

Part-B
URBAN LOCAL BODIES

CHAPTER III

Section A An overview of Urban Local Bodies

3.1 Introduction

The Seventy-fourth Amendment to the Constitution of India mandated all State Governments to operationalise Urban Local Bodies (ULBs), as units of self-government. The Orissa Municipal Act, 1950 was amended (2007) for this purpose and the Orissa Municipal Corporation Act was enacted (2003) to ensure devolution of powers and responsibilities to ULBs, in relation to the subjects listed in the Twelfth Schedule of the Constitution.

Table 3.1: Statistics of urban population

Indicator	Urban	State
Population (in crore)	0.70	4.19
Male (in crore)	0.36	2.12
Female (in crore)	0.34	2.07
Sex Ratio per 1000 males	932	978
Literacy rate (<i>per cent</i>)	85.75	72.87
Literacy Male (<i>per cent</i>)	90.72	81.59
Literacy Female (<i>per cent</i>)	74.31	64.01

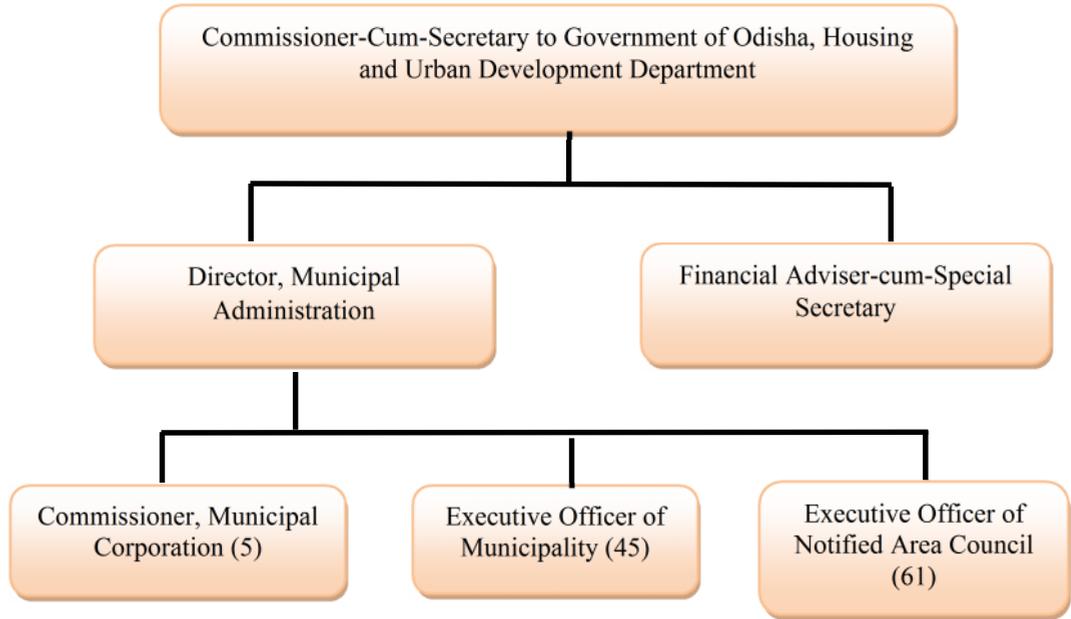
(Source: Census of India 2011)

To provide better amenities to citizens residing in the cities of the State and to make the cities/towns beautiful, clean, living worthy and developed, 111 ULBs were set up in the State under three categories i.e. Municipal Corporations- 5, Municipalities- 45 and Notified Area Councils (NACs) - 61 as of March 2015. The Municipalities and NACs are functioning under the provisions of the Orissa Municipal Act, 1950, while Municipal Corporations are functioning under the Orissa Municipal Corporation Act, 2003.

