



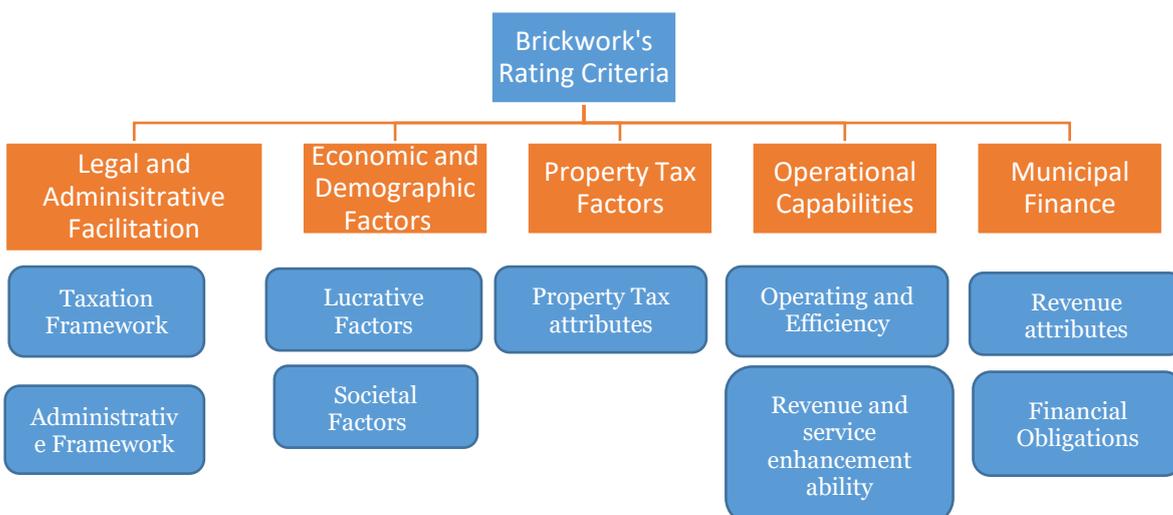
Rating Criteria - Municipal & Urban Local Bodies

Executive Summary

The third tier of governance in India are vested with a significant list of functions which include planning for economic development and social equity, urban poverty alleviation programs and promotion of cultural, educational and aesthetic aspects, public health, sanitation, conservancy, waste management and many more. In the modern world, role of the Local government as a regulator, provider, agent and a welfare agency requires adequate funding. Brickwork (BWR) has a unique framework to analyze each Urban Local Body (ULB) that looks at the municipal area's economy and demography, intergovernmental fiscal transfers, operational efficiencies, management quality and municipal finances. BWR's Issuer Rating comments on the ULB in an overall sense and indicates how well the ULB is run as well as probability of default on their debt obligations.

Brickwork is a SEBI registered Credit Rating Agency, which has been accredited by RBI and empanelled by NSIC. Brickwork has created unconventional procedures for rating the Municipal and urban local bodies. In the past few years Brickwork has rated many Companies. It is accredited by IREDA and the Ministry of New and Renewable Energy (MNRE), Government of India, to grade Companies seeking credit facilities from IREDA and Renewable energy service providing Companies.

Brickwork considers the following key factors for rating municipal and local bodies:



Scope of the article

This article features the measures embraced by Brickwork in rating municipal and urban local bodies Instruments. The conclusion provided highlights Brickwork's rating approach for surveying the credit nature of Municipal and Urban Local bodies.

Brickwork's Valuation Structure:

Legal and Administrative Facilitation

Brickwork evaluates the legal and administrative factors on the basis of the Act. The act summarises legislations brought about by state governments to establish municipal governments, administer them, and provide a framework of governance for cities within the state. Various processes including rules for elections, recruitment of staff, and demarcation of urban areas derive from the state municipal acts. Brickwork considers that a clear lawful and regulatory structure for a civil body, joining matters identifying with the utilitarian area, tax and non-tax powers, furthermore, monetary linkages with the state government, association and review of records and obtaining powers, forecasts well for dealing with the civil body's activities and accounts.

The main aspects of the act considered by Brickwork include:

- **Taxation Framework:**

Taxation and borrowing powers

ULB's have the power to borrow and charge for services. Brickwork assesses the ULB's taking into consideration the approach adopted to fulfil this obligation.

Tax-levying powers and experience

Brickwork evaluates the tax collection ability and evaluates the district's utilitarian area versus the income raising forces, designated to it generally decides the organization's expected financial quality and its capacity to keep up an adequate degree of administrations.

- **Administrative Framework:**

Process of selection of Municipal Committee

Brickwork evaluates ULB's by identifying self-governing bodies, government interference, and dependency on state. It additionally considers time associated with taking significant adoptions, as additionally the clearness and responsiveness to relevant issues.

