6	26.7	17.8
Ghazipur	265.57	132.79	79.69	53.09
Mirzapur	700.83	350.42	210.25	140.16
Bahraich	85.65	42.83	25.71	17.11
Gonda	58.71	29.36	17.61	11.74
Sultanpur	74.4	37.2	22.3	14.9
Akbarpur	30.5	15.3	9.12	6.08
Ayodhya	NA	NA	NA	NA
Faizabad	214.4	107.2	64.3	42.9
Gorakhpur	1880	940	564	376
Deoria	80.8	40.4	24.2	16.2
Basti	62	31	18.6	12.4
Total	**1957.23**	**978.89**	**586.97**	**391.37**

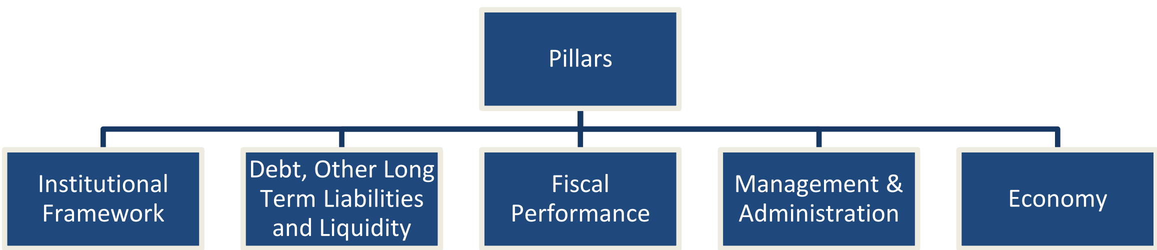
As seen from the above, Fatehpur Nagar Palika Parishad needs to provide INR 4.64mn under SAAP.

5) Rating Framework

Ind-Ra Rating Framework

Ind-Ra rating methodology involves an assessment of the following parameters:

Exhibit 11: Ind-Ra's Five Pillars for Rating ULBs



The detailed steps are as follows:

- **Institutional Framework:** To determine the rating of an Indian local government, Ind-Ra first evaluates the institutional framework under which the subnational operates.
- **Additional Rating Factors:** Once the institutional framework has been assessed, Ind-Ra then analyses the four major rating factors to establish the general quality of the local or state government. These include debt and other long-term liabilities, budgetary performance, management and administration, and the local economy.
- **Trend Analysis:** Ind-Ra rating process involves analysing relevant trends and identifying actual and potential future obligations and exposures. The analysis is carried out in the context of the institutional framework in the jurisdiction in which the rated entity is located and will take into account Ind-Ra base case scenario.
- **Interaction of Rating Factors:** Although an issuer may have a vibrant and wealthy economy, weak fiscal management or stringent tax rate limits may offset the resulting positive credit factors, resulting in a reduced ability to meet obligations. A weak economy may be offset by other strengths, such as proactive management, higher support by way of transfers from upper tiers of government or low debt.
- **Application:** Not all rating factors in this report may apply to each individual rating or rating action. Each specific Rating Action Commentary or rating report will discuss those factors most relevant to the individual rating action.

In evaluation of the following parameters, Ind-Ra typically grades an ULB as stronger (characteristics of IND A+ or higher), midrange (IND BBB to IND A) or lower (IND BBB- or lower) on each of the rating pillars. The methodology for grading the ULBs across the five pillars is shown below:

Attributes	Stronger	Mid-Range	Low
Institutional Framework	♦ Effective oversight from upper tiers of Govt. ♦ Strong horizontal and vertical equalization ♦ Realistic prudential ratios with penalties for non-adherence ♦ Formula driven & predictable transfers systems ♦ Best accounting policies with both accruals and cash based systems	♦ Satisfactory levels of control from upper tiers of Govt. ♦ Formula driven horizontal equalization but limited vertical equalization ♦ Some prudential regulations in place ♦ More limited budgetary & financial information requirement	♦ Constant interference from upper tiers of Govt. ♦ No predictability in the funding from upper tiers of Govt. ♦ Limited or inadequate controls in place ♦ Constant changes in responsibility ♦ Cash based accounting only
Debt, Other Long Term Liabilities and Liquidity	♦ Low overall debt levels (<50%) as measured by debt to current revenue ♦ Low debt service burden (below 5 years of the operating balance) ♦ Modest future capital and debt needs, with comprehensive long-term capital planning; ♦ Predominantly fixed-rate, amortising debt (<15% in ST debt) ♦ Limited indirect risk and strong liquidity ♦ Public Sector Entities (PSEs) funded largely from third party fees	♦ Moderate overall debt levels (<100%) as measured by debt per current revenue ♦ Affordable debt burden (between 5-10 years of the operating balance) ♦ Manageable future capital and debt needs with identified funding sources; attention to long-term capital planning ♦ Mostly fixed-rate, amortizing debt (15%-25% in ST debt) ♦ Some loss making PSEs ♦ Sound available liquidity; some	♦ High overall debt levels (>100%) as measured by debt to current revenue ♦ High debt burden (more than 10 years of the operating balance) ♦ Large future capital and debt needs without identified funding sources; limited attention to long-term capital planning leading to deferred maintenance ♦ Elevated levels of ST debt (> 50%) ♦ Highly indebted public sector which require on-going transfers or

