Capital Improvement Planning Guide

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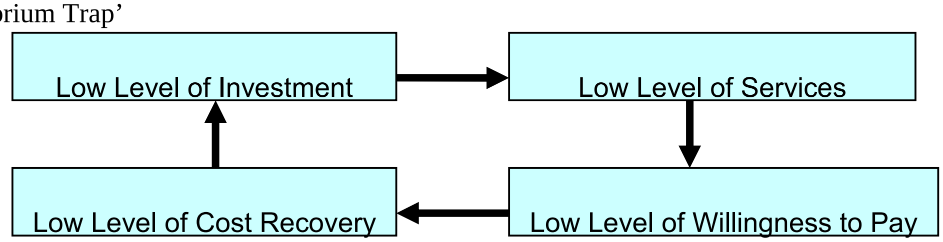
1. The Context

During the last eight years Andhra Pradesh has undertaken series of strategic reforms with the objective of improving civic governance and effective provision of infrastructure and basic amenities to the people. The Andhra Pradesh Vision 2020 document envisages that "By 2020, Andhra Pradesh will have well-planned, economically productive, socially just, environmentally sustainable, culturally vibrant, friendly and safe cities and towns." This calls for effective management of urban growth so as to have clean, green, comfortable, safe, and livable cities. The state will focus on infrastructure development, environmental management, street lighting, housing, and public transport to all. Civic governments will be participatory, responsive, and people-oriented. This Urban Vision is to be achieved through an integrated approach that blends urban development and infrastructure planning with sound fiscal policy and systems to manage and deliver urban services effectively.

Local Governments are responsible for providing and maintaining basic infrastructure facilities. This important governmental function is not made easier given current demands and local officials' inherent responsibility to achieve the greatest possible benefit at the least possible cost to the taxpayer. All of the world's cities are underpinned by a vast infrastructure network of roads, water supply, sewerage, drainage, power supply, flood protection, recreational and other assets.

Improving the management of municipal infrastructure can bring major benefits by ensuring that scarce resources are used in the most cost effective manner, thereby enhancing economic growth, improving living standards and improving environmental sustainability. Many municipalities have traditionally tried to meet infrastructure needs through investment in infrastructure creation, without recognising the long-term life-cycle costs associated with the ongoing operations, maintenance, and renewal of infrastructure. This has led to below-cost tariffs and has undermined the financial position of municipalities, leading to 'Low Level Equilibrium Trap'



Breaking this trap requires securing private sector participation, accessing capital markets, enhancing financial viability through the development of a Capital Improvement Plan.

The **Capital Improvement Plan (CIP)** is a dynamic document that lists and prioritises needed improvements and expansions of the city's infrastructure system to maintain adequate service levels to the residents and to accommodate population growth and land development. The plan includes provision for planning and design, development of new facilities, rehabilitation or restoration of existing facilities, acquisition of land for specific development purposes, and the replacement of major facilities/services reflecting the needs and priorities of the city.

Need for Capital Improvement Planning

Capital Improvement Planning is an approach to develop a blueprint for capital expenditures to develop and maintain municipally owned infrastructure assets to:

(1) Ensure that scarce resources are used in an efficient manner rather than allow capital improvement decisions to be made on an ill-defined, haphazard basis, through prioritisation of the various projects, and providing for the funding and implementation strategy on an annual basis.
(2) Identify deficiencies in the existing network of roadways, water and sewer systems, and other essential public facilities.
(3) Determine infrastructure expansion needs to meet future residential and commercial development requirements.
(4) Select priority projects with input from elected officials, staff and the public.

The **Benefits of Capital Improvement Planning** includes:

(1) Reversing the historical trend toward declining public investment in important public facilities.
(2) Eliminating the duplication of project requests.
(3) Focussed attention on community goals and objectives.
(4) Allowing for proper programming and project design.
(5) Improved understanding of service level options and costs.
(6) Improved decision-making based on the benefits and costs of alternatives.
(7) Ability to demonstrate responsible investment in infrastructure/framework for the equitable distribution of public improvements.
(8) Improved knowledge of the timing and magnitude of future investments required to operate, maintain, and renew infrastructure.
(9) Assurance to tax payers that they will not suddenly be called upon to finance expensive public facility improvements.
(10) Long term expenditures can be averaged out so that major debt is not incurred all at once.
(11) Facilitating capital expenditure and revenue estimates and helping to avoid emergency financing methods.
(12) Improving a municipality's bond ratings and lower interest costs due to prudent fiscal management.
(13) Being a benchmark of the overall fiscal health of a local government.

In short, CIP helps in rationalised decision making, increased public support for expenditures, and improved management of infrastructure, strategic policy development, and increased market confidence.

1.1 The Capital Improvement Planning Process and the Capital Budget

The capital budget represents the first year of the Capital Improvement Plan. The capital budget is not only a tool for financial planning and control, it is also the most significant instrument to steer city development according to a vision. The primary difference between the capital budget and the CIP is that the former is a legal document which authorises expenditures for specific projects during the ensuing fiscal period. The CIP, on the other hand, includes first year projects as well as future projects, for which financing may not have been secured or legally authorised. The "out-years" of the CIP are not binding and are therefore subject to change.