

# Compendium of Performance Audits on the Implementation of the 74<sup>th</sup> Constitutional Amendment Act, 1992: Landscape across India Volume I



SUPREME AUDIT INSTITUTION OF INDIA  
लोकहितार्थ सत्यनिष्ठा  
Dedicated to Truth in Public Interest

COMPTROLLER AND AUDITOR GENERAL OF INDIA  
2024

**Compendium of Performance  
Audits on the Implementation  
of the 74<sup>th</sup> Constitutional  
Amendment Act, 1992:  
Landscape across India  
Volume I**



# Foreword



It gives me immense pleasure to present this Compendium of *Performance Audits on the Implementation of the 74<sup>th</sup> Constitutional Amendment Act, 1992: Landscape across India (Volume I)*. It encapsulates some of the key findings from the Performance Audits undertaken by the Comptroller and Auditor General (CAG) of India on the implementation of the 74<sup>th</sup> Constitutional Amendment Act (CAA) in 18 States, placed in the State Legislatures as of June 2024.

The 74<sup>th</sup> CAA was a critical milestone in the history of urban governance in India. It sought to usher in urban decentralisation by recognising and empowering Urban Local Self-Governments (ULSGs). The amendment resulted in State Governments enacting or amending their municipal legislations to ensure effective functioning of democracy at the urban grassroots.

ULSGs will take centre-stage in addressing the 21<sup>st</sup> century challenges of urban India. For ULSGs to play their role effectively and efficiently, it is important to have a robust system of urban governance-urban laws, processes and institutional design- that reflect the provisions of the 74<sup>th</sup> CAA. Through a series of first-of-its-kind comprehensive Performance Audits, the implementation of this transformative Constitutional Amendment has been meticulously assessed, evaluating the extent to which the objectives outlined in the 74<sup>th</sup> CAA have been realised. These audits serve as a testament to our commitment to contribute towards a strong and effective local self-governance framework in India.

As we navigate the complexities of urbanisation and strive to build economically vibrant, environmentally sustainable, equitable and democratic cities, the findings derived from these audits are more pertinent than ever. By leveraging these findings, our policymakers have a unique opportunity to champion the cause for robust urban governance — equipping ULSGs with funds, functions and functionaries, as well as appropriate institutional designs that help them respond to the needs and aspirations of citizens.

I commend the dedication of the audit teams involved in these Performance Audits and the Office of the Principal Accountant General (Audit I), Karnataka for their role as the nodal office in the creation of this Compendium. I extend my appreciation to Janaagraha Centre for Citizenship and Democracy, Bengaluru, for their invaluable contribution to the development of this Compendium. I hope that all readers will benefit from this Compendium, which will become a catalyst for urban transformation in India.

A handwritten signature in black ink, appearing to read 'Girish Chandra Murmu'.

**GIRISH CHANDRA MURMU**

Comptroller and Auditor General of India



# Preface

It has been three decades since the enactment of the 74<sup>th</sup> Constitutional Amendment Act, 1992. As India's urbanisation accelerates, so does the significance of its Urban Local Self-Governments (ULSGs). It is important to assess if the State Governments have created robust urban legal frameworks, processes, institutions and institutional designs in conformity with the provisions of the 74<sup>th</sup> CAA.

The CAG undertook Performance Audits to assess whether the 74<sup>th</sup> CAA has been effectively implemented by States and whether ULSGs have indeed been empowered — through funds, functions and functionaries — to operate as effective institutions of self-governance. Reports in respect of 18 States were placed in State Legislatures as at the end of June 2024. This Compendium of *Performance Audits on the Implementation of the 74<sup>th</sup> Constitutional Amendment Act, 1992: Landscape across India (Volume I)* covers the findings in respect of these 18 States viz., Andhra Pradesh, Assam, Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Tripura and Uttarakhand. The findings in respect of the Performance Audits of the 74<sup>th</sup> CAA in the remaining States, which are under progress, would be prepared in due course.

This Compendium captures the essence of the findings, analysis and insights from the Performance Audits of these 18 States and presents trends and patterns on the effective implementation of the 74<sup>th</sup> CAA at the national level along the following themes:

- Effective adherence by States to the provisions of the 74<sup>th</sup> CAA in their municipal legislations;
- Extent of empowerment of ULSGs to discharge their functions effectively through the creation of appropriately designed institutions/institutional mechanisms and the functioning thereof;
- Extent of access and powers of ULSGs to raise financial resources commensurate with their functions; and
- Extent of powers of ULSGs to mobilise and incentivise their municipal workforce commensurate with their functions.

This Compendium offers valuable insights and analysis, crucial for policymakers, practitioners, academia and individuals interested in understanding and strengthening urban governance. This Compendium is envisaged to serve as a vital resource, facilitating informed decision-making and fostering constructive dialogue on furthering urban decentralisation and empowering ULSGs in the country.



# Acknowledgements



This Compendium of *Performance Audits on the Implementation of the 74<sup>th</sup> Constitutional Amendment Act, 1992: Landscape across India (Volume I)* is the culmination of the efforts of different stakeholders. Janaagraha Centre for Citizenship and Democracy, Bengaluru has played a pivotal role in developing this Compendium. Their knowledge and expertise in urban governance have been indispensable in this effort.

I extend my appreciation to the Principal Accountants General/Accountants General and the 18 States, whose reports are included in this Compendium, for their co-operation in ensuring the thoroughness and accuracy of the findings. These 18 States are Andhra Pradesh, Assam, Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Tripura and Uttarakhand. A special mention must be made for coordination efforts of Principal Accountant General (Audit I), Karnataka and her team for effectively discharging their role as the nodal office supporting the creation of this Compendium. They have been instrumental in realising it.

I thank all concerned State Government departments, individuals and organisations involved in this endeavour for their unwavering support and commitment to advancing the objectives of the 74<sup>th</sup> Constitutional Amendment Act.

**SUBIR MALLICK**

Deputy Comptroller and Auditor General  
(Defence and Local Governance Audit)



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# Executive Summary



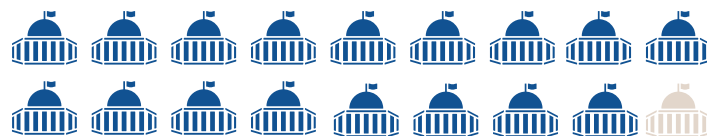
**Compendium synthesising Performance Audits on the implementation of the 74<sup>th</sup> Constitutional Amendment Act (CAA) in 393 Urban Local Self-Governments (ULSGs) in 18 States.**

**1**

On average,

**17 out of the 18 functions**

in the Twelfth Schedule of the Constitution are devolved to ULSGs, by law.

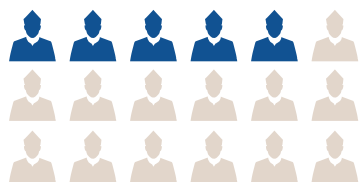


However, only 4 functions are effectively devolved with complete autonomy.

2

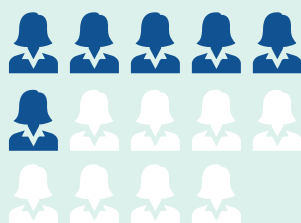
**Five States**

have directly-elected Mayors.



As such, about 61 million out of the 241 million urban citizens of the 18 States of India can directly elect their Mayor.

3

**6 out of 14 States**

reserve 50 per cent of their City Council seats for women, going over and above the constitutional mandate of 33 per cent reservation for women.

4

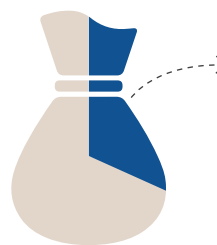
**1,600 out of 2,625 ULSGs**

in 17 States did not have an active elected Council.



5

On average, only **32 per cent** of ULSGs total revenue is own revenue.



6

On average, only **29 per cent**

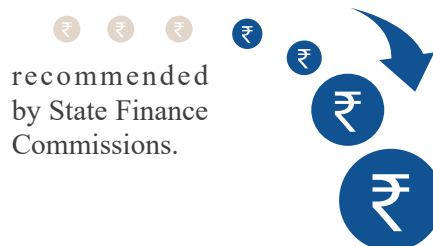
of current expenditure in the ULSGs was directed towards programmatic and development work.



7

On average, ULSGs of 15 States have

**short receipt of grant revenue of ₹1,606 crore**



recommended by State Finance Commissions.

8

ULSGs have an average resource expenditure gap of **42 per cent.**



9

The average staff vacancy against the sanctioned strength in ULSGs is

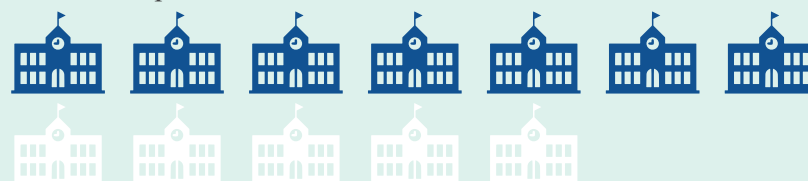
**37 per cent.**



10

Only **7 out of 12 States**

have training institutes for capacity building of their municipal functionaries.



# 74<sup>th</sup> CAA Implementation: State-wise Analysis

Name of States	Mayoral tenure (in years)	Mode of mayoral election	Empowerment of SEC over delimitation of wards	% of women reservation in Council	
Andhra Pradesh	NA	NA	✗	<div><div>33%</div></div>	
Assam	NA	NA	✗	<div><div>33%</div></div>	
Chhattisgarh	5	Direct	✗	<div><div>33%</div></div>	
Haryana	5	Direct	✗	<div><div>33%</div></div>	
Himachal Pradesh	Municipal Corporations: 2.5 Municipalities: 5	Indirect	✓	<div><div>50%</div></div>	
Jharkhand	5	Direct	NA	<div><div>50%</div></div>	
Karnataka	Municipal Corporations: 1 Municipalities: 2.5	Indirect	✗	<div><div>50%</div></div>	
Kerala	NA	NA	✓	<div><div>50%</div></div>	
Madhya Pradesh	5	NA	✗	NA	
Maharashtra	2.5	Indirect	✓	<div><div>50%</div></div>	
Manipur	NA	Indirect	NA	<div><div>33%</div></div>	
Odisha	NA	Indirect	✗	NA	
Punjab	5	Indirect	✗	<div><div>33%</div></div>	
Rajasthan	5	Indirect	✗	<div><div>33%</div></div>	
Tamil Nadu	5	Direct	✓	NA	
Telangana	5	Indirect	✗	<div><div>50%</div></div>	
Tripura	NA	Indirect	NA	NA	
Uttarakhand	5	Direct	✗	<div><div>33%</div></div>	

✓ Yes

✗ No

NA Data Not Available / Not applicable/ Not specified

	Number of functions devolved to ULSGs by law (Out of the 18 functions under the Twelfth Schedule of the Constitution)	Number of functions effectively devolved to ULSGs (Out of the 18 functions under the Twelfth Schedule of the Constitution)	Average delay in the constitution of SFCs (in days)	% Share of own revenue in total revenue of the ULSGs	Power of ULSGs over appointment of staff	Average overall ULSGs staff vacancy (in percentage)
	16	5	753	<div><div>57%</div></div>	⊘	<div><div>20%</div></div>
	17	3	150	<div><div>35%</div></div>	!	NA
	18	8	613	<div><div>17%</div></div>	⊘	<div><div>22%</div></div>
	18	4	174	<div><div>30%</div></div>	⊘	<div><div>38%</div></div>
	17	5	252	<div><div>22%</div></div>	⊘	<div><div>37%</div></div>
	18	10	488	<div><div>13%</div></div>	NA	<div><div>47%</div></div>
	17	3	603	<div><div>37%</div></div>	⊘	<div><div>31%</div></div>
	17	7	120	<div><div>20%</div></div>	!	<div><div>13%</div></div>
	18	4	235	<div><div>20%</div></div>	⊘	<div><div>63%</div></div>
	18	10	279	<div><div>82%</div></div>	!	<div><div>31%</div></div>
	18	1	728	<div><div>6%</div></div>	!	<div><div>46%</div></div>
	18	0	1,465	NA	⊘	<div><div>38%</div></div>
	18	5	105	<div><div>82%</div></div>	⊘	<div><div>32%</div></div>
	17	2	312	<div><div>17%</div></div>	⊘	NA
	17	3	79	<div><div>41%</div></div>	NA	NA
	17	6	NA	<div><div>43%</div></div>	⊘	<div><div>45%</div></div>
	18	4	643	<div><div>8%</div></div>	!	<div><div>35%</div></div>
	14	0	0	<div><div>14%</div></div>	!	<div><div>64%</div></div>

✓ Yes

✗ No

NA Data Not Available / Not applicable/ Not specified

⊘ No Powers ! Limited



A still from Indore, Madhya Pradesh

# Introduction

It has been three decades since the enactment of the 74<sup>th</sup> Constitutional Amendment Act (CAA), which provided constitutional recognition for Urban Local Self-Governments (ULSGs) in India. With 50 per cent of the country estimated to reside in cities by 2050, the role of ULSGs is becoming critical. The ability of ULSGs to offer good quality of life to their citizens is determined by robust urban laws, policies, processes, institutions and institutional mechanisms put in place by respective State Governments in line with the provisions of the 74<sup>th</sup> CAA.

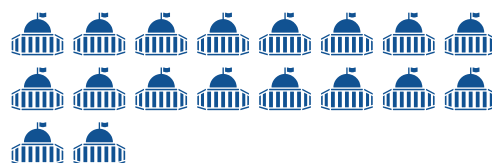
In this context, the Comptroller and Auditor General (CAG) of India undertook Performance Audits on the implementation of the 74<sup>th</sup> CAA in 18 States. The findings of these Performance Audits have been incorporated in this Compendium.

This chapter covers the rationale for producing this Compendium as well as its methodology and structure.