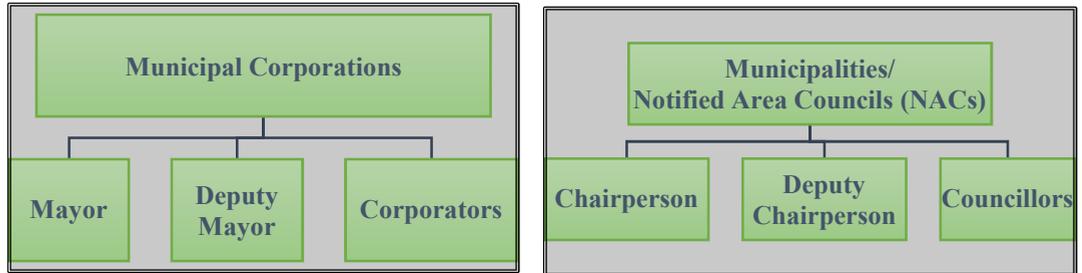
3.2 Organisational setup of ULBs

Each ULB is divided into a number of wards, each represented by a Ward Councillor. While a Municipal Commissioner is the executive head of a Municipal Corporation, an Executive Officer is the executive head of a Municipality or NAC. Municipal Commissioner of Municipal Corporation and Executive Officers of Municipality and Notified Area Council reports to Director of Municipal Administration in Housing and Urban Development (H&UD) Department. Director, Municipal Administration coordinates the various activities of all ULBs in the field of municipal tax administration, financial management, infrastructure development, town planning, urban health and sanitation, environment management and programmes for urban poor etc. The Directorate has the responsibility to supervise the function of the ULBs, work out suitable human resource policies, monitor the tax collection activities, lay down policies for transparency in expenditure, hear appeals against the decisions of ULBs, release Government funds to ULBs, as well as monitor implementation of schemes and programmes.

The organisational hierarchy of the ULBs is indicated below.



The structure of the elected bodies of the ULBs is as under:-



Each Municipal Corporation is headed by a Mayor and each Municipality/Notified Area Council by a Chairperson, who are elected amongst the Corporators/ Councillors of the respective ULBs.

3.3 Functioning of ULBs

The Twelfth Schedule (Article 243 W) of the Constitution of India envisages that the State Government may by law, empower the municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government. It listed 18 functions to be devolved upon the ULBs by the State Government. The State Government claimed to have already devolved 17 out of 18 functions as of March 2014 and the remaining one i.e., roads and bridges was not devolved. Effort is being made by the State Government to devolve the remaining function, i.e., roads and bridges, to the ULBs.

3.4 Staffing pattern of ULBs

Every Municipality/NAC is to have an Executive Officer, an Engineer and a Health Officer who are State Government employees, appointed to the

Municipality and their work is subject to the general powers of supervision of the Chairperson. A Corporation may have the officers, namely Commissioner, City Engineer, City Health Officer, Chief Finance Officer, Chief Auditor, Law Officer, Secretary, Deputy Secretary, Recovery Officer, Environment Officer and such other officers as may be prescribed. However, every Corporation may, with the previous sanction of the Government and as per provisions of the Act, determine its establishment.

3.5 Functioning of various Committees

As per Orissa Municipal Corporation Act, 2003 standing committees are to be set up for dealing respectively with-

- i) Taxation, Finance and Accounts;
- ii) Public Health, Electricity Supply, Water Supply, Drainage and Environment;
- iii) Public Works;
- iv) Planning and Development;
- v) Education, Recreation and Culture;
- vi) Licenses and appeals;
- vii) Contracts;
- viii) Corporation Establishment;
- ix) Grievances and Social Justices; and
- x) Settlement of mutual disputes between two adjoining corporations.

The Corporation may, with previous sanction of the Government, constitute additional standing committees for such purposes, as the Corporation thinks fit. Similarly the Municipalities may appoint Committees to assist them in the discharge of their duties.

There is to be constituted at the level of every district a District Planning Committee (DPC) to consolidate the plans prepared by the Municipalities in the district and to prepare a draft development plan for the district as a whole.

A DPC is to consist of 20 members, 16 members from amongst the elected members of the Zilla Parishad and elected Councillors of the Municipalities in the district; and four members to be nominated by the State Government as follows:

- i) A Minister in the Council of Ministers of the State, who shall be the Chairperson;
- ii) The Collector of the district, who shall be the Vice-Chairperson;
- iii) The Chairperson of the Zilla Parishad of the district; and
- iv) The Chairperson of a Municipality in the district.