	♦ Professional debt management office, conservative use of derivative instruments ♦ Substantial available liquidity, without requiring external short-term borrowing	external short-term borrowing may be required	capital injections ♦ Low liquidity levels; reliance on external short-term borrowing to meet routine obligations (> 15% of general fund receipts)
Fiscal Performance	♦ Diverse stable and broad-based sources of operating revenue with substantial flexibility to be increased, if needed ♦ Ample ability to adjust spending, either as part of the budget process or during the fiscal year, without undue impact on service provision ♦ Consistently positive operating margins ♦ Ability to easily adjust capital expenditure and high proportion of capex funded from internal resources ♦ Consistently sound reserve levels, with automatic funding mechanisms and clear restrictions on their use	♦ Somewhat concentrated operating revenue, but in a relatively broad-based, stable source, with some flexibility to be increased, if needed ♦ Some ability to make spending adjustments, although avenues to make reductions may be limited without affecting services, or less timely. ♦ General trend of positive operating margins ♦ Moderate proportion of capex funded from the current balance ♦ Satisfactory reserve levels maintained over time, although some year-to-year fluctuation may be present	♦ Severely limited revenue flexibility particularly in a declining revenue environment ♦ Spending levels heavily dictated by long-term contracts or other agreements that make adjustments difficult, if not impossible ♦ Trend of negative operating margins ♦ Consistent budget deficits and capital expenditure funded essentially from borrowing ♦ Low or severely reduced reserve levels, without a clear path to replenishment
Management and Administration	♦ Highly efficient decision-making process, based on financial prudence	♦ Efficient decision-making process ♦ Evidence of generally cooperative	♦ Often cumbersome decision-making process; resolution of key issues is

	♦ No governance concerns ♦ Strong evidence of consistent co-operation among officials ♦ Institutionalised, prudent financial and debt management policies ♦ Conservative and thorough budgeting process with regular interim reviews, contingency planning, and the ability to make adjustments as needed during the fiscal year ♦ Long-term financial planning process ♦ Good level of transparency and disclosure ♦ Timely financial reporting	relationship among officials ♦ Financial and debt management policies that may be somewhat less conservative but still reasonable and, if not followed, a process is in place to regain compliance ♦ Realistic budgeting process and some ability to make adjustments during the fiscal year ♦ Good level of transparency but limited public disclosure ♦ Timely financial reporting	problematic ♦ Difficulty in gaining consensus among officials ♦ Some governance concerns ♦ Financial and debt management policies not present or not consistently followed, without plans to gain compliance ♦ Optimistic budget assumptions and inflexible budget amendment process that makes midyear adjustments difficult ♦ Weak level of disclosure or reliability of accounts ♦ Financial reporting delayed
Economy	♦ Broad, diverse, and stable economic base ♦ Lack of taxpayer concentration ♦ Consistent, moderate population and growth in employment levels ♦ Stability & diversity among major employers ♦ Robust wealth indicators, including personal income per	♦ Fairly diverse economic base ♦ Moderate taxpayer concentration ♦ Stagnant or rapidly growing population ♦ Moderately diverse employment base, with some dominance of a few industries or employers ♦ Sound wealth indicators, including	♦ Small limited or concentrated economic base ♦ Taxpayer concentration ♦ Declining or extremely rapidly growing population ♦ Dominance of one or a handful of industries or employers ♦ Unfavourable demographic profile

	capita ♦ Moderate tax burden relative to area or other similar ULBs nationally ♦ Good infrastructure and business environment	average to above-average personal income per capita	♦ Below-average wealth indicators

India Rating(Ind-Ra) Observations :

Ind-Ra has assigned has assigned has assigned Fatehpur Nagar Palika Parishad (FPNPP) a Long-Term Issuer Rating of 'IND BB-'. The Outlook is Stable.