## Data Highlights

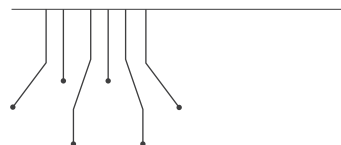
Compendium synthesising Performance Audits on the implementation of the 74<sup>th</sup> CAA in

**393 ULSGs in 18 States.**



Analysis encompassing

**32 data points.**

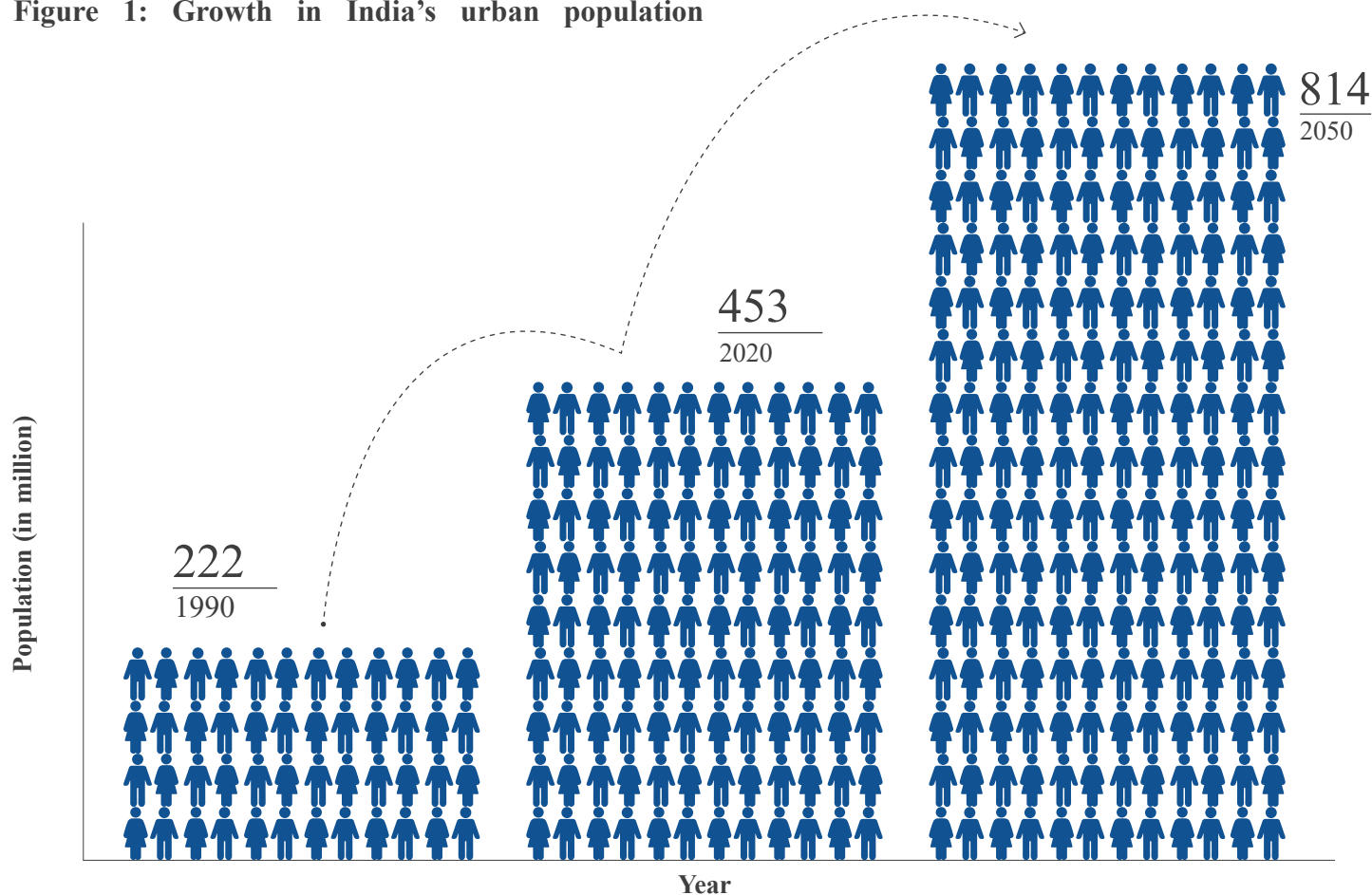


*Current pace of growth suggests that 50 per cent of India's population will be urban by 2050. Growing urbanisation significantly increases the need for robust ULSGs in India.*

There are over 400 million citizens living in India's cities; this number is estimated to grow to over 800 million by 2050<sup>1</sup>. While cities occupy only 3 per cent of area, their contribution to India's Gross Domestic Product (GDP) is over 60 per cent. District GDP analysis indicates that every one per cent rise in urban population is associated with 2.7 per cent increase in district GDP. By 2030, 75 per cent of the country's GDP is expected to come from urban areas<sup>2</sup>.



**Figure 1: Growth in India's urban population**



Source: United Nations' 2014 - Revision of World Urbanization Prospects, High Powered Expert Committee's Report on Indian Urban Infrastructure and Services 2011

<sup>1</sup> Niti Aayog & Asian Development Bank. (2022). Cities as Engines of Growth. [https://www.niti.gov.in/sites/default/files/2022-05/Mod\\_CEOG\\_Executive\\_Summary\\_18052022.pdf](https://www.niti.gov.in/sites/default/files/2022-05/Mod_CEOG_Executive_Summary_18052022.pdf)

<sup>2</sup> High Powered Expert Committee. (2011). Report on Indian Urban Infrastructure and Services. Ministry of Urban Development. <https://icrier.org/pdf/FinalReport-hpec.pdf>



A busy street in Jaipur, Rajasthan

*Three decades have passed since the enactment of the 74<sup>th</sup> CAA which recognised ULSGs as institutions of self-government. A Performance Audit by the CAG of India assessing the efficacy of the 74<sup>th</sup> CAA is significant, especially in the wake of growing urbanisation in the country.*

The Constitution of India provides a mandate for democratic decentralisation through the 74<sup>th</sup> CAA, creating an institutional framework to usher in democracy at the urban grassroots. The 74<sup>th</sup> CAA, which came into effect on 1<sup>st</sup> June 1993, recognised ULSGs as institutions of self-government, empowering them to perform the 18 municipal functions listed in the Twelfth Schedule of the Constitution. State Governments legislated or amended municipal laws in line with the constitutional provisions.

in planning, governance and effective service delivery in cities so as to offer good quality of life to their citizens. It has been three decades since the enactment of the 74<sup>th</sup> CAA. With the ever-growing significance of ULSGs in India, it is important to assess if State Governments have appropriately designed institutions and institutional mechanisms in conformity with the provisions of the 74<sup>th</sup> CAA. Therefore, the CAG of India undertook Performance Audits on the implementation of the 74<sup>th</sup> CAA.

Given rapid urbanisation and its demands, it is important that ULSGs take the centre stage

## ***The Performance Audits on the implementation of the 74<sup>th</sup> CAA across States had broadly four audit questions.***

The overall objective of the Performance Audits was to assess whether ULSGs have indeed been empowered in terms of funds, functions and functionaries to establish themselves as effective institutions of self-government and whether the 74<sup>th</sup> CAA has been effectively implemented in the State.

### ***There were four audit questions:***

**Have the State Governments adhered to the provisions of the 74<sup>th</sup> CAA in their municipal legislations?**

**Are ULSGs empowered by the State Governments to discharge their functions effectively through the creation of appropriately designed institutions/ institutional mechanisms and their functioning?**

**Do ULSGs have access and powers to raise financial resources commensurate with their functions?**

**Do ULSGs have the powers to mobilise and incentivise human resources commensurate with their functions?**

## ***Audit criteria for the Performance Audits were derived primarily based on municipal laws, manuals, reports of Commissions constituted by the Government, etc.***

The sources used to arrive at the audit criteria for the Performance Audits are as below:

1. 74<sup>th</sup> Constitutional Amendment Act, 1992,
2. State Municipal Corporation and Municipalities Acts and the rules made thereunder,
3. Reports of the Thirteenth and Fourteenth Finance Commissions,
4. Recommendations of the Second Administrative Reforms Commission (SARC),
5. Reports of State Finance Commissions,
6. General Financial and Accounts Rules,
7. Rules regarding revenue sources and municipal services and
8. Instructions and circulars issued by the State Governments.

*The Performance Audits on the implementation of the 74<sup>th</sup> CAA were undertaken in 18 States covering 393 ULSGs. This Compendium is based on the findings from these audits.*

The Performance Audits on the implementation of the 74<sup>th</sup> CAA have been undertaken in 393 ULSGs in 18 States - Andhra Pradesh, Assam, Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Tripura and Uttarakhand. Through random sampling, with the population basis Census 2011 as the size measure and other sampling methods, ULSGs were selected and test checked for a thorough understanding of various audit objectives. The State-wise break-up of the ULSGs is given in Table 1.

**Table 1: Number of test-checked ULSGs in 18 States**

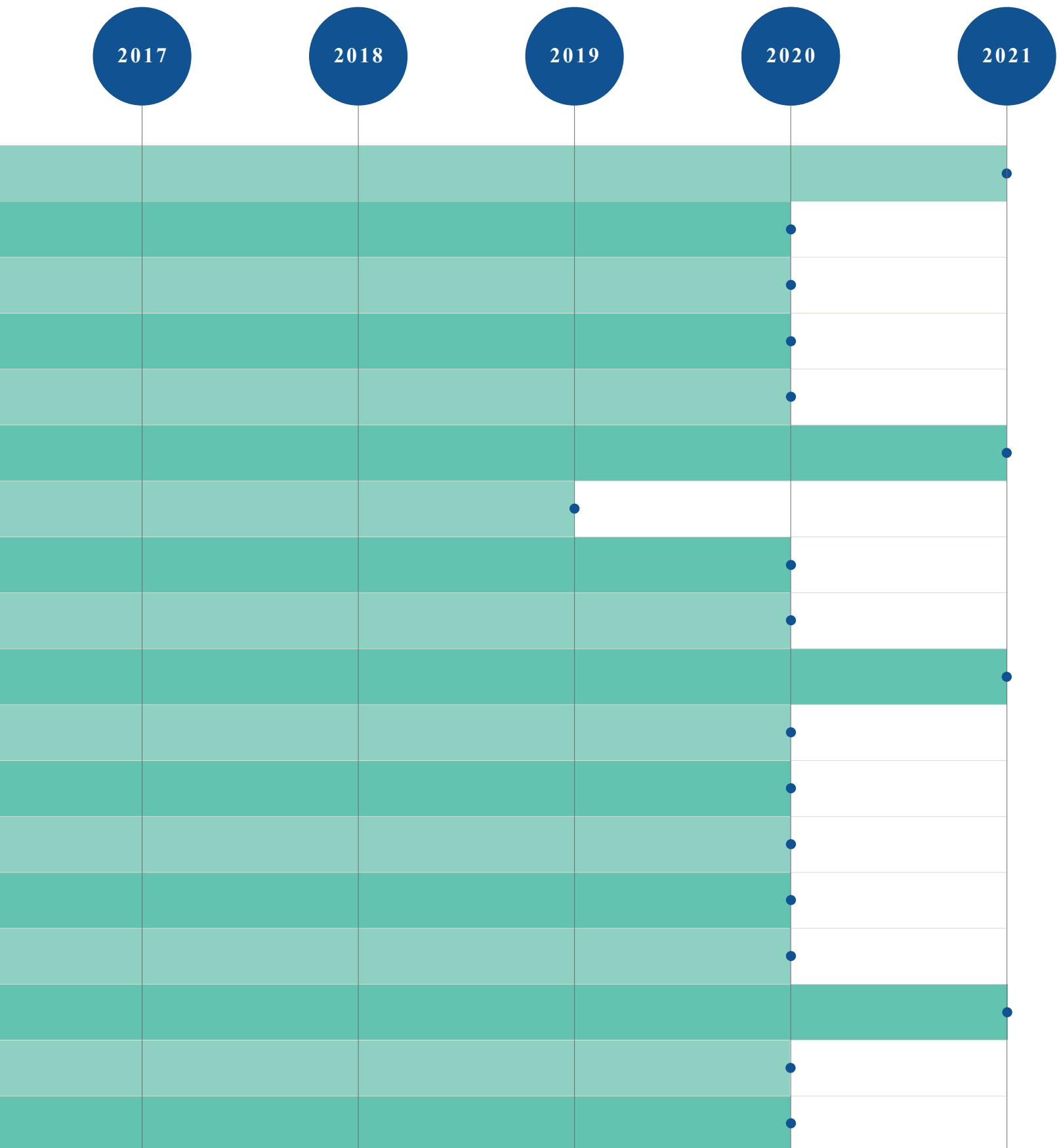
State	Number of Municipal Corporations	Number of Municipalities	Number of Town Panchayats	Total
Andhra Pradesh	5	11	4	20
Assam	1	18	0	19
Chhattisgarh	5	11	11	27
Haryana	4	11*	*	15
Himachal Pradesh	2	9	3	14
Jharkhand	4	3	3	10
Karnataka	4	36	4	44
Kerala	3	18	0	21
Madhya Pradesh	4	12	17	33
Maharashtra	8	24	12	44
Manipur	1	8	1	10
Odisha	4	12	4	20
Punjab	4	10	5	19
Rajasthan	2	2	10	14
Tamil Nadu	4	16	16	36
Telangana	4	11	2	17
Tripura	1	7	3	11
Uttarakhand	3	9	7	19
<b>Total</b>	<b>63</b>	<b>228</b>	<b>102</b>	<b>393</b>

\* includes Municipal Council/Committees

The Performance Audits for 18 States covered the period between 2014 and 2021 as represented below in Figure 2.

**Figure 2: Audit timelines in 18 States**





This Compendium has been prepared based on the Performance Audits undertaken by the respective Principal Accountants General/Accountants General on the implementation of the 74<sup>th</sup> CAA in 18 States, viz., Andhra Pradesh, Assam, Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Tripura and Uttarakhand. The reports of these 18 States have been tabled in respective State Legislatures as of 30 June 2024 and are available in the public domain.