3.6 Fund flow arrangement at ULBs

For execution of various developmental works, the ULBs mainly receive funds from the Government as State Plan, Non-Plan and Central Plan. Besides, all collections such as taxes on holdings, trades, rent on shops and buildings and other fees and charges etc., constitute the revenue receipts of the ULBs. The budget provision under each category for the last three years is indicated in the table below:

Table 3.2: Budget provision of funds by H&UD Department

(₹ in crore)

Grant type	2013-14	2014-15	2015-16
Non-Plan	1174.29	1253.05	1546.48
State Plan	1318.81	1528.42	1366.02
Central plan	0.09	12.79	12.79
Total	2493.19	2794.26	2925.29

(Source: Information as available in Activity Report of H&UD Department.)

3.7 Recommendations of State Finance Commission (SFC)

The Third State Finance Commission had requested to devolve ₹ 1120.21 crore for the period 2010-15 in favour of ULBs for providing public services and undertaking local development. The Commission recommended empowering of ULBs to augment their own income through levy of new taxes/fees such as Property tax, Fines on unauthorised use of land under the municipal jurisdiction, Share in cess on conversion of agricultural land for non-agricultural uses, Capital/property transactions fee and Trade license fees. However, Property Tax has not been levied by any of the ULBs in the State.

The 4th SFC, therefore, had requested to the 14th Finance Commission to augment the State's Consolidated Fund to supplement the resources of the local bodies over and above the fund recommended for transfer from the State's resources. Total resource transfer (from State resources) to ULBs recommended by the 4th SFC for the period 2015-20 was as under:

Table 3.3: Resource transfer recommended by the SFC

(₹ in crore)

Distribution mechanism	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20 Total
Devolution	164.60	164.60	164.60	164.60	164.60	823.00
Assignment of Taxes	540.00	644.00	708.40	779.24	857.16	3528.80
Grants in aid	59.61	80.48	178.10	180.94	184.08	683.21
Total	764.21	889.08	1051.1	1124.78	1205.84	5035.01

(Source: Report of the 4th SFC)

However, budget provision was made for ₹ 865.23 crore¹ by the State Government for the year 2015-16.

3.8 Recommendations of the Central Finance Commission (CFC)

As per request of the 3rd SFC, 13th Finance Commission had recommended provision of ₹ 514.88 crore to the ULBs. In addition, the State Government recommended ₹ 302.50 crore to the ULBs as a part of devolution of its own

¹ Devolution ₹ 164.60 crore, Compensation and Assignment ₹ 641.02 and Grants and Assistance ₹ 59.61 crore.

resources. However, a sum of ₹ 362.89 crore² has been released to the ULBs towards 13th Finance Commission Awards during the period 2010-11 to 2014-15.

Recommendations of the 14th Finance Commission are given in the table below.

Table 3.4: Recommendation by 14th Finance Commission (₹ in crore)

Grant type	2015-16	2016-17	2017-18	2018-19	2019-20
Basic Grant	170.10	235.54	272.14	314.82	425.39
Performance Grant	00	69.52	78.67	89.34	116.98
Total	170.10	305.06	350.81	404.16	542.37

(Source: Information as furnished by Finance Department)

GoI released ₹ 162.44 crore towards Basic Grant during the year 2015-16 on pro rata basis to 106 ULBs, where election had been completed.

Further, the following recommendations were also made by the Commission.

- Basic and Performance Grants to the ULBs may be distributed in the ratio 80:20;
- State Government should apply the distribution formula of the SFC for distributing the grants among the three categories of the ULBs;
- Review of existing rules to facilitate levy of property tax;
- Empower local bodies to impose advertisement tax and improve own revenues from its source;
- Review the structure of entertainment tax and take action to increase its scope to cover more and newer forms of entertainment; and
- ULBs to rationalise service charges to recover operation and maintenance costs;

3.9 Audit mandate

3.9.1 Primary Auditor

Director, Local Fund Audit (DLFA) is the primary Auditor of ULBs in the State. The DLFA conducts audit of ULBs of all 30 districts of the State through 26 District Audit Offices. The position of audit of ULBs by DLFA as of March 2016 is given in Table 3.5.