Functions included as per Municipal Act

Brickwork assesses ULB's on the basis of land development, water and sewer, waste management, cemeteries and fire-fighting. It oversees many discretionary and non-discretionary services, and the implementation plans of district municipalities.

Government-ULB's Relationship

The Act determines the incomes that the metropolitan body will get by method of advances, funding and moves from the state government. Brickwork analyses the degree to which these factors are discretionary. The relationship is seen to establish a consistent future income stream for the enterprise to a great extent free of political agreement.

Economic and Demographic Factors

Brickwork analyses the monetary and demographic attributes of ULB's with the goal of evaluating the assessment base, flexibility of duty salary, and the chance of upgrading the body's assessment base and income producing potential. A portion of the key pointers analyzed include:

Lucrative Factors:

- Economic development in the regions.
- Importance of the region.

Societal Factors:

- The population base and its development rate, and the extent of slum population.

Property Tax Factors

As Property taxes are an important source of revenue for local and state governments, ULB's rely heavily on property taxes to fund schools, roads, police departments, fire and emergency medical services, as well as other services associated with residency or property ownership. These constitute a key input in assessing the flexibility and autonomy of the municipal body.

Operational Capabilities

Key Metrics evaluated by Brickwork Include:

Operating and Efficiency Factors

Brickwork assess the current operations of ULB's by conducting an in-depth research and analysis of numerous services rendered, payments collected and by comparing its mandatory and discretionary services. Brickwork performs a thorough research on core service sectors. Various aspects such as population, quantum of per-capita water supply are benchmarked to arrive at various service agreements. Brickwork believes that ULB's focusing on operational improvements have better possibilities in generating cumulative revenue.

Revenue and service enhancement

Brickwork evaluates ULB's major revenue sources which includes tax collection history and all the revenue streams along with identifying the expense of administrations recouped from collection of charges demanded are additionally examined.

The capacity of ULB's to expand its income and recuperate costs implies consistency in income, and henceforth the monetary ability to support improvement of the current administrations or broadening the administration base.

Municipal Finances

Brickwork evaluates municipal finances by conducting a comprehensive research on the below attributes:

- **Revenue attributes:**

ULB's have different sources of income. Some of these such as tax and non-tax revenue are generated by these bodies themselves. But owing to rapid pace of urbanisation and the need for urban infrastructure development, own revenue generated by municipalities often falls short of their expenditure requirements. Thus, over and above their own revenue, most local bodies depend significantly upon the devolution of resources and grants from the State and Central governments, and borrowings from financial institutions.

Brickwork conducts a detailed study on ULB's various revenue streams which comprise of own-non-tax revenue, own-tax revenue, borrowings, grant-in-aids and other receipts to understand the efforts taken up by ULB's in generating the revenue and identifying the loopholes (if any). Brickwork believes tax revenue and own revenues to be the major rating factor as it provides countless control on revenue.

Brickwork carries out evaluation of revenue expenditure incurred by performing a detailed analysis of allocations made for primary education, medical, relief, water supply and sewage, public health and safety, solid waste management and public works. The stability and consistency in the expenditure of the above-mentioned services is considered by Brickwork.

- **Financial obligations:**

Brickwork analyses the operating Surplus/ deficit and assesses the firm’s credibility, Brickwork considers the surplus position of the firm depicts the upsurge in revenue and it portrays larger control over the revenue, income and expenditure. Generally, a good operating revenue surplus over years should prompt an improvement in the limit far beyond the capital income related augmentations. This would improve the income base of the partnership, guaranteeing manageability in better income.

Brickwork assess ULB’s debt indicators including maturity, repayment plans, interest rates, repayment obligations, debt composition, proportions of external debt or exports to GDP which are all valuable markers to characterize debt and repayment capacity. Brickwork also evaluated the debt-to-service coverage ratio to analyse the ULB’s available cash flow to pay current debt obligations. BWR also looks at ULB’s asset management, monetizing the land resources, and privatization avenues, as applicable.

Brickwork analyses ULB’S liquidity to assess the cash position, whether the ULB is flexible for any uncertain event which might arise. Brickwork sees cash balance in the business as a means for meeting debt obligations and operational expenses.

Brickwork’s Rating approach for Municipals and ULB’s	
<p>Legal and Administrative Facilitation</p> <ul style="list-style-type: none"> • Taxation Framework: Taxation and borrowing powers Tax-levying powers and experience • Administrative Framework: Process of selection of Municipal Committee Functions included as per Municipal Act Government-ULB’s Relationship <p>Economic and Demographic Factors</p> <ul style="list-style-type: none"> • Lucrative Factors • Societal Factors 	<p>Property Tax Factors</p> <ul style="list-style-type: none"> • Property Tax attributes <p>Operational Capabilities</p> <ul style="list-style-type: none"> • Operating and Efficiency Factors • Revenue and service enhancement <p>Municipal Finances</p> <ul style="list-style-type: none"> • Revenue attributes • Financial Obligations

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