Fatehpur City has inadequate civic infrastructure. It does not have an underground sewerage system and sewage treatment plant. At the same time, inadequate water supply, drainage network, proper solid waste management and collection facilities constrain the rating. The lack of these adequate basic civic services as reflected by Service Level Benchmark reports calls for an immediate attention. However, civic infrastructure is expected to improve due to its selection under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme.

Urban civic services delivery is also hampered by the multiplicity of authorities providing these services. Besides FPNPP, the other state agencies such as Uttar Pradesh Jal Nigam, Public Works Department are involved in the provision of civic services. The transfer of some of the services from these agencies to the council can speed up improvement in service delivery.

Fatehpur jurisdiction is only 56.9sq km with a population of 193,193. Economic activities in the town are not buoyant and taxes on average contributed 2.65% to the total revenue over FY12-FY16. Along with tax revenues, FPNPP's revenue sources comprise non-tax revenue, grants & contribution and other income. The municipality's non-tax revenue mainly emanates from various fees & charges and rental income from municipal properties, which contributed 6.27% on an average to the total revenue income over FY12-FY16.

FPNPP reported a moderate financial performance in FY16. Its revenue receipts increased to INR336.57 million in FY16 from INR171.08 million in FY12, at a CAGR of 18.43%. Also, its revenue balance improved to INR177.72 million in FY16 from INR107.14 million in FY12.

FPNPP has a high level of dependence on the state government. It receives compensation in lieu of stamp duty and revenue grants for development purposes. Revenue compensation and revenue grants cumulatively contributed 89.81% to the total revenue income during FY12-FY16.

Rating Sensitivities :

Positive: Significant delays in the execution of urban civic service projects and deterioration in the financial performance of FPNPP would be negative for rating.

Negative: A significant improvement in FPNPP's operating performance, delivery of civic services and timely execution of AMRUT projects would be positive for the rating.

6) Overall Service Performance Assessment:

The status of urban services in Fatehpur Nagar Palika Parishad is presented below:

Water Supply Service Level Indicators:

Status of water supply service levels

S. no.	Indicators	2016 Actuals	2017 Target	2018 Target	2019 Target	2020 Target	MOUD Benchmark
1	House hold level coverage of water supply connections	43	NA	NA	NA	100	100%
2	Per capita quantum of water supplied in lpcd	143	NA	NA	NA	135	135 LPCD
3	Quality of water supplied	90	NA	NA	NA	100	100%
4	Extent of metering of water connections	0	NA	NA	NA	100	100%
5	Extent of non revenue water	50	NA	NA	NA	20	20%
6	Cost Recovery in Water supply Services	60	NA	NA	NA	100	100%
7	Efficiency in Collection of water related charges	50	NA	NA	NA	90	90%

Source: Fatehpur Nagar Palika Parishad

Sewerage and Drainage Service Level Indicators :

Status of sewerage/drainage Services service levels

S.no.	Indicators	2016 Actuals	2017 Target	2018 Target	2019 Target	2020 Target	MOUD Benchmark
1	Coverage of Toilets	70	NA	NA	NA	100	100%
2	Coverage of sewerage network services	0	NA	NA	NA	100	100%
3	Efficency in redressal of customer complaints	NA	NA	NA	NA	80	80%
4	Cost recovery of sewerage services	NA	NA	NA	NA	100	100%
5	Efficiency in collection of sewerage	0	NA	NA	NA	100	100%
6	Efficiency in treatment: adequacy of sewerage treatment capacity	0	NA	NA	NA	100	100%

Source: Fatehpur Nagar Palika Parishad

The above service level indicators indicate that the Fatehpur city needs to make substantial investments to provide basic amenties to its citizens.