Table 3.5: The position of audit of PRIs by DLFA as of March 2015

Year	Total number of ULBs planned for audit	Total number of ULBs audited	Shortfall	Reasons for shortfall
2013-14	103	55	48	Shortage of staff, Phailin, natural calamity and bandh in Western Odisha
2014-15	103	103	Nil	--
2015-16	102	102	Nil	--

(Source: Information furnished by Director, Local Fund Audit, Odisha)

² General Area Basic Grant ₹ 329.41 crore, Special Area Basic Grant ₹ 11.05 crore, share from Forfeited Performance Grant (General area) ₹ 21.41 crore and share from Forfeited Performance Grant (Special area) ₹ 1.02 crore

3.9.2 Audit by Comptroller and Auditor General of India

On the recommendation of the 13th Finance Commission, the State Government had entrusted (April 2011) the Comptroller and Auditor General of India (CAG) with audit of accounts of all the categories of the ULBs of the State under Section 20(1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Accordingly, accounts of five Municipal Corporations, 14 Municipalities and 10 NACs for the year 2014-15 have been covered under Performance Audit, Theme Based Audit and Compliance Audit during 2015-16. CAG was also requested to provide Technical Guidance and Support (TGS) to the State Audit Agency viz., Local Fund Audit (LFA) for audit of Local Bodies. The Government had notified (July 2011) the parameters of the TGS agreed to in the Official Gazette. Under TGS arrangement, 310 LFA staffs were imparted training during 2015-16, covering topics on audit methodology, writing of model POM, audit of schemes implemented in ULBs and accounting system in ULBs.

3.10 Reporting arrangement

3.10.1 Audit Report of Primary Auditor

As per recommendations of the 13th Finance Commission and provisions of OLFA (Amendment) Rules, 2015, the DLFA is to prepare and submit to the State Government not later than 30th September of each year, a consolidated report for the previous year, to be laid before the State Legislature. However, Annual Report for 2015-16 was not laid in the Odisha Legislative Assembly as of September 2016.

3.10.2 Annual Technical Inspection Report on ULBs

Annual Technical Inspection Report on PRIs and ULBs for the year ended March 2015 has been laid in the Odisha Legislative Assembly on 27 September 2016.

3.11 Response to audit observations

As on 31 March 2016, 3513 paragraphs relating to 231 Inspection Reports (IRs) issued by the Office of the Accountant General (G&SSA), Odisha to different ULBs remained unsettled for want of required compliances.

The Office of the Accountant General (G&SSA), Odisha issued eight Annual Technical Inspection Reports (ATIRs) on Urban Local Bodies relating to the years 2005-06 to 2012-14 and laid the report for 2014-15 in Assembly, wherein major audit findings on the transactions of ULBs of the State were reported. Even after convening meetings with the Commissioner-cum-Secretary of the Department and making a number of correspondences demi-officially with Chief Secretary to Government of Odisha, no information on remedial action taken by the Government on any of the paragraphs of these nine ATIRs was received as of September 2016.

Section B

Accountability framework and Financial Reporting issues

3.12 Accountability framework

(i) Property Tax Board

The State Government had decided to rationalise property tax through legislation by way of introducing the Unit Area based taxation system in all the ULBs. Unit Area based taxation system is an alternative to rental value, which is based on the principle of classification of properties and tends to remove the disparity in assessment of similar properties. The 13th Finance Commission had also recommended (September 2010) levy of property tax and removal of any hindrance in this regard. Accordingly, Property Tax Rules being developed by the H&UD Department had provisions for periodic revision of property tax. Currently, the draft Property Tax rules stand referred to Law Department for vetting.

(ii) Service Level Benchmark

In compliance with the recommendation of the 13th Finance Commission, the State Government had notified (December 2013) standards of service deliveries in four essential services, namely; Water Supply, Sewerage Management, Storm Water Drainage and Solid Waste Management provided by the local bodies.

After due evaluation of the achievements of such targets for the year 2013-14, the Government of Odisha notified (September 2015) the service level targets for the year 2015-16 in the four service sectors for 50 ULBs, covering all Municipal Corporations and Municipalities of the State after due consultation with them, as per indicators in the Handbook on Service Level Benchmarking published by the Ministry of Urban Development, Government of India.

As per the information furnished (December 2015) by the Berhampur Municipal Corporation, performance indicators for the year 2014-15 are given below.