This Compendium organises the findings and insights from the above mentioned Performance Audit reports in the following chapters:

## Chapter 1

Ascertains whether the States have adhered to the provisions of the 74<sup>th</sup> CAA in their municipal legislations.

## Chapter 2

Evaluates the extent of actual implementation of the 74<sup>th</sup> CAA by various States with a specific focus on institutional design, which is important to facilitate the successful implementation of the 74<sup>th</sup> CAA.

## Chapter 3

Assesses the financial sustainability of ULSGs across States, in terms of both availability and management of finances.

## Chapter 4

Analyses whether ULSGs are equipped with an adequate and skilled workforce as well as enabling institutional mechanisms for effective management of human resources.

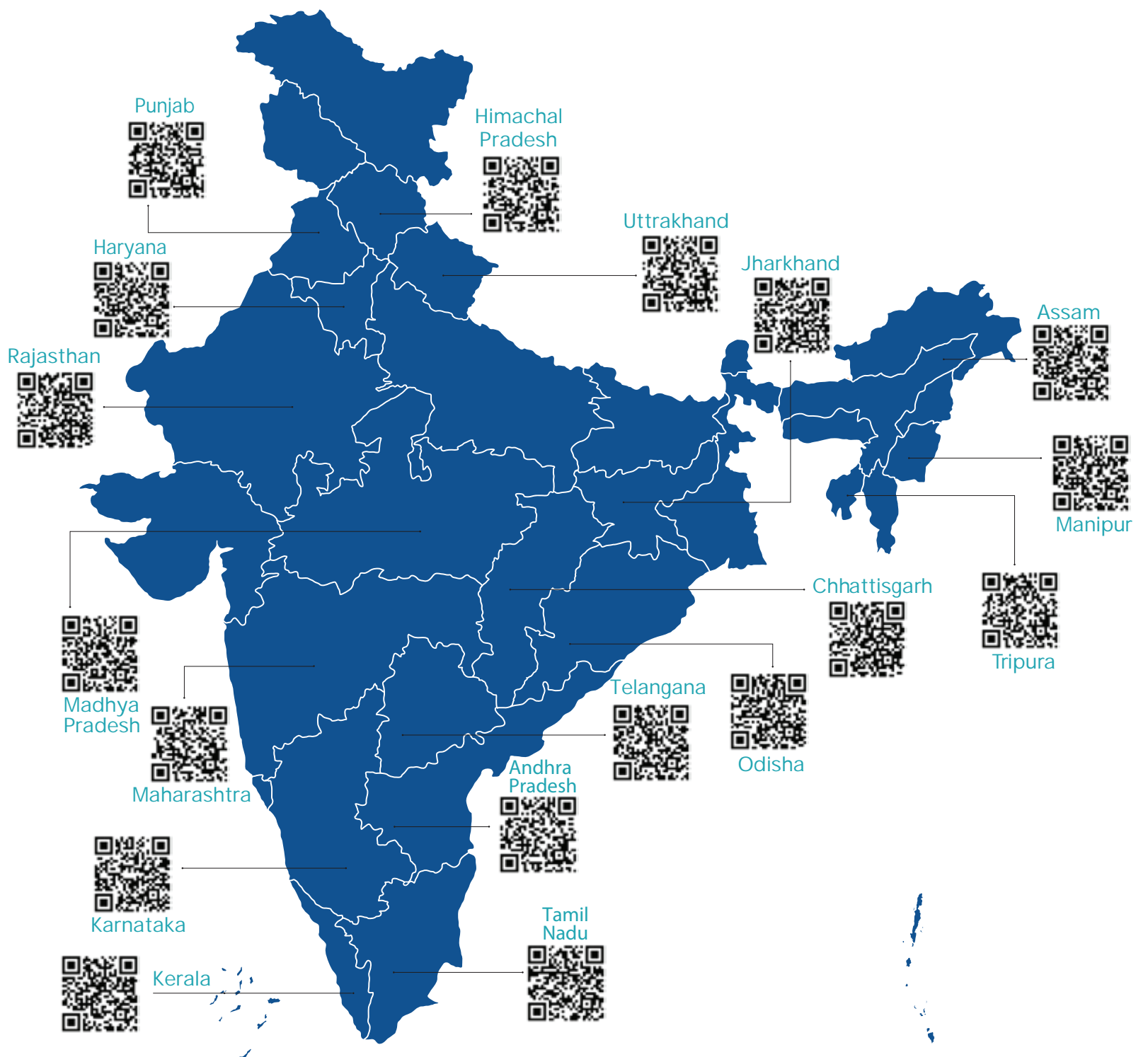
## Chapter 5

Presents summary of recommendations to be adopted by State Governments to strengthen ULSGs as envisioned in the 74<sup>th</sup> CAA.

The Compendium also incorporates six case studies and information that are not part of the Performance Audit reports but included to set the tone and context. The Performance Audit reports of the respective States on the implementation of the 74<sup>th</sup> CAA may be referred for detailed audit findings (Figure 3).

Please note that the ULSG categories used in this Compendium are in line with the terminologies used in the 74<sup>th</sup> CAA which include Municipal Corporations, Municipalities and Nagar/Town Panchayats. Also, City Councils and Councils have been used interchangeably.

Figure 3: Link to the Performance Audit reports of 18 States on implementation of 74<sup>th</sup> CAA





# 01

## Have State Governments adhered to the provisions of the 74<sup>th</sup> CAA in their municipal legislations?

The 74<sup>th</sup> CAA introduced provisions relating to ULSGs vide Articles 243P to 243ZG. Consequently, State Governments, vide amendments to the existing municipal legislations or through new legislations, introduced provisions from the 74<sup>th</sup> CAA.

This chapter captures whether all the 18 States have adequately covered the provisions of the 74<sup>th</sup> CAA in their respective municipal legislations.

*This chapter will answer the following questions:*

- 1 Have States statutorily complied with the 74<sup>th</sup> CAA?
- 2 Have States complied with the 74<sup>th</sup> CAA ‘in spirit’?



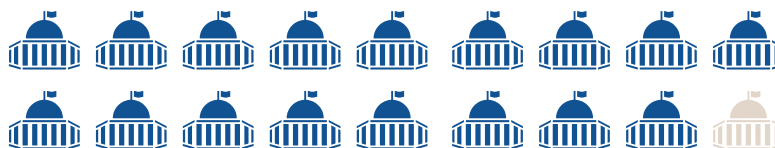
Nagar Nigam Bilaspur, Chhattisgarh

## Data Highlights

On average,

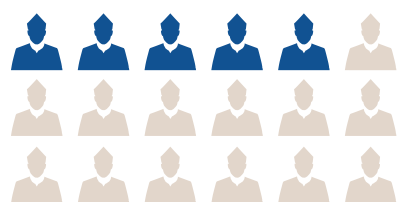
### 17 out of the 18 functions

as per the Twelfth Schedule of the Constitution have been devolved to ULSGs, by law.



### 5 States

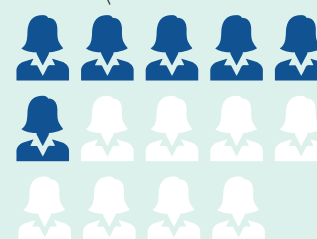
have directly-elected Mayors.



As such, about 61 million out of the 241 million urban citizens of the 18 States in India can directly elect their Mayors.

### 6 out of 14 States

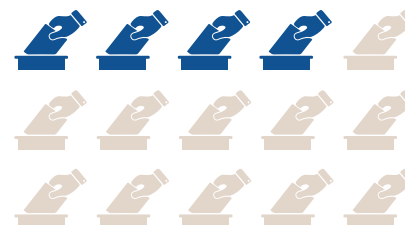
reserve 50 per cent of their City Council seats for women, going over and above the constitutional mandate of 33 per cent reservation for women.



Only

### 4 out of 15 States

have empowered their State Election Commissions (SEC) with ward delimitation.



### 10 out of 14 States

have overriding powers over ULSGs on more than 5 factors out of the 16 factors analysed.



**States have largely complied with the statutory provisions of the 74<sup>th</sup> CAA. However, gaps are observed with respect to the devolution of municipal functions.**

The 74<sup>th</sup> CAA, which came into effect on 1<sup>st</sup> June 1993, granted constitutional status to ULSGs. It endows ULSGs with powers and authority, as may be necessary, to enable them to function as institutions of self-government. The key provisions of the 74<sup>th</sup> CAA have been listed in Table 1.1.

**Table 1.1: Key provisions of the 74<sup>th</sup> CAA**

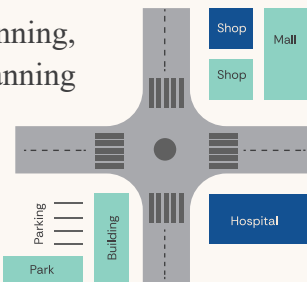
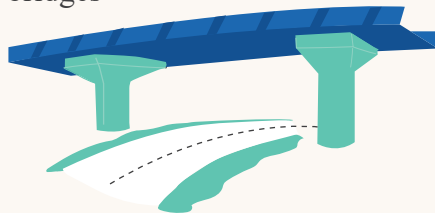


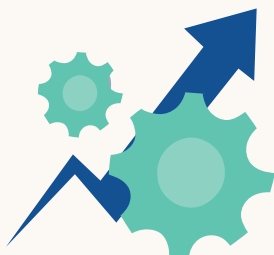

Article	As per the provision of the Constitution of India
243Q	<b>Constitution of Municipalities:</b> This provides for the constitution of three types of Municipalities namely a Nagar Panchayat for a transitional area, a Municipal Council for a smaller urban area and a Municipal Corporation for a larger urban area.
243R	<b>Composition of Municipalities:</b> All the seats in a Municipality shall be filled by direct elections. The Legislature of a State may, by law, provide for representation in the Municipality, Members of Parliament and Legislative Assembly whose constituencies lie within the municipal area and members of the Council of State and State Legislative Council who are registered as electors within the city. It may also provide for the representation of persons with special knowledge in municipal administration with no rights to vote in the council meetings.
243S	<b>Constitution and composition of Wards Committee:</b> This provides for the constitution of Wards Committees in all Municipalities with a population of three lakh or more.
243T	<b>Reservation of seats:</b> Seats are to be reserved for Scheduled Castes (SCs) and Scheduled Tribes (STs), women and backward classes for direct election.
243U	<b>Duration of Municipalities:</b> The Municipality has a fixed tenure of five years from the date of its first meeting and re-election is to be held within six months of the end of tenure.
243V	<b>Disqualifications for membership:</b> A person shall be disqualified as a member of a Municipality: <ul style="list-style-type: none"> <li>• If disqualified under any law for the time being in force for the purposes of elections to the Legislature of the State concerned</li> <li>• If disqualified under any law made by the Legislature of the State.</li> </ul>
243W	<b>Powers, authority and responsibilities of the Municipalities:</b> All Municipalities may, by law, be empowered with such powers as may be necessary to enable them to function as effective institutions of self-government. The State Government may entrust them with such powers and authority to enable them to carry out the responsibilities in relation to the Twelfth Schedule.
243X	<b>Power to impose taxes by and funds of the Municipalities:</b> Municipalities may, by law, be empowered to levy and collect taxes, fees, duties, etc. Grants-in-aid to be given to the Municipalities from the State Government. State Governments to also constitute such funds for crediting and withdrawal of monies by the Municipalities.
243Y (read with Article 243I)	<b>State Finance Commission (SFC):</b> State Governments shall constitute a finance commission to review the financial position of the Municipalities. SFCs to take such steps to help boost the financial condition of Municipalities: Distribute the net proceeds of the taxes, fees, tolls and duties that are charged by the State Government between the State and the Municipalities; Allot grants-in-aid to the Municipalities from the Consolidated Fund of the State. Determination of the taxes, duties and fees which may be assigned to, as appropriately by, Municipalities.
243Z	<b>Audit of accounts of Municipalities:</b> This includes provision for the maintenance of accounts by the Municipalities and the auditing of such accounts.
243ZA (read with Article 243K)	<b>Elections to the Municipalities:</b> The superintendence, direction and control of all procedures of election to the Municipalities shall be vested in the State Election Commission (SEC).
243ZD	<b>Committee for District Planning:</b> This provision calls for the constitution of a District Planning Committee (DPC) at the district level. It includes the composition of the DPC and mandates the preparation of a draft development plan to forward to the State Government.
243ZE	<b>Committee for Metropolitan Planning:</b> This provision includes the constitution of a Metropolitan Planning Committee (MPC) in every metropolitan area with a population of 10 lakh or more.

The Performance Audits observed that all 18 States have incorporated provisions of the 74<sup>th</sup> CAA in their respective municipal legislations. While State municipal legislations have largely complied with the provisions of the 74<sup>th</sup> CAA, there are gaps in devolution of functions to ULSGs.

***On average, 17 out of 18 functions of the Twelfth Schedule of the Constitution have been devolved to ULSGs by law. Seven States distinguish such devolved functions as ‘obligatory’ and ‘discretionary’.***

One of the key provisions of the 74<sup>th</sup> CAA is the devolution of 18 municipal functions under the Twelfth Schedule of the Constitution to ULSGs (Table 1.2). Devolution of functions is a key component for the empowerment of ULSGs in India.