7) Financial Projections

The past financial performance of FPNPP is provided below:

Fatehpur Nagar Palika Parishad (INR million)	FY12	FY13	FY14	FY15	FY16
Income & Expenditure	**Actuals**	**Actuals**	**Actuals**	**Actuals**	**Actuals**
Revenue Income					
Tax Revenue	6.52	7.66	8.17	7.38	7.94
Non-Tax Revenue	17.68	12.01	16.14	21.85	21.26
Grants, Contributions and Subsidies	143.40	192.06	324.14	308.78	306.15
Other Income	3.47	6.12	1.19	6.05	1.22
Total (A)	**171.08**	**217.85**	**349.64**	**344.06**	**336.57**
Revenue Expenditure					
Establishment Expenditure	87.36	184.09	155.82	124.97	155.54
Administrative Expenditure	1.55	0.38	2.69	3.66	2.51
O & M Expenditure	15.25	14.64	19.12	11.61	17.78
Other Expenses	2.99	0.00	2.37	3.94	1.88
Total (B)	**107.14**	**199.12**	**180.00**	**144.18**	**177.72**
Revenue Surplus/(Deficit) (A-B)	**63.94**	**18.73**	**169.64**	**199.88**	**158.85**
Operating margins (%)	**37.372**	**8.598**	**48.518**	**58.094**	**47.196**
Capital Income and Borrowings {C}	4.17	67.68	28.28	7.68	2.41
Capital Expenditure (D)	65.36	94.17	96.62	200.61	249.73
Capital Surplus/(Deficit) (C-D)	**-61.19**	**-26.49**	**-68.34**	**-192.93**	**-247.32**
Overall Balance	**2.75**	**-7.76**	**101.30**	**6.95**	**-88.47**

As seen, the majority of the revenue income can be attributed to Grants, Contributions and Subsidies. The tax and non-tax revenues are not sufficient to cover establishment, administrative and O&M expenditure. Hence, for projecting financial performance, IRR Advisory has assumed the following:

- Tax, Non Tax and other Revenue is estimated to increase at either last 5 year CAGR growth in revenue or 10%, whichever is higher.
- Revenue expenditure is estimated to increase at either 5% per annum or last 5 year CAGR in expenses, whichever is lower.
- Grants, Contributions and subsidies have been the main driver of revenue surplus, and even a slight growth here leads to surplus liquidity. Grants, Contributions and subsidies have been increasing over the last few years, but one is not sure of future trends given developments in tax regime and condition of State finances. Hence, the same is maintained at FY16 levels.
- Capital expenditure and Capital Income has not been forecasted due to lack of data.

The projected financials as per the above financial assumption are provided below:

Fatehpur Nagar Palika Parishad (INR million)	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Income & Expenditure	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**
Revenue Income					
Tax Revenue	8.74	9.61	10.57	11.63	12.79
Non-Tax Revenue	23.39	25.72	28.30	31.13	34.24
Grants, Contributions and Subsidies	306.15	306.15	306.15	306.15	306.15
Other Income	1.34	1.47	1.62	1.78	1.96
Total (A)	**339.62**	**342.96**	**346.64**	**350.69**	**355.15**
Revenue Expenditure					
Establishment Expenditure	163.32	171.48	180.06	189.06	198.51
Administrative Expenditure	2.64	2.77	2.91	3.06	3.21
O & M Expenditure	18.48	19.21	19.96	20.74	21.56
Other Expenses	1.68	1.50	1.33	1.19	1.06
Total (B)	**186.12**	**194.96**	**204.26**	**214.05**	**224.34**
Revenue Surplus/(Deficit) (A-B)	**153.50**	**148.01**	**142.38**	**136.65**	**130.81**
Operating margins (%)	**45.20**	**43.15**	**41.07**	**38.96**	**36.83**

Fund Raising Capability : In the credit rating scale, BBB- is the lowest investment grade category for market borrowings through bonds. However, investors are wary of lending to institutions unless their credit rating is A-/ BBB+ and above. As seen, FPNPP has been rated 'IND BB-' by India Ratings. It would therefore be difficult for the municipality to approach the market on an individual basis and raise funds. More importantly, FPNPP may not have the necessary internal capabilities to do the due diligence process and documentation for market borrowing. Hence, it is advisable that the FPNPP does not approach the market on a stand-alone basis, but rather follow the examples of the Southern states.

Karnataka and Tamil Nadu have created pooled funds for raising of funds by ULBs, and they have been backed by credit-enhancement mechanism through state government support. It is therefore recommended to the FPNPP that they follow a similar approach and communicate to the State Government their annual capital outlay for the next 5- 7 years. Accordingly, the state Government can then raise funds from the market and distribute the same to the individual ULBs.