Water supply

Sl. No.	Service level benchmark indicators	As per central target	Achievement
1	Coverage of water supply connections (in per cent)	100	39
2	Per capita supply of water	135 lpcd	134
3	Extent of metering of water connections (in per cent)	100	0
4	Extent of Non-Revenue Water (in per cent)	20	38
5	Continuity of water supply	24 hours per day	100
6	Efficiency in redressal of customer complaints (in per cent)	80	100
7	Quality of water supplied (in per cent)	100	78
8	Cost recovery in water supply services (in per cent)	100	56
9	Efficiency in collection of water supply related charges (in per cent)	90	46

Sewerage system

Sl. No.	Service level benchmark indicators (in per cent)	National benchmarks	Achievement
1	Coverage of toilets	100	86
2	Coverage of waste water network services	100	0

Sl. No.	Service level benchmark indicators (in per cent)	National benchmarks	Achievement
3	Collection efficiency of waste water network	100	0
4	Adequacy of waste water treatment capacity	100	0
5	Quality of waste water treatment	100	0
6	Extent of reuse and recycling of waste water	20	0
7	Extent of cost recovery in waste water management	100	0
8	Efficiency in Redressal of customer complaints	80	0
9	Efficiency in collection of sewerage charges	90	0

Storm Water Drainage

Sl. No.	Service level benchmark indicators	National benchmarks	Achievement
1	Coverage of storm water drainage network (per cent)	100	60.28
2	Incidence of water logging / flooding (Number)	0	0

Solid Waste Management

Sl. No.	Service level benchmark indicators (in per cent)	National benchmarks	Achievement
1	Household level coverage of SWM services	100	60
2	Efficiency of collection of municipal solid waste	100	95
3	Extent of segregation of municipal solid waste	100	0
4	Extent of municipal solid waste recovered	100	60
5	Extent of scientific disposal of municipal solid waste	100	0
6	Extent of cost recovery in SWM services	80	80
7	Efficiency in Redressal of customer complaints	80	20
8	Efficiency in collection of SWM related charges	90	29

As seen from above, achievements under coverage of water supply connections, cost recovery in water supply services, components under sewerage system except coverage of toilets and coverage of storm water drainage network were far below the target. Under solid waste management, components like segregation and scientific disposal of municipal solid waste were not taken up by the Corporation.

(iii) Grievance redressal

Out of the total 19231 grievances received, 12558 were resolved during 2015-16 (65 per cent).

3.13 Pending submission of Utilisation Certificate (UC)

It was observed that seven out of 17 ULBs audited during 2015-16 had not submitted UCs amounting to ₹ 25.46 crore.

3.14 Outstanding advance

In Compliance audit, it was observed from the cash books and advance registers of 14 ULBs³ that advance of ₹ 39.16 crore was unadjusted against the employees of ULBs, contractors, firms and advocates. Out of the total advance, ₹ 7.96 crore was treated as unclassified since details such as date of payment, purpose and person to whom paid were not available in the records of two ULBs⁴.

³ Bhanjanagar NAC, Soro Municipality, Sambalpur Municipal Corporation, Angul Municipality, Kotpad NAC, Pattamundai Municipality, Aska NAC, Barapalli NAC, Basudevpur Municipality, Bhubaneswar Municipal Corporation, Chatrapur NAC, Cuttack Municipal Corporation, Berhampur Municipal Corporation and Kantabanji NAC

⁴ Sambalpur Municipal Corporation ₹ 7.34 crore and Aska NAC ₹ 0.33 crore

3.15 Maintenance of Accounts by ULBs

- Accounts of ULBs are prepared by the respective ULBs. Accounts of ULBs are certified by the Director, Local Fund Audit as per Rule 20(h) of the Orissa Local Fund Audit Rules, 1951.
- All the 102 Accounts of ULBs as per Audit Plan were certified by the DLFA, during 2015-16.
- Adoption of modern accrual based double entry system of accounting was mandatory for ULB level reform set by the GoI. However, migration to double entry accounting system has been accomplished only in the mission cities⁵ since financial year 2012-13. In other ULBs, cash based manual accounting system was prevailing (March 2016).

⁵ Bhubaneswar Municipal Corporation, Cuttack Municipal Corporation, Berhampur Municipal Corporation, Rourkela Municipal Corporation, Sambalpur Municipal Corporation, Puri Municipality, Balasore Municipality, Bhadrak Municipality and Baripada Municipality