**Table 1.2: Functions listed in the Twelfth Schedule of the Constitution**

<p><b>1</b> Urban planning, including town planning</p> 	<p><b>4</b> Roads and bridges</p> 
<p><b>2</b> Regulation of land-use and construction of buildings</p> 	<p><b>5</b> Water supply for domestic, industrial and commercial purposes</p> 
<p><b>3</b> Planning for economic and social development</p> 	<p><b>6</b> Public health, sanitation, conservancy and solid waste management</p> 

7 Fire services



8 Urban forestry, protection of the environment and promotion of ecological aspects



9 Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded



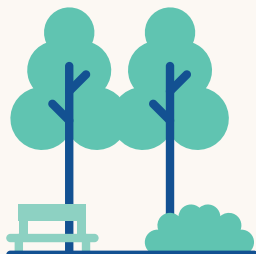
10 Slum improvement and upgradation



11 Urban poverty alleviation



12 Provision of urban amenities and facilities such as parks, gardens, playgrounds



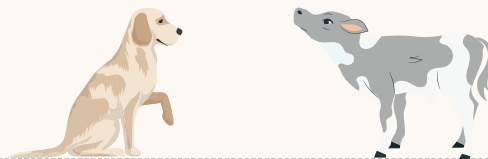
13 Promotion of cultural, educational and aesthetic aspects



14 Burials and burial grounds; cremations, cremation grounds; and electric crematoriums



15 Cattle pounds; prevention of cruelty to animals



16 Vital statistics including registration of births and deaths



17 Public amenities including street lighting, parking lots, bus stops and public conveniences

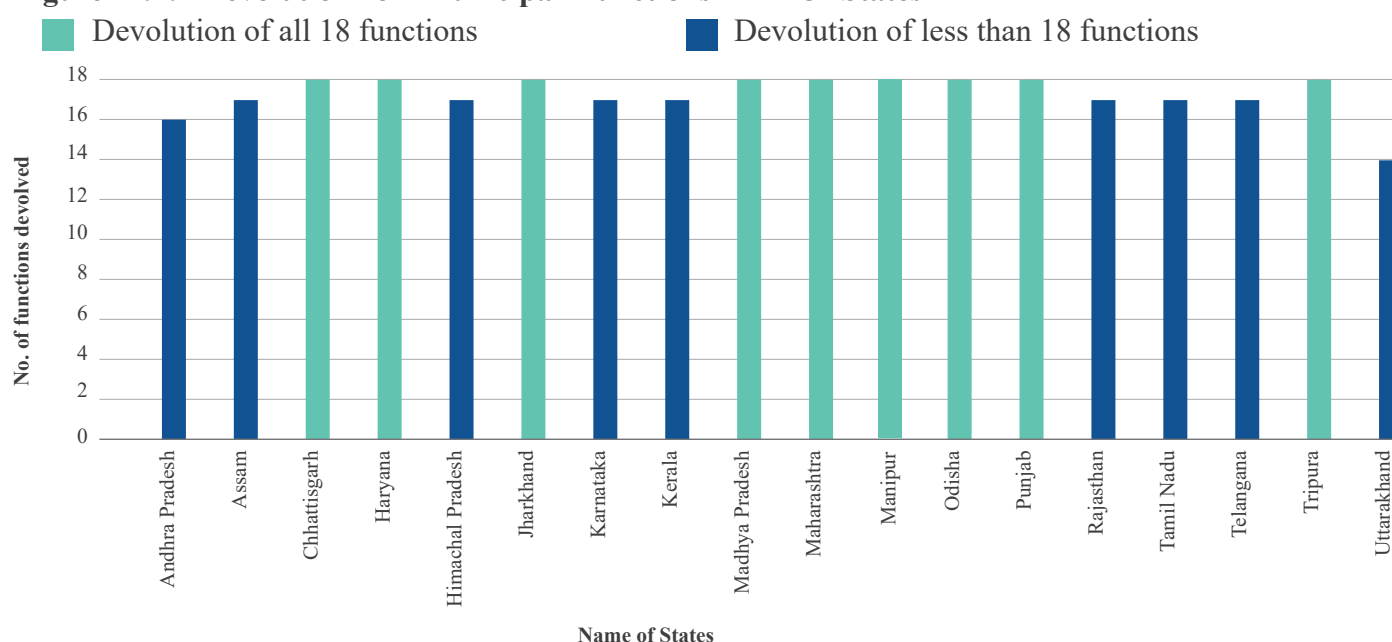


18 Regulation of slaughter houses and tanneries



In 18 States, on average, 17 of the 18 municipal functions of the Twelfth Schedule are devolved by law. Audit observed that only 9 States, viz., Chhattisgarh, Haryana, Jharkhand, Madhya Pradesh, Maharashtra, Manipur, Odisha, Punjab and Tripura have devolved all the 18 functions (Figure 1.1). Tamil Nadu has devolved 17 functions to Municipal Corporations and Municipal Councils but devolved only 12 functions to Town Panchayats. Similarly Andhra Pradesh has devolved 16 functions to Municipal Corporations and 12 functions to Municipal Councils/Nagar Panchayats.

**Figure 1.1: Devolution of municipal functions in 18 States**



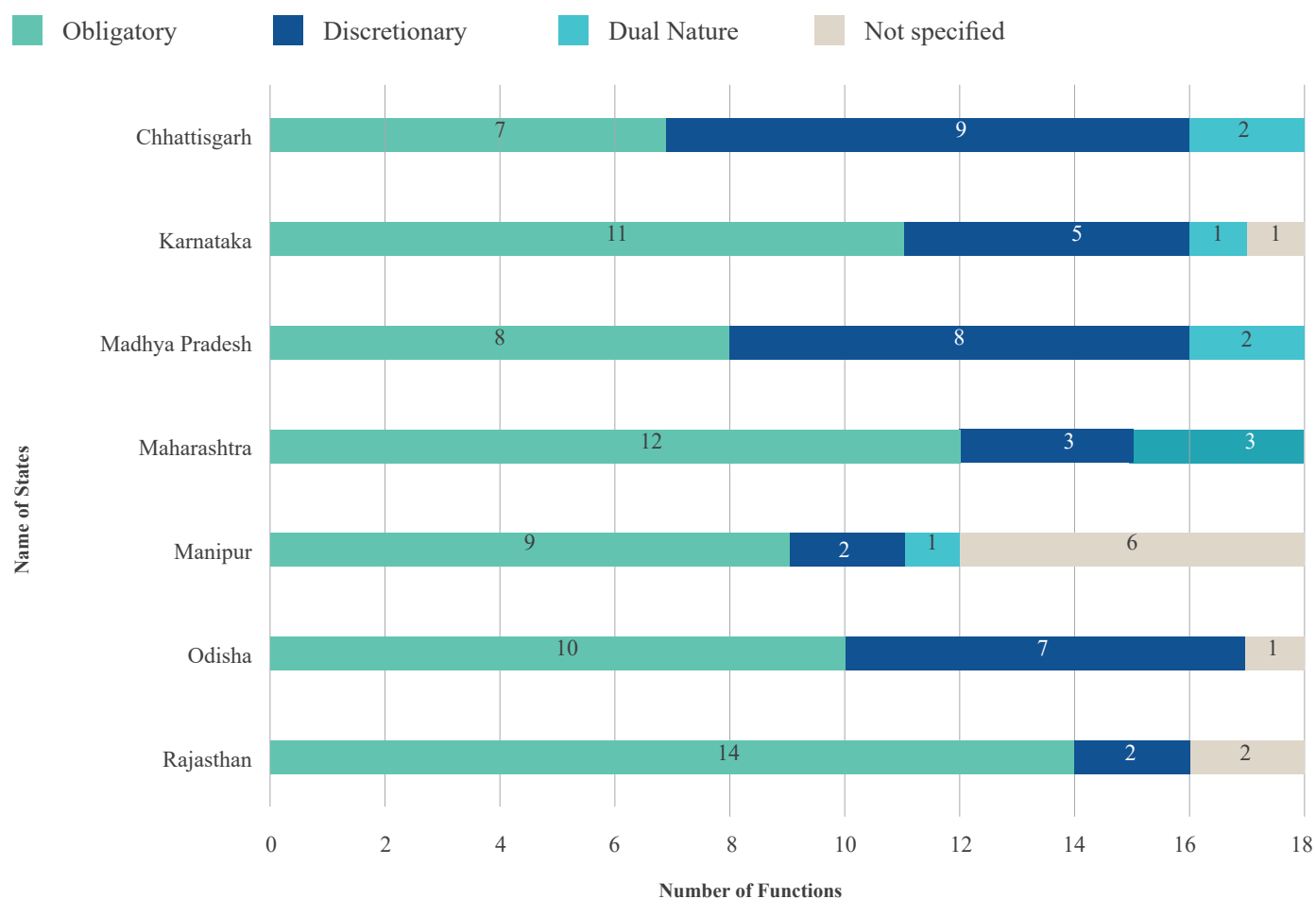
*Note: Data on devolution (including partially devolved) of municipal functions by law for Municipal Corporations has been used for Andhra Pradesh and Tamil Nadu.*



Residents filling water in Latur, Maharashtra

Urban planning and fire services are the least devolved functions by law. Further, as seen in Figure 1.2, Audit observed that **7 States have made a distinction between these municipal functions as ‘obligatory’ and ‘discretionary’**. These States are Chhattisgarh, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Odisha and Rajasthan. Both Chhattisgarh and Madhya Pradesh have 8 or more municipal functions recognised as ‘discretionary’, the highest among the audited 18 States. Municipal functions such as urban forestry and protection of the environment, safeguarding the interests of the weaker sections of society, slum improvement and upgradation and urban poverty alleviation are most often recognised as ‘discretionary’ by State municipal legislations.

**Figure 1.2: Categorisation of municipal functions as obligatory and discretionary functions in different States**



*Note: Data only available for the 7 States included in the graph. Dual nature indicates the function appears both as obligatory and discretionary.*

Discretionary functions are to be carried out by the ULSGs at their discretion, either partly or fully, while obligatory functions are those which should be undertaken compulsorily by the ULSGs.

The audit also noticed that there is overlap between ULSGs and parastatals or State departments in terms of municipal functions,

affecting devolution of the assigned functions to ULSGs as envisaged in the 74<sup>th</sup> CAA.

Considering that ULSGs are best placed to understand the problems and needs of their citizens and hence, are in a better position to handle such functions, it is important that States empower ULSGs over all municipal functions.

### *States showed weak compliance with the in-spirit reading of the 74<sup>th</sup> CAA.*

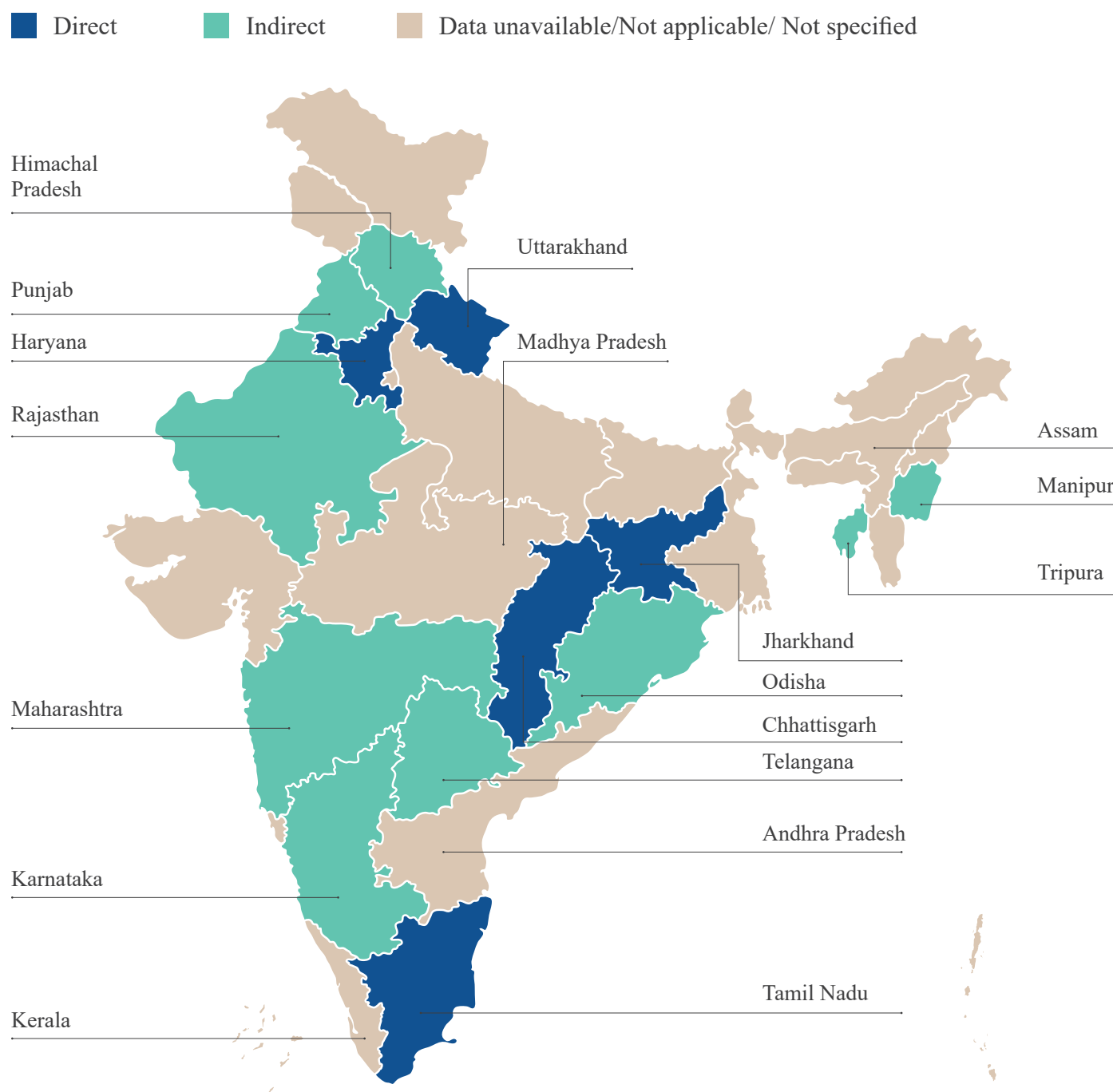
While States have largely complied with the 74<sup>th</sup> CAA in letter, audit observed weak compliance with respect to issues – such as the mode of Mayoral election, Mayoral tenure, women reservation in the City Council and empowerment of the SEC, which are discussed below. Further, the section also discusses the overriding powers State Governments have over ULSGs.