In case the ULB is confident of achieving the projections that we have provided and can simultaneously improve their credit rating to at least BBB+, then based on discounted cash flow basis, FPNPP can raise approximately INR398.5mn. The calculation of the same is as per follows:

	FY17	FY18	FY19	FY20	FY21
Revenue Surplus + Capital Surplus (INR mn)	153.50	148.01	142.38	136.65	130.81
(Revenue + Capital) Surplus discounted at 10%	153.50	134.55	117.67	102.66	89.35
Total Discounted Cash Flows	597.73				
Sensitivity factor	1.5				
Funds that can be raised (INR mn)	398.5				

While the above figure represents the amount of debt that FPNPP can raise from a medium-term perspective utilising the municipal debt market, FPNPP can also consider raising funds from Public Sector Banks (PSU banks). PSU banks usually do not have any specific lending guidelines when providing funding to Government Institutions and ULBs since they know their disbursement is safe from a long-term perspective. Hence, it is difficult to quantify the amount of money an ULB can raise from an PSU bank. This will be based on mutual discussion, perceived risks, bargaining power of the ULB with the PSU bank and on the tenor. State guarantee might make it easier to obtain higher bank funding. IRR Advisory has worked out the amount of potential bank funding FPNPP can access based on current position. The methodology is as follows:

1. IRR Advisory has calculated the last 5 year average revenue and capital surplus. This surplus has been projected for the next 5 years at a discount factor of 10%.
2. The tenor of the loan is assumed to be 5 years.

Based on the above, the amount of loan that FPNPP can raise is INR8.2mn. The calculations are given below:

	FY17	FY18	FY19	FY20	FY21
Revenue Surplus + Capital Surplus (INR mn)	2.95	2.95	2.95	2.95	2.95
(Revenue + Capital) Surplus discounted at 10%	2.95	2.68	2.44	2.22	2.02
Total Discounted Cash Flows	12.31				
Sensitivity factor	1.5				
Funds that can be raised (INR mn)	8.2				

8) RECOMMENDATIONS

Across the Urban Local Bodies in Uttar Pradesh, the Municipal Act of Uttar Pradesh 2009 has not been fully adopted. Similar pattern is observed in FPNPP. FPNPP has not levied discretionary taxes. There are one time sources like sale of land which is increasingly being used for revenue generation. Fines and penalties are avenues which are a source of revenue stream should be strictly enforced. Associations and various similar bodies have become vocal and resist payment of levies and local taxes. Municipal Corporation should levy a tax and provide a service to the citizens and be held accountable if not providing the desired service. User charges, Beneficiary charges, Impact fees should be levied . This will be particularly useful for schemes implemented under AMRUT to be self sustainable.There are host of levies which can be imposed to raise revenue, but few significant ones are used for estimation purposes. A list is provided below that can be tried for enhancing revenue generation - some of these have been undertaken in a few ULBs.

Revenue Streams of Townships				
Taxes				
Property Tax	Water Tax	Sewerage Tax	Education Tax	Octroi and Toll
Fire Tax	Vehicle Tax	Street Tax	Theatre Tax	Other Taxes
Rental Income				
Civic Amenities	Office Buildings	Lease of Lands	Royalty	Other Rents
Fees and Usage Charges				
Empanellment & Registration	Licensing Fees	Development Charges	Regularization Fees	Penalties & Fines
Service & Administration Charges	Entry Fees - Zoos, Museums, etc.	Biomedical Waste Charge	Advertisement Charges	Other Charges
Sale and Hire Charges				
Sale of Products	Sale of Forms & Publications	Sale of Stores & Scraps	Sale of Rights and Miscellaneous	Hire charges for Vehicles & Equipments
Revenue Grants				
Road Grant	Re-imbursements	Freeships	Other Revenue Grants	
Income from Investments				
Interest on FDs	Interest on Govt. Securities	Interest on Loans & Advances	Other Interests	
Miscellaneous				
Receipts from Exhibitions	Recoveries - Employeees, Fines, etc.	Contribution from Funds, Schemes, etc.	Video/Film Shooting Charges	Donations

Key observations and recommendations regarding revenue potentials for ULBs in Uttar Pradesh are as follows:

Property Tax : Proper assessment of properties and efficient collection of tax is vital for municipal corporations as property tax is the primary source of income for these authorities. In a bid to improve their functioning, several municipalities across India have introduced innovative practices in property tax assessment and administration. Reform of the property tax systems is also one of the mandatory reforms under the Jawaharlal Nehru Urban Renewal Mission (JNNURM). The mandate under the JNNURM emphasises the need for implementation of on-line system for property tax through a proper mapping of properties using a GIS system. As a result many municipalities have adopted GIS-based property tax system to strengthen their revenues.