## Five States have directly-elected Mayors in their ULSGs.

Audit observed that in five States<sup>3</sup>, namely, Chhattisgarh, Haryana, Jharkhand, Tamil Nadu and Uttarakhand, the Mayors are directly elected (Figure 1.3). This highlights that about 61 million out of the 241 million urban citizens of the 18 States in India can directly elect their Mayor.

**Figure 1.3: Mode of election of Mayors across States**

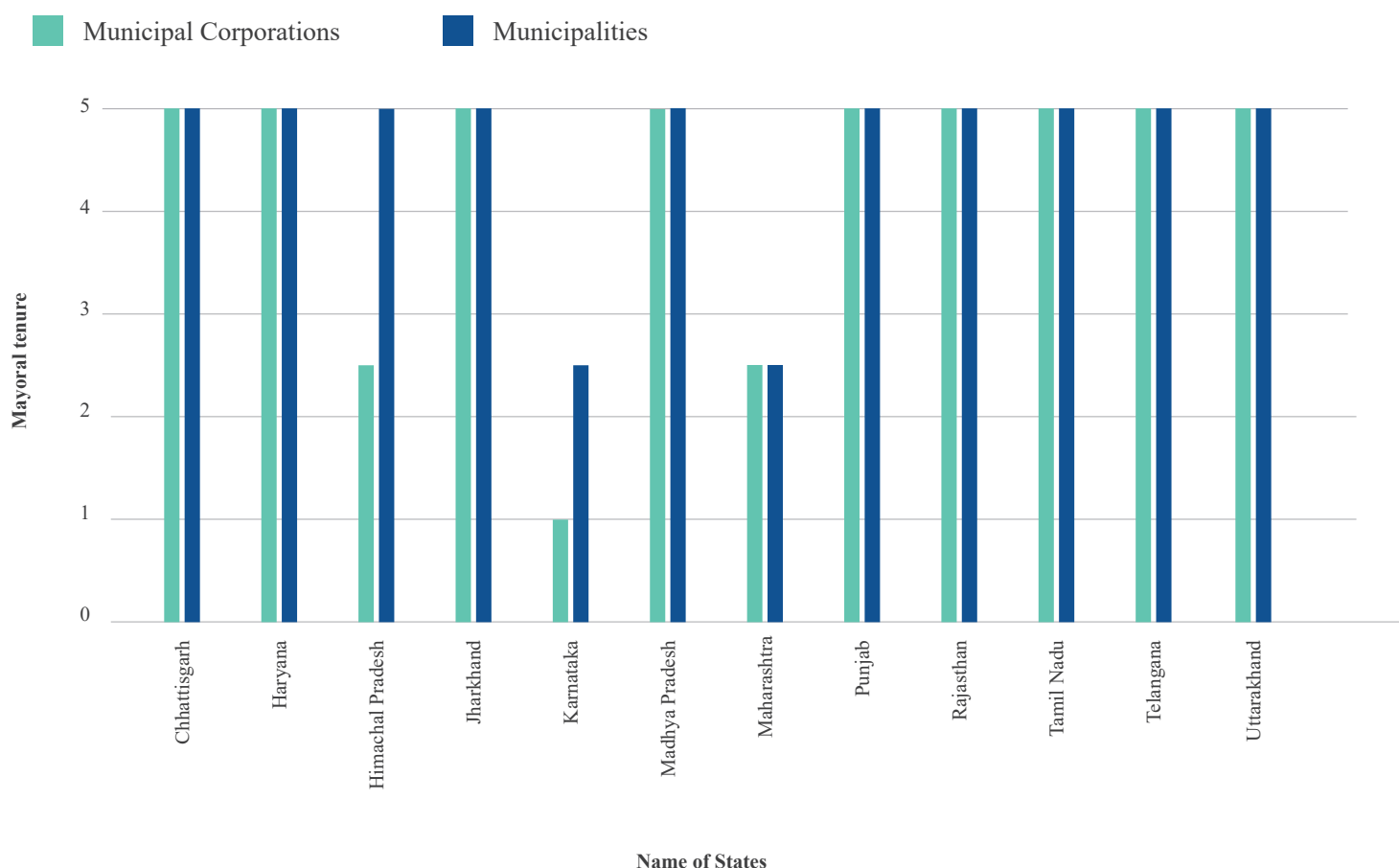


<sup>3</sup> Data not available/not specified in respect of Assam, Andhra Pradesh, Kerala and Madhya Pradesh.

## Nine States have Mayors with a five-year tenure, co-terminus with that of the Council across all ULSG categories.

Audit observed that 9 out of 18<sup>4</sup> States have a Mayoral tenure co-terminus with that of the City Council, which is five years across all ULSG categories, whereas States such as Karnataka (only Municipalities), Himachal Pradesh (only Municipal Corporations) and Maharashtra provide for a Mayoral tenure of 2.5 years.

**Figure 1.4: Mayoral tenure in different States**



A Mayoral term co-terminus with that of the Council is important, as otherwise, there might not be enough time for the Mayor to carry out effective reforms in the city. A change in priorities of the ULSGs as a consequence of a change in leadership is also a possibility. Further, most often, Mayors with a tenure of less than five years, may not get to see the projects they announced reach their conclusion. It is worth noting that the Model Municipal Law, 2003 circulated by the erstwhile Ministry of Urban Development (now Ministry of Housing and Urban Affairs (MoHUA), Government of India prescribes that the term of office of the Mayor shall be co-terminus with the duration of the ULSGs<sup>5</sup>.

<sup>4</sup> Data not available/not specified in respect of Andhra Pradesh, Assam, Kerala, Manipur, Tripura and Odisha.

<sup>5</sup> Ministry of Urban Development and Poverty Alleviation. Model Municipal Law, 2003. <https://www.ielrc.org/content/e0331.pdf>

## Case Study 1.1

### Mayor-in-Council System

The Mayor-in-Council (MIC) is a system unique to Chhattisgarh, Madhya Pradesh and Tripura. The MIC system is similar to a cabinet-like system at the local level. The MIC consists of the Mayor who is the head and a stipulated number of Councillors who perform important functions as department heads.

In Tripura, the MIC exercises executive authority in the Council. In Madhya Pradesh and Chhattisgarh, the MIC has been empowered with appointment of municipal staff with prior approval of the State Government. The MIC also has sanctioning and financial powers in terms of approving contracts and revising the budget grants.

Source: Relevant Municipal Acts of Chhattisgarh, Madhya Pradesh and Tripura.

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## Case Study 1.2

### Powers of Mayors

Mayoral powers vary across States as they are left to the discretion of the respective State Governments. However, a comparison of the powers of Mayors in different States across the country reveals relatively positive provisions.

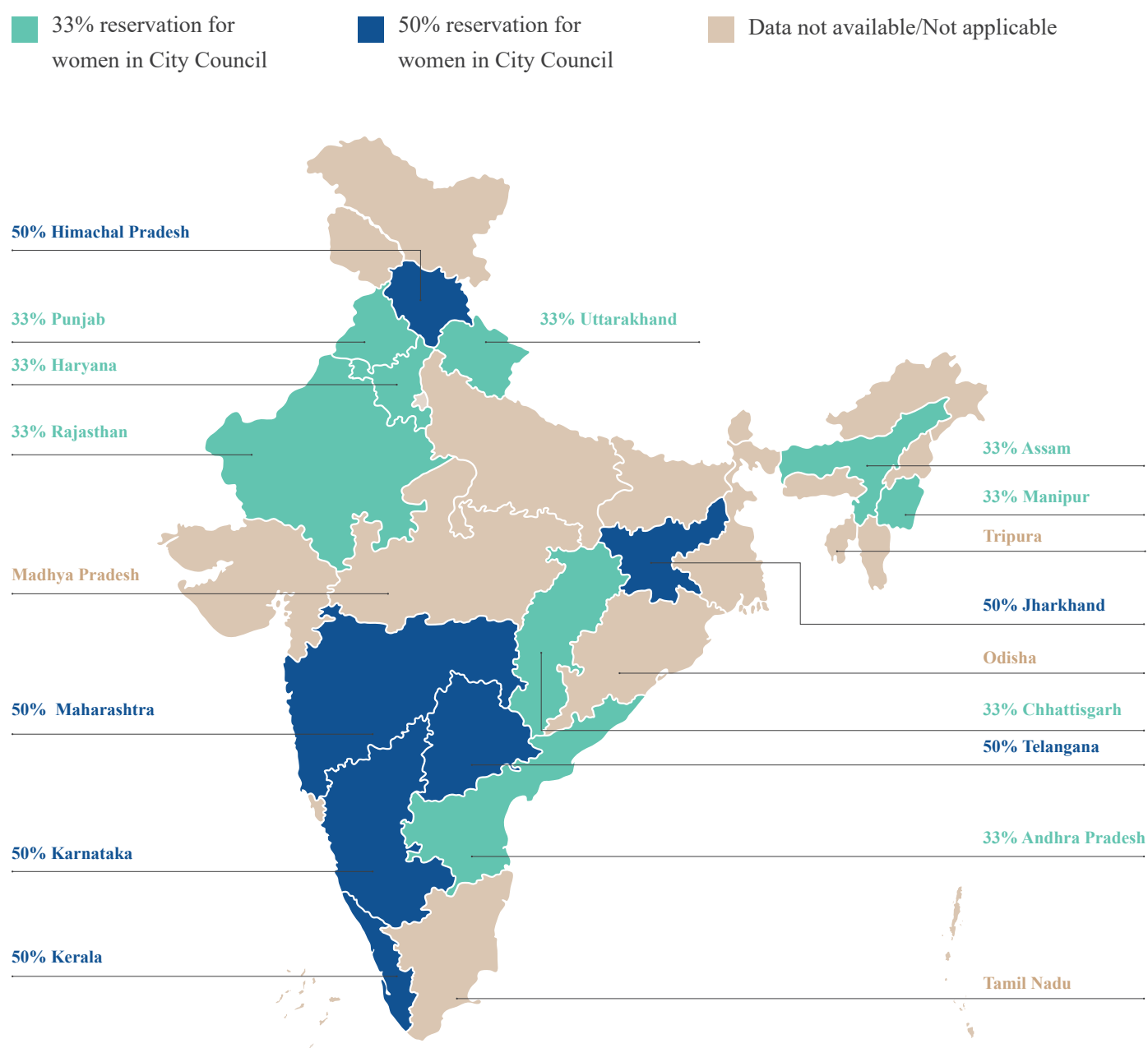
- Mayors in Kerala and Rajasthan can also approve projects and have the authority to sign and approve bills.
- Mayors in Kerala have the power to suspend any officer except the Secretary (equivalent of Municipal Commissioner) and other government officers in the gazetted rank, after receiving ratification from the Council.

Source: Relevant Municipal Acts of respective States.

## Six States mandate 50 per cent reservation for women in the City Council, over and above the constitutional mandate of 33 per cent reservation.

The 74<sup>th</sup> CAA provides for 33 per cent reservation for women in City Councils. Audit observed that **6 out of the 14<sup>6</sup> States have gone over and above the constitutional mandate, reserving 50 per cent of the seats in the City Council for women** (Figure 1.5). The provision for women reservation could contribute to empowering women and increasing their political participation at the local level.

**Figure 1.5: Mandate for women reservation in City Councils**

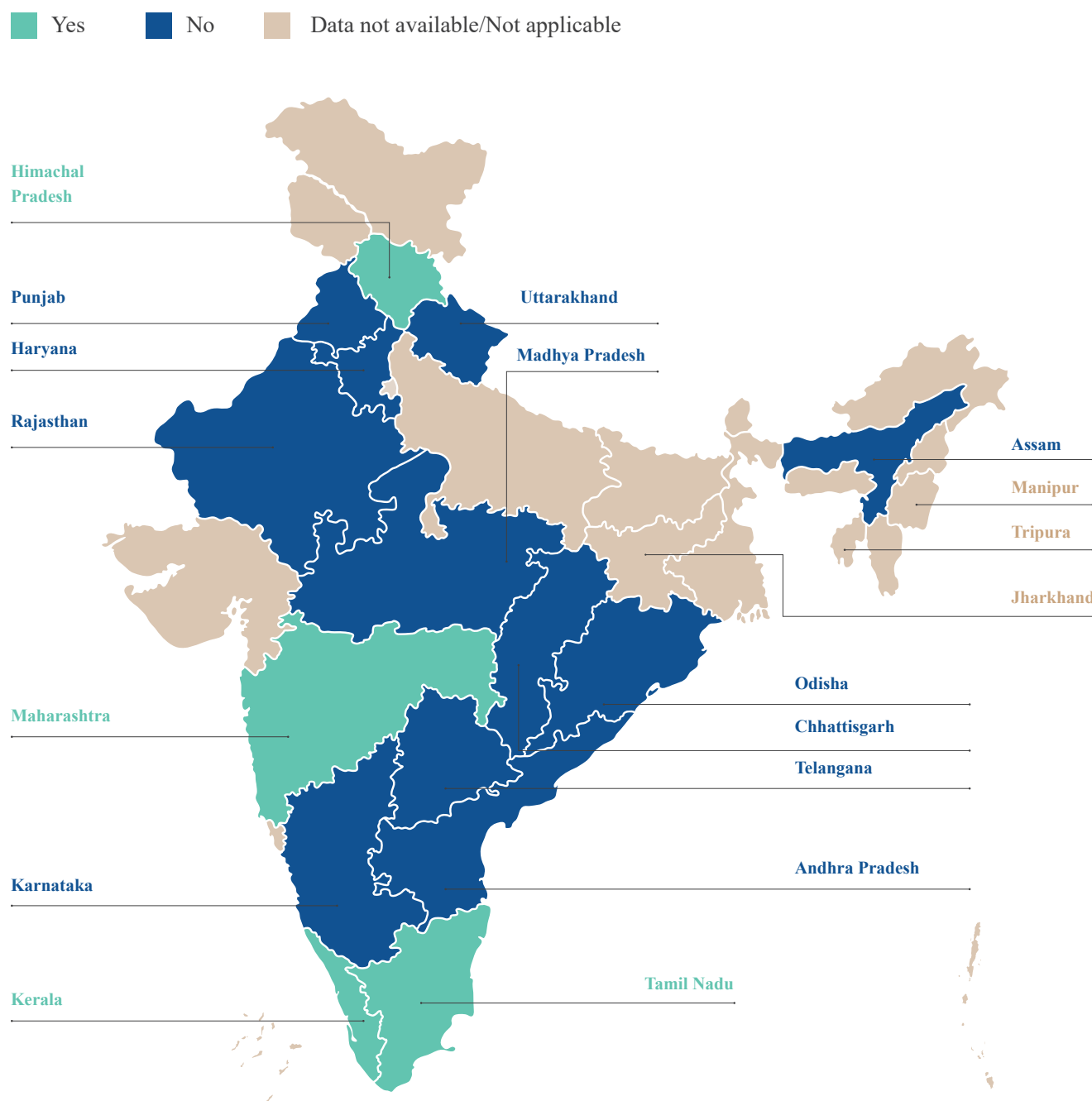


<sup>6</sup> Data not available for Madhya Pradesh, Odisha, Tamil Nadu and Tripura.

## Only 4 States have empowered the SECs with the delimitation of wards.

Audit observed that only 4 of the 15<sup>7</sup> States, namely Himachal Pradesh, Kerala, Maharashtra and Tamil Nadu have empowered SECs with ward delimitation while in the remaining 11 States, it is vested with the State Government.

**Figure 1.6: Empowerment of SEC with ward delimitation**



<sup>7</sup> Data not available for Jharkhand, Manipur and Tripura.

Audit also observed that the non-empowerment of SECs with delimitation of wards results in State Governments holding power in deciding ward boundaries, which often becomes a hindrance in conducting timely municipal elections (discussed further in Chapter Two). The Second Administrative Reforms Commission of India had recommended that the task of delimitation of wards and reservation be entrusted to the SECs.

### **Ten States have overriding powers over ULSGs on more than 5 factors out of the 16 factors analysed.**

States have several overriding powers, which undermine the authority of ULSGs in terms of funds, functions and functionaries. Audit observed that the power to frame rules, cancel or suspend a resolution or rules passed by ULSGs, dissolve elected Councils, regulate taxes, approve budget estimates, sell and lease ULSG properties, appoint and transfer officers of the ULSG, etc. are all held by Governments in 18 States (Figure 1.7). **Out of the 16 powers analysed in 14<sup>8</sup> States, the overriding powers of the State are observed mostly in the areas of dissolving ULSGs (14 States), framing rules (12 States), cancelling and suspending a resolution or decision taken by ULSGs (12 States), sanction of bye-laws (12 States) and sanction to borrow money (11 States).** This does not contribute to the empowerment of ULSGs to discharge their functions effectively.



<sup>8</sup> Data not available for Assam, Jharkhand, Maharashtra and Tripura.



Vijayawada, Andhra Pradesh

**Figure 1.7: Overriding powers of the State over ULSGs**


Note: Data not available for Assam, Jharkhand, Maharashtra and Tripura.

Legends: P1 - Power to frame rules, P2 - Power to cancel and suspend a resolution or decision taken by ULSGs, P3 - Power to dissolve ULSGs, P4 - Power to sanction bye-laws passed by the ULSGs, P5 - Power to sanction deposit and investment of surplus funds by ULSGs, P6 - Power to sanction borrowings by ULSGs, P7 - Power to sell/lease property, P8 - Power in respect of taxation, P9 - Power to approve budget estimates of ULSGs, P10 - Power to direct Water Supply and Drainage Board to prepare and execute any schemes, P11 - Power of local authority to undertake any schemes, P12 - Power to remove Mayor/Chairperson/Deputy Mayor/Vice-Chairperson, P13 - Power to appoint Health Officer, Engineer and Electrical Engineer, P14 - Power to transfer officers/officials of Corporations/Municipalities, P15 - Power to direct action to municipal authorities in case of non-performance or underperformance of their duties, P16 - Power to appoint a person to take action in default at the expense of the Corporation. NA - Not available

[illegible]

P17 - Other powers :

## 01 Power to call records

## 02 Power to withdraw from reserve

### 03 Power to undertake certain works

04 Power to acquire and dispose off property

05 Power to give retrospective effect to certain bye-laws

06 Power to appoint executive officer/municipal officials

07 Power to suspend chairperson, vice-chairperson or members

08 Power to exempt properties from property tax

09 Power to establish slaughter houses



A street in Agartala, Tripura

# 02

## Are ULSGs empowered by the State Governments to discharge their functions effectively through the creation of appropriately designed institutions/institutional mechanisms and their functioning?

The 74<sup>th</sup> CAA recognised ULSGs as institutions of self-government, specifying 18 functions for them under the Twelfth Schedule of the Constitution. However, the effective implementation of this constitutional mandate depends on the design of institutions and institutional mechanisms that empower the ULSGs to function effectively as the third tier of government.

This chapter evaluates the extent of actual implementation of the 74<sup>th</sup> CAA by various States with a specific focus on the institutional design that is important to facilitate the successful implementation of this Act.

*This chapter will answer the following questions:*

- 1 Have States devolved all 18 functions under the Twelfth Schedule of the Constitution, ULSGs?
- 2 Have States created adequate institutional mechanisms to support the effective functioning of ULSGs?



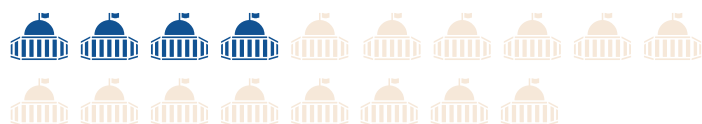
Guwahati Municipal Corporation, Assam

## Data Highlights

On average, only

### 4 out of the 18 functions

of the Twelfth Schedule of the Constitution are fully devolved to ULSGs. On average, 5 functions are performed by parastatals.



While

### 10 States

have formed District Planning Committees, only 3 States prepared the District Development Plans.



### 61 per cent

of ULSGs in 17 States did not have an elected Council.



Only

### 9 out of 15 States

have constituted Ward Committees in atleast 1 ULSG.



Only

### 10 out of the 18 States

have constituted SFCs every five years, as mandated by the Constitution. There has been an average delay of 412 days for setting up SFCs by the States.



***On average, only 4 functions in the Twelfth Schedule of the Constitution have been effectively devolved to ULSGs. More than 5 functions are either performed by State parastatals or restrict the role of ULSGs to mere implementation agencies.***

As discussed in Chapter One, on average, States have devolved 17 out of the 18 functions of the Twelfth Schedule of the Constitution to ULSGs. Further, 7 out of the 18 States categorise functions as obligatory or discretionary, which further dilutes devolution.

**The Performance Audits in 18 States observed that only 4 out of the 18 functions are under the full jurisdiction of ULSGs.** Several functions are performed by parastatals or limit the role of ULSGs to being an implementation agency for State schemes and missions.

As seen in Table 2.1, ULSGs in Jharkhand and Maharashtra are the most empowered with full jurisdiction over 10 municipal functions. ULSGs in Odisha and Uttarakhand are the least empowered having zero functions with full jurisdiction. On average, ULSGs have a dual role in functions such as roads and bridges and public health, sanitation, conservancy and solid waste management. ULSGs have no role mostly in fire services, urban planning, slum upgradation and urban forestry. They are mere implementing agencies in functions like safeguarding the interests of weaker sections of society and planning for economic and social development. ULSGs have a minimal role in, on average, 7 functions which include regulation of land-use, public health, water supply and promotion of cultural, educational and aesthetic aspects, etc.

**Table 2.1: Devolution of functions to ULSGs**

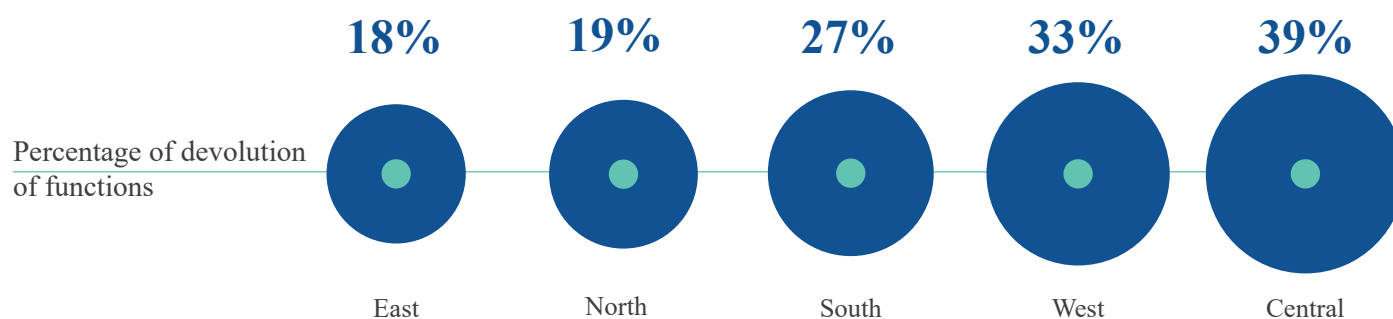
States	Full jurisdiction	No role	Mere implementing agencies	Dual role	Minimal role	Not devolved
Andhra Pradesh	5	0	0	0	11	2
Assam	3	1	0	0	13	1
Chhattisgarh	8	1	2	6	1	0
Haryana	4	2	4	3	5	0
Himachal Pradesh	5	2	4	0	6	1
Jharkhand	10	2	0	0	6	0
Karnataka	3	2	3	1	8	1
Kerala	7	0	0	0	10	1
Madhya Pradesh	4	1	3	10	0	0
Maharashtra	10	0	2	6	0	0
Manipur	1	5	0	9	3	0
Odisha	0	1	3	1	13	0
Punjab	5	1	2	4	6	0
Rajasthan	2	0	4	0	11	1
Tamil Nadu	3	2	3	1	8	1
Telangana	6	1	0	0	10	1
Tripura	4	4	3	1	6	0
Uttarakhand	0	0	2	6	6	4
<b>Average</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>7</b>	<b>1</b>

Note: Dual role indicates that the ULSG, State Government and parastatals have overlapping jurisdiction.

Even in States like Chhattisgarh, Jharkhand, Kerala and Maharashtra, where more than 7 functions are devolved to ULSGs with full jurisdiction, key functions like regulation of land, urban planning, water supply and public health are performed by parastatals.

Audit analysis further shows that Eastern<sup>9</sup> and Northern<sup>10</sup> States performed lower compared to Western<sup>11</sup> Central<sup>12</sup> and Southern<sup>13</sup> States in terms of the empowerment of ULSGs over municipal functions (Figure 2.1).

**Figure 2.1: Percentage average of functions fully devolved across regions**



This indicates that the devolution of functions to ULSGs varies across the regions. However, the common factor is that there is a clear gap in terms of the constitutional mandate on the devolution of functions and its implementation.

## Case Study 2.1

### Empowerment of the Municipal Corporation of Greater Mumbai (MCGM) over critical functions

The MCGM is perhaps one of the more significantly empowered ULSGs in India over municipal functions. Unlike most ULSGs, the MCGM holds charge of critical functions such as fire services, urban planning, management of secondary and tertiary hospitals, primary and secondary schools in the city, urban forestry, safeguarding interests of the weaker sections of society, etc. In addition to these, the MCGM is empowered to go beyond the mandate of the Twelfth Schedule of the Constitution by supplying electricity and delivering public transport through the Brihanmumbai Electric Supply and Transport (BEST) Undertaking. Section 50 of the Mumbai Municipal Corporation Act, 1888 mandates the creation of the BEST Committee consisting of a stipulated number of Councillors. The Committee is empowered to approve transport fare and charges, schedule of municipal staff, contracts (exceeding ₹50 lakh) and annual administration reports and Statement of accounts.

Source: The Mumbai Municipal Corporation Act, 1888. <https://lj.maharashtra.gov.in/Site/Upload/Acts/H-4094%20The%20Mumbai%20Municipal%20Corporation%20Act.pdf>

<sup>9</sup> Assam, Chhattisgarh, Manipur, Odisha and Tripura.

<sup>10</sup> Haryana, Himachal Pradesh, Punjab and Uttarakhand.

<sup>11</sup> Maharashtra and Rajasthan.

<sup>12</sup> Madhya Pradesh and Jharkhand.