The GIS-based property tax system covers the entire area under the municipal jurisdiction and as part of this system, a unique property identification number (PID) will be provided to each property. The PID number is a combination of ward number, street number and plot number. The system provides a uniform policy to the civic authorities to identify properties throughout its jurisdiction to levy tax. This will reduce corruption, check illegal construction & will widen the tax base. Several cities like Mordabad,Kanpur, Varanasi,Bangalore, Hyderabad to name a few has implemented GIS sytems as pilot projects. They have reported 100 % increase in revenue. Properties which came under tax net has doubled. However putting in place such systems is expensive and time-consuming and one has to be patient before the results begin to show. As corporations have embraced innovative solutions at various levels and are increasingly identifying illegal constructions, unassessed properties and under-taxed buildings, some municipalities have even been able to reap benefits in form of increase in tax revenues while some are yet to test the waters.

Urban Development Tax: The average urban development tax realised by the ULBs in Uttar Pradesh does not represent 100% coverage of houses and also the complicated procedure of assessment of urban development tax. The urban development tax varies for each house. It is also proposed that all residential plots sized 50 sq. mtr and commercial plot sized 20 sq. mtr should be brought under this tax net. The exact number of plots in the cities and town are not available. ULBs that are not collecting any development charges, must collected it. All malls and similar commercial establishment needs to be brought under the tax net. User charges can be levied on per day basis.

Registration Fee: With increasing urbanization, large number of establishments is coming into existence of all sizes. Establishment tax could be a major source of revenue for the urban local bodies. It has been found that quite a few municipal boards are levying registration and annual fees on units like *atta chakki, meat shops* and other small enterprises. If the *thela owner* is paying taxes in small towns, then there is ample scope for establishment tax in Uttar Pradesh. The registration fee should be linked to the annual output generated by the enterprise. Such linking of the registration fee with the annual output would take of the size and scale effect. It would also provide a differential registration fees for enterprises located at different levels of performance.

Professional Tax: State government has imposed professional tax on few professions in Tamil Nadu. It is suggested that urban local bodies should bring into its tax all professionals. Professional taxes from professional activities like event management, counsellors, architects, chartered accounts, diagnostic centres, doctors, private hospitals, beauty parlours and coaching centres could bring in revenues for ULBs.

Public Polluting Business Tax: Green tax is being imposed by various urban local bodies in the country. It is suggested public polluting business tax be imposed by urban local bodies on industrial units falling within their jurisdiction even if they fall under the purview of government or other such bodies.

Waste Disposal Charges: Many cities like Ahmedabad and Surat have demonstrated collection of waste disposal charges. Waste collection charges, if not fully, can cover significant portion of expenditure on this activity of the municipal bodies in Uttar Pradesh.

Entry Tax: Delhi levies INR700 to INR2,600 for trucks and other commercial vehicles. Similarly, all municipalities depending up on vehicular traffic of outside vehicles can levy entry tax. In some places it can be collected through toll tax. Collection can be outsourced but rate fixed by municipal body.

Marriage Palaces: All social functions are being held in hotels and so called palaces coming up all over the cities/ town and state highways and national highways. Some municipalities are charging registration fees and annual charges but not all municipalities do it. This is a good potential for raising resources by the local bodies. In the case of marriage palaces, in case of Bikaner Municipal Corporation, byelaws allows for two types of charges to be collected– first is one time registration fee and the second is annual renewal fee.

Restaurants and Hotels: Some municipalities are collecting hotel/ restaurants registration fees, but not all ULBs. With increasing trend of eating out and mushrooming of these facilities, all municipalities should charge a registration fee from dhabas, restaurants and hotels located within the municipal area. For example Bikaner Municipal Corporation’s byelaws allow for differential fee based on what they serve in a dhaba etc and number of rooms a hotel.

Tourists: Uttar Pradesh receives large number of tourists every year at various locations. Large number goes to certain locations for religious tourism. It is suggest that the urban local body should collect a fee from a domestic tourist and foreign tourist staying in a hotel, guest house or paying guest accommodation. There are one or two municipal bodies levying pilgrim tax. Thus, wherever possible municipal bodies can levy this tax too.

Others

- Cleaning charges from grain markets, fruit markets and vegetable markets. Similarly, this cleaning charge may be collected from other government and semi-government organisations.
- Revenue may be mobilised by levying certain surcharge on the vehicles sold within the jurisdiction of the corporation.
- Tax on vacant plots of land. Any plot, which is not brought under use after purchase of 2 years, should come under tax net.

The credit scoring model and the reporting format are provided in soft format as Annexure A and B respectively.

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