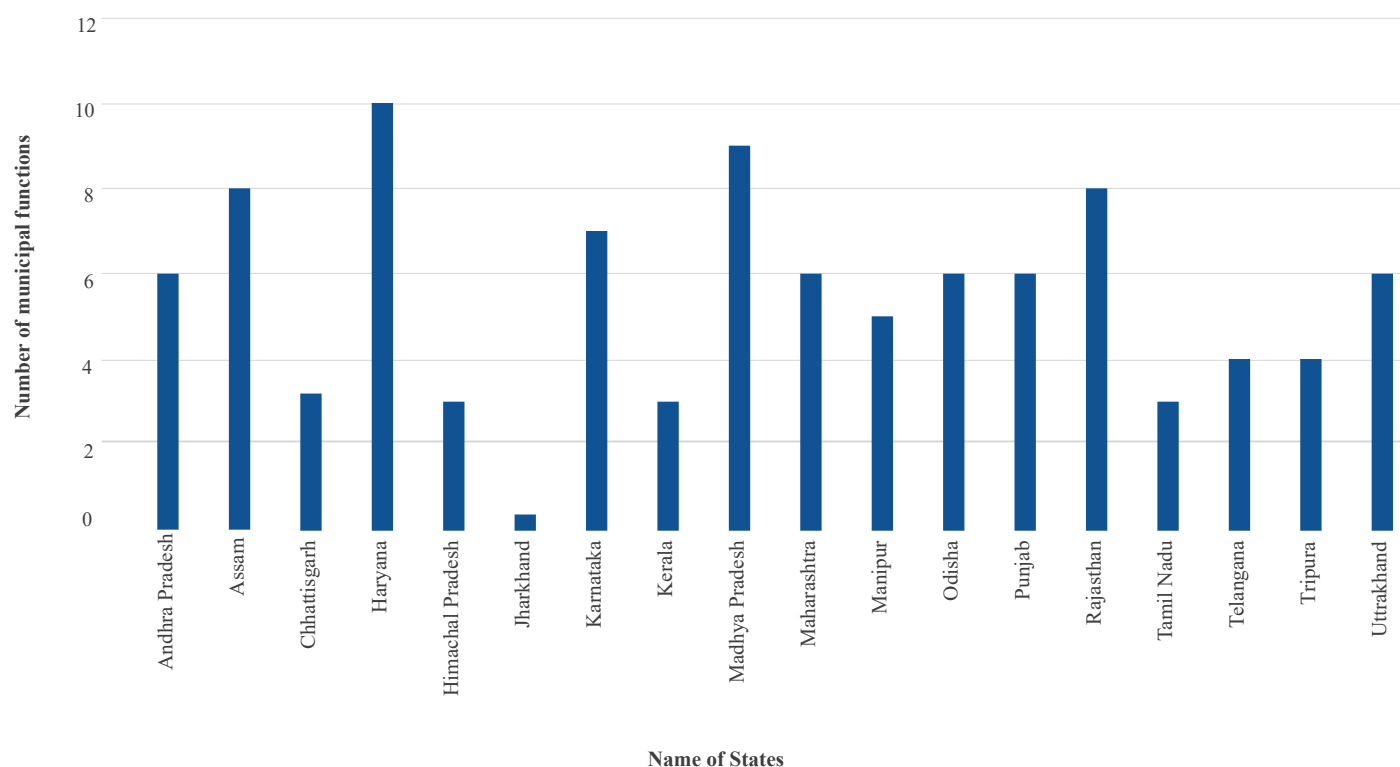
<sup>13</sup> Kerala, Karnataka, Tamil Nadu, Telangana and Andhra Pradesh.

## On average, 5 of the 18 functions under the Twelfth Schedule of the Constitution are performed by parastatals.

One of the objectives of the 74<sup>th</sup> CAA was to entrust the delivery of key civic infrastructure and services to ULSGs. However, parastatals such as development authorities responsible for urban planning, water authorities overseeing water and sewerage management and slum development authorities responsible for slum rehabilitation are directly accountable to State Governments. These parastatals have their own governing bodies, which most often do not include elected representatives of ULSGs.

As seen in Figure 2.2, **Haryana (10 functions)** and **Madhya Pradesh (9 functions)** have the maximum number of functions executed by parastatals. This is closely followed by **Assam (8 functions)**, **Rajasthan (8 functions)** and **Karnataka (7 functions)**.

**Figure 2.2: Number of municipal functions performed by parastatals**



Most parastatals were established before the enactment of the 74<sup>th</sup> CAA. They are therefore, governed by their respective legislations, which should have been appropriately amended subsequently to comply with the constitutional mandate. The system of assignment of functions to parastatals, with little to no accountability towards ULSGs, undermines the *raison d'être* of decentralisation viz., accountability to the citizens.

## *No State has put in place all the necessary institutions and institutional mechanisms to enable ULSGs to effectively discharge their functions.*

The 74<sup>th</sup> CAA provides for the constitution of new institutional designs to facilitate meaningful empowerment and effective functioning of ULSGs. These are State Election Commissions (SECs) to ensure regular municipal elections, District Planning Committees (DPCs) and Metropolitan Planning Committees (MPCs) to ensure integrated and coordinated regional planning, State Finance Commissions (SFCs) to enable fiscal transfers between the State Government and ULSGs. This section discusses the implementation and effectiveness of such institutions and institutional mechanisms.

### **61 per cent of ULSGs in 17 States did not have an elected Council at the time of the audit**

Article 243U of the Constitution states that elections to ULSGs shall be completed before the expiry of the term of the City Council. In case of dissolution of the Council, elections shall be held within six months from the date of dissolution. Audit observed that 1,600 out of 2,625 ULSGs in 17 States did not have an elected Council<sup>14</sup> (Table 2.2).

Tamil Nadu conducted its Council elections in 2011. Due to delay in conducting the ward delimitation exercise, 664 ULSGs did not have councillors for a period of five years. In Karnataka, 187 ULSGs held elections but did not form Councils due to pending court cases regarding procedures adopted by the State Government in reservation for offices of Mayor or Deputy Mayor and President or Vice-President. In Madhya Pradesh, out of a total of 407 ULSGs, elections were held in only 60 ULSGs between January 2017 and January 2018. The remaining 347 ULSGs are governed by administrators of the State Government, with elections due for periods ranging from one month to 49 months. In Punjab, the delay in the delimitation process by the State Government on two occasions delayed the election process of 130 ULSGs for up to two years. Therefore, across States, Councils were not formed in ULSGs because the State Government delayed the ward delimitation exercise or court cases regarding reservations placed the municipal election or formation of the Council on hold.

<sup>14</sup> Data not available for Assam. Data for Rajasthan and Chhattisgarh indicates delayed election of Councils.



Citizens waiting to cast their vote in Beawar, Rajasthan.

As discussed in Chapter One, the non-empowerment of SECs with the critical function of delimitation often results in delayed municipal elections.

**Table 2.2: ULSGs without elected Councils at the time of audit**

State	Number of ULSGs without elected Council	Total ULSGs
Andhra Pradesh	22	123
Chattisgarh	18	169
Haryana	12	87
Himachal Pradesh	0	31
Jharkhand	15	50
Karnataka	210	273
Kerala	0	21
Madhya Pradesh	347	407
Maharashtra	10	44
Manipur	27	27
Odisha	112	114
Punjab	129	167
Rajasthan	6	196
Tamil Nadu	664	664
Telangana	4	141
Tripura	20	20
Uttarakhand	4	91
<b>Total</b>	<b>1,600</b>	<b>2,625</b>

Note: Data on Maharashtra is based on test-checked ULSGs. Data not available for Assam.

The involvement of local elected representatives in decision-making and implementation of programmes and projects, which is an essential element of democracy, is absent without a Council. Further, citizens cannot hold ULSGs accountable. This also impacts the discharge of functions of public interest such as the identification of eligible beneficiaries for welfare schemes, prioritisation of development works, etc.

### Only 9 States have Ward Committees in at least one ULSG

Article 243S of the Constitution mandates the constitution of Wards Committees in all ULSGs with a population of three lakh or more and also allows States to form a Ward Committee for each ward.

Ward Committees are required to act as a bridge between the ULSG and citizens and function as institutions aiding neighbourhood governance. Their aim is to bring governance closer to the citizens.

Additionally, the erstwhile Ministry of Urban Development, in the Model Nagara Raj Bill (2008) recommended the creation of an Area Sabha by clubbing 2-5 contiguous polling booths. The aim was to bring governance even closer to citizens and to institutionalise citizens participation.

Audit observed that **only 9 out of the 15 States<sup>15</sup> have formed Ward Committees at least in one ULSG**. For example, in Himachal Pradesh, Ward Committees are not constituted in any of the test-checked ULSGs except in Shimla, where they were constituted in 30 out of 34 wards. Similarly, in Karnataka, out of the 11 Municipal Corporations, only Bengaluru constituted Ward Committees at the time of the audit.



**Table 2.3: Constitution of Ward Committees in States**

Status of formation of Ward Committees	States
Ward Committees constituted in all ULSGs and wards	Kerala (numbers not specified), Maharashtra (8 out of 8 test-checked ULSGs).
Ward Committees constituted in some of the ULSGs and wards	Chhattisgarh (1 out of 27 test-checked ULSGs), Himachal Pradesh (1 out of 14 test-checked ULSGs), Karnataka (1 out of 11 city corporations), Madhya Pradesh (2 out of 33 test-checked ULSGs), Tripura (6 out of 11 ULSGs), Jharkhand (3 out of 10 test-checked ULSGs) and Telangana (3 out of 17 ULSGs),
Ward Committees not constituted in ULSGs	Andhra Pradesh, Haryana, Odisha, Punjab, Rajasthan and Uttarakhand

<sup>15</sup> Data not available for Assam, Manipur and Tamil Nadu.

The absence of a functional Ward Committee defeats the objective of the 74<sup>th</sup> CAA of facilitating community participation in local governance. The absence of community participation would adversely impact prioritisation of development works and result in non-monitoring of execution of works, fund utilisation, maintenance of assets created, etc.

Area Sabhas/Mohalla Committees, which are institutionalised platforms for citizen participation below the level of Ward Committees, can deepen participatory governance<sup>16</sup>. Audit observed that among the four States for which data is available, namely Andhra Pradesh, Madhya Pradesh, Haryana and Maharashtra, only Madhya Pradesh has formed one Mohalla Committee in at least one city (Jabalpur). The remaining three States have not formed Area Sabhas/Mohalla Committees in any of their test-checked ULSGs. In Maharashtra, while the State Government passed the Maharashtra Municipal Corporations and Councils (Amendment) Act, 2009 for the constitution of Area Sabhas in all ULSGs, the notification for the enforcement date was not issued despite a lapse of 12 years from the passing of the Act. As a result, Area Sabhas have not been constituted in any of the wards.

<sup>16</sup> Ministry of Urban Development. Nagara Raj Bill (2008)

## Case Study 2.2

### Ward Committees in Bengaluru

Sections 82 and 83 of the Bruhat Bengaluru Mahanagara Palike (BBMP) Act, 2020 provides for the constitution of Ward Committees and representation of women and members from SC and ST and resident welfare associations. The Karnataka Municipal Corporations (Ward Committee) Rules, 2013 mandates that Ward Committee meetings are to be held on particular day of the month. These are held on the first Saturday of every month in the ward office at 10 a.m. In 2022-2023, over 2,000 monthly Ward Committee meetings were conducted across 243 wards.

Bengaluru has been without an elected body since 2020, when the term of the BBMP Council ended. In the absence of elected representatives, the BBMP has appointed nodal officers to chair the Ward Committee meetings. Further, these are mandated to be attended by officers from different government departments and various civic agencies (including electricity, water supply, police, etc.). This makes it easier for citizens to connect with multiple departments in one place at the same time.

Source: The Bruhat Bengaluru Mahanagara Palike Act, 2020, Karnataka Municipal Corporations (Ward Committee) Rules, 2013, MyCityMyBudget 2021 report and newspaper reports

## District Planning Committees (DPCs) and Metropolitan Planning Committees (MPCs) are often not constituted or remain inoperative when constituted. Their constitution rarely leads to the mandated creation of regional development plans.

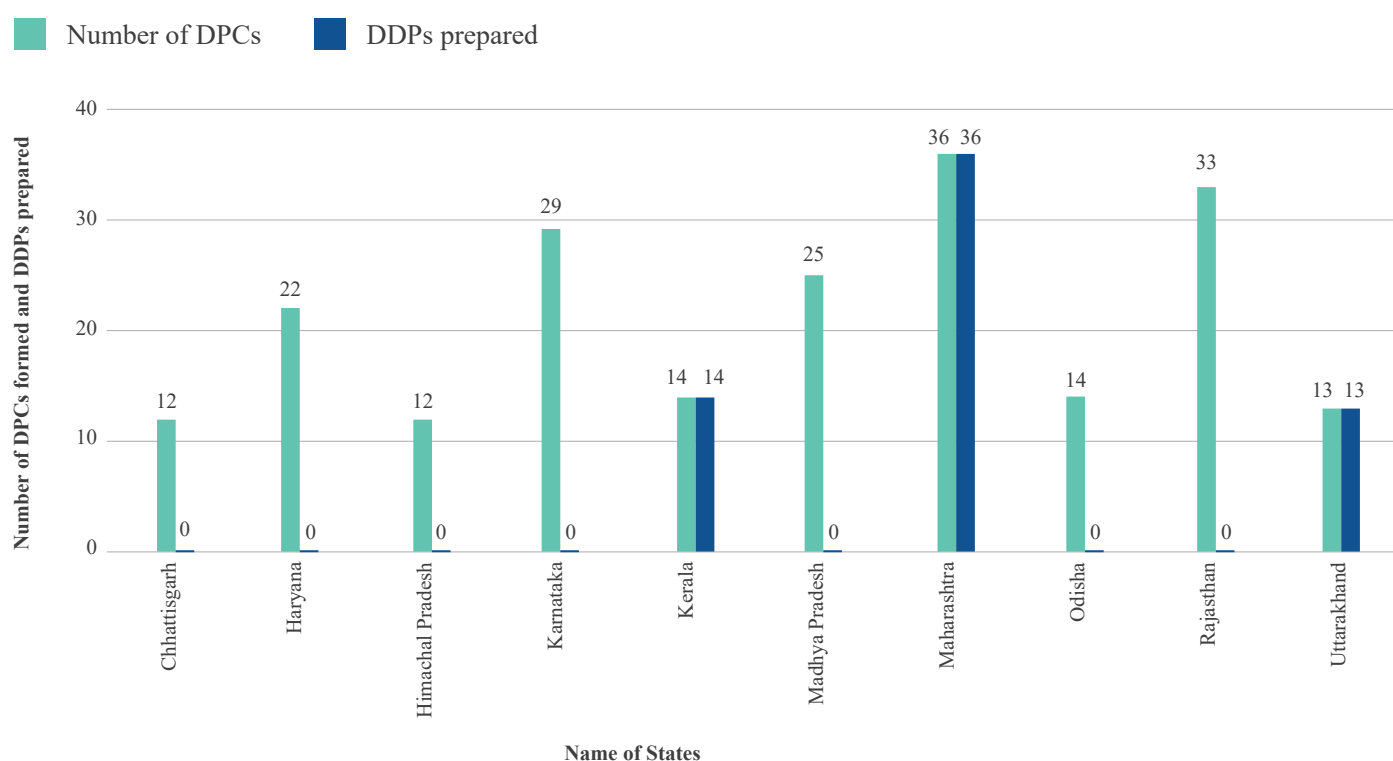
Article 243ZD of the Constitution mandates the constitution of a DPC to consolidate plans prepared by the local governments in a district and create a draft development plan for the district as a whole. This comprehensive District Development Plan (DDP) includes matters of common interest between the local governments including spatial planning, sharing of water and other physical and natural resources, integrated development of infrastructure and environment conservation and the extent and type of available resources, whether financial or otherwise.

However, the audit analysis in 10 States found that although the States have constituted DPCs, only 3 States, namely, Kerala, Maharashtra and Uttarakhand have produced annual district plans (Figure 2.3). Audit observed that in Kerala, DPCs of all 14 districts have approved the annual

plans prepared by the ULSGs from 2015 to 2020. Similarly, in Maharashtra, DPCs were constituted in all 36 districts of the State and annual district plans prepared by DPCs were duly approved by the State Government during the period 2015–2016 to 2020–2021. However, five-year plans and perspective development plans were not prepared regularly in either of the States.

Interestingly, in Uttarakhand, while development plans were formulated from 2015–2016 to 2019–2020 by the DPCs, the draft development proposal was prepared without the incorporation of plans/proposals from the ULSGs. Further, as key municipal functions are yet to be devolved to ULSGs in Uttarakhand, they play no role in urban planning, regulation of land use, or district planning where public participation and opinion matter.

**Figure 2.3: Number of DPCs formed and DDPs prepared**



Note: Data for Madhya Pradesh and Odisha is for test-checked ULSGs. Data not available for Jharkhand. In Assam and Tamil Nadu (DPC constituted, but not functioning), Andhra Pradesh and Manipur (Not constituted and plans not prepared in test-checked ULSGs), Punjab and Telangana (not constituted in any district), Tripura (existing but not reconstituted for new districts).

DDPs which do not consider the local needs and matters of common interest (such as drinking water, roads, sewerage systems, solid waste management, etc) impact the effective delivery and implementation of these services by ULSGs.

Article 243ZE of the Constitution mandates that a Metropolitan Planning Committee (MPC) shall be constituted in every metropolitan area (i.e., ULSGs with a population greater than ten lakh) to prepare a Draft Development Plan for the metropolitan region as a whole. As per Census 2011, 9 of the 18 States audited have ULSGs with ten-lakh-plus population and therefore, are mandated to constitute MPCs in at least one of their ULSGs. Of these 9 States, only 3 States have constituted MPCs.

**Figure 2.4: Percentage of States that have constituted MPCs**



As seen in Table 2.4, three States, for which data is available, have constituted MPCs in 7 metropolitan ULSGs. Despite this, development plans have been created in only 3 out of 7 ULSGs.

**Table 2.4: Constitution of MPCs**

State	Cities in which MPCs are constituted	Preparation of development plan
Haryana	Faridabad	No
Karnataka	Bengaluru	No
Maharashtra	Mumbai, Nagpur, Pune, Aurangabad and Nashik	Yes — Mumbai, Nagpur and Pune

The gaps in the constitution and functioning of the MPCs remain a challenge because of which, in most cases, MPCs fail to create a development plan. For example, in Karnataka, while Bengaluru MPC (BMPC) was constituted in 2014, it has met only thrice (June 2016, December 2016 and January 2018) despite the stipulation that it ‘shall meet at least once in three months’.

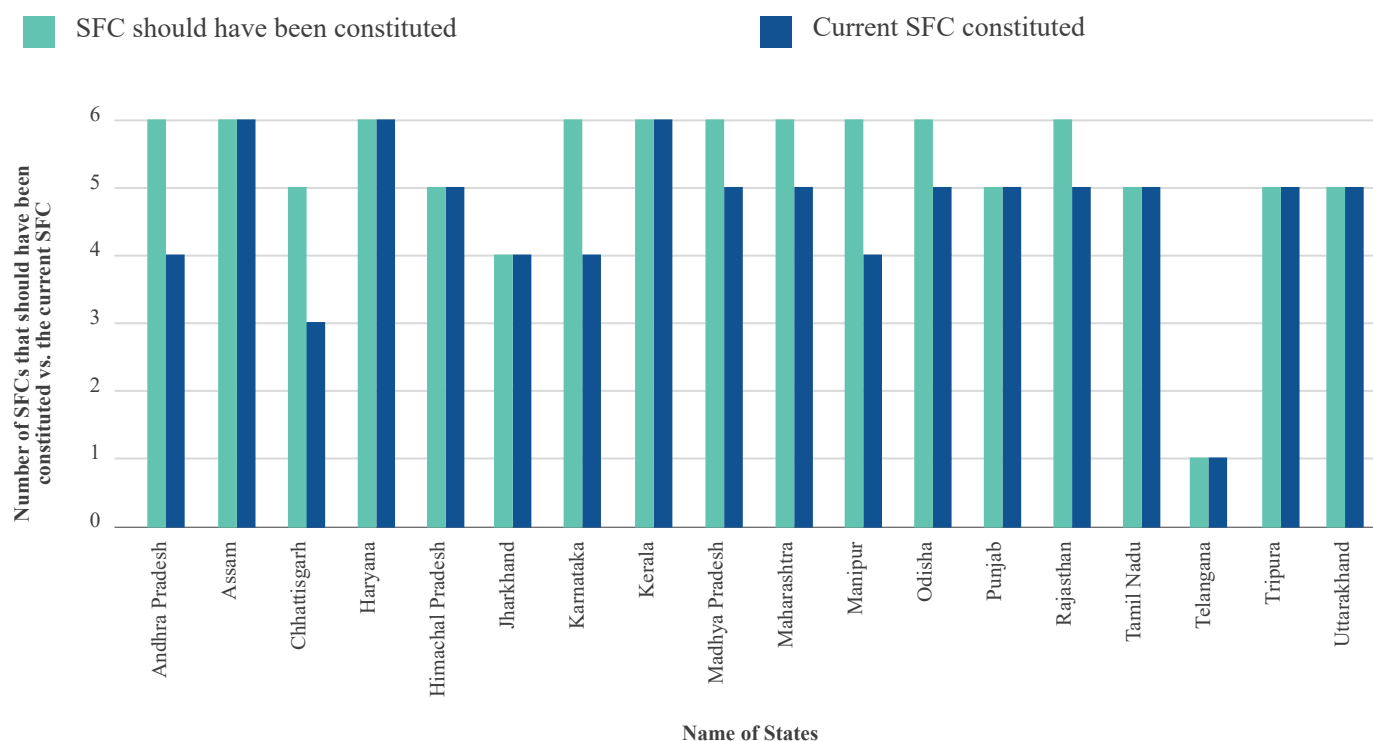
Similarly, audit found in Haryana that the DDPs were prepared by the Town and Country Planning Department (TCPD) or the Directorate of Urban Local Bodies (DULB) in consultation with the ULSG. These plans were then forwarded to the MPC for their recommendations. The State-level committee of TCPD approved the plans after considering the recommendations of the MPC, which is not as per the 74<sup>th</sup> CAA.

### Only 10 States have constituted State Finance Commissions (SFCs) as per the prescribed timeline. On average, there is a delay of 412 days in setting up SFCs by the States.

Article 243I of the Constitution makes it mandatory for State Governments to constitute a Finance Commission within one year of the enactment of the 74<sup>th</sup> CAA and every five years thereafter. The mandate of the SFCs is to review the financial position of the local bodies and make recommendations to the Governor for the devolution of funds. The audit analysis in 18 States revealed that

only 10 States – Assam, Haryana, Himachal Pradesh, Jharkhand, Telangana, Tripura, Tamil Nadu, Uttarakhand, Punjab and Kerala – have set up SFCs every five years as per the mandate of the Constitution. Madhya Pradesh, Maharashtra, Odisha and Rajasthan lag by one SFC, while Andhra Pradesh, Chhattisgarh, Karnataka and Manipur lag by two SFCs.

**Figure 2.5: SFC to be constituted as per the timeline of the Constitution vs the current SFC in place**



Audit observed that, on average, States delayed the constitution of SFCs by 412 days (Table 2.5). Further, the longest delays in the formation of SFCs are seen in three States with delays ranging from 2,920 days (Andhra Pradesh in the formation of the fourth SFC), 1,825 days (Odisha in the formation of the second SFC) and 1,633 days (Tripura in the formation of the first SFC).

**Table 2.5: Average delay in the constitution of SFCs**

State	Average delay (in days)
Andhra Pradesh	753
Assam	150
Chhattisgarh	613
Haryana	174
Himachal Pradesh	252
Jharkhand	488
Karnataka	603
Kerala	120
Madhya Pradesh	235
Maharashtra	279
Manipur	728
Odisha	1,465
Punjab	105
Rajasthan	312
Tamil Nadu	79
Tripura	643
Uttarakhand	0
<b>Average</b>	<b>412</b>

A delay in establishing SFCs can impact the financial positions of ULSGs. ULSGs depend on the grants allocated by SFCs to carry out their responsibilities. This is further discussed in Chapter Three.

Audit also observed that, in some States, there is considerable delay in appointing Chairpersons and members of the respective SFC. For example,

after its formation, **Telangana constituted its First SFC in March 2015 without any members. The Chairperson, Member Secretary and Members were appointed only in January 2018, three years after the Commission was formed. Thus, there were no recommendations for the period 2015–2016 to 2019–2020.** Similarly, in Jharkhand, the post of Chairperson remained vacant for 95 to 594 days, in the first three SFCs.

The State Governments may accept the recommendations of the SFC in totality or with certain modifications. As indicated in Figure 2.6, 13 out of 17 States<sup>17</sup> namely, Assam, Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan and Tamil Nadu — have accepted SFC recommendations partially. **Only Uttarakhand has accepted the recommendations in full.**

**Figure 2.6: States’ response to SFC recommendations**



Audit also observed that there is delay from States in responding to these recommendations. For example, in Madhya Pradesh, recommendations of the Fifth SFC, which were submitted in January 2018, have not been accepted by the State Government (as of November 2021), even when the constitution of the Sixth SFC was due in 2019. Similarly, in Maharashtra, the Third SFC gave its recommendations for the period between 2006–2011 and submitted its report in 2006. However, the State Government accepted the recommendations only in 2013, leading to a delay of seven years.

Further, besides the recommendations relating to financial devolution, the SFCs across States often recommend several institutional measures that would strengthen ULSGs in the long term, reflecting the objectives of the 74<sup>th</sup> CAA. However, non-implementation of such recommendations would be a setback in achieving the objective of decentralisation.

<sup>17</sup> Data not available for Tripura.

## Only 2 States have a functional Property Tax Board.

The Thirteenth Finance Commission mandated the constitution of a Property Tax Board along the lines of the West Bengal Valuation Board, constituted in the year 1980, to assist all ULSGs in the State to establish an independent and transparent procedure for assessing property tax. The audit analysis found that 9 out of the 17 States<sup>18</sup> did not constitute Property Tax Boards. In 6 out of 8 States that constituted Property Tax Boards, the boards were not functional (for example, the members have not been appointed). Only 2 States — Madhya Pradesh and Manipur — have a functional Property Tax Board (Table 2.6).

**Table 2.6: Constitution of Property Tax Board across States**

Particulars	States
Constituted and functional	Madhya Pradesh and Manipur
Constituted but not functional	Assam, Karnataka, Punjab, Rajasthan, Tamil Nadu and Tripura
Not constituted	Andhra Pradesh, Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Kerala, Maharashtra, Odisha and Uttarakhand

Absence of a functional Property Tax Board impacts ULSGs, particularly small ULSGs that typically have severe capacity constraints as they do not have access to technical guidance for the assessment and revision of property tax. Effective institutional designs are important to achieve the objectives of the 74<sup>th</sup> CAA and further urban decentralisation. To truly empower ULSGs, in addition to functional devolution, capacities in terms of funds and functionaries are also of paramount importance.

<sup>18</sup> Data not available for Telangana.



# 03

## Do ULSGs have access and powers to raise financial resources commensurate with their functions?

Sustainable financing is critical for ULSGs to be able to meet their obligation of delivering municipal services and creation of enabling infrastructure. Long-term financial planning and/or infrastructure development requires ULSGs to receive predictable transfers of funds and access to own revenue streams. Additionally, they also require expenditure powers, i.e., reasonable delegation limits that allow ULSGs to efficiently utilise their financial resources.

*This chapter will answer the following questions:*

- 1 Do ULSGs generate adequate revenue?
- 2 Have States empowered ULSGs with access to own revenue streams that are buoyant and commensurate with their expenditure obligations?
- 3 Do ULSGs have sound financial management practices?



Garbage collection in Dehradun, Uttarakhand

## Data Highlights



On average, only  
**56 per cent**  
of property tax demand  
is realised by ULSGs.

On average, only  
**32 per cent**  
of ULSGs total revenue  
is own revenue. Almost  
56 per cent of the total  
revenue of ULSGs  
comes from Union and  
State Governments.



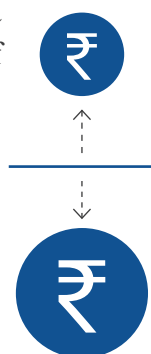
ULSGs have  
an average  
resource  
expenditure  
gap of  
**42 per cent.**



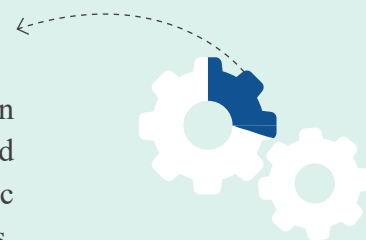
On average, ULSGs  
have utilised  
**61 per cent**  
of the funds made  
available to them.



ULSGs of 13 States have a  
maximum budget variance of  
**403 per cent and  
274 per cent**  
in receipts and  
expenditures, respectively.



On average,  
**29 per cent**  
of expenditure in  
ULSGs was directed  
towards programmatic  
and development works.



On average, ULSGs of 15  
States have a short receipt of  
**₹1,606 crore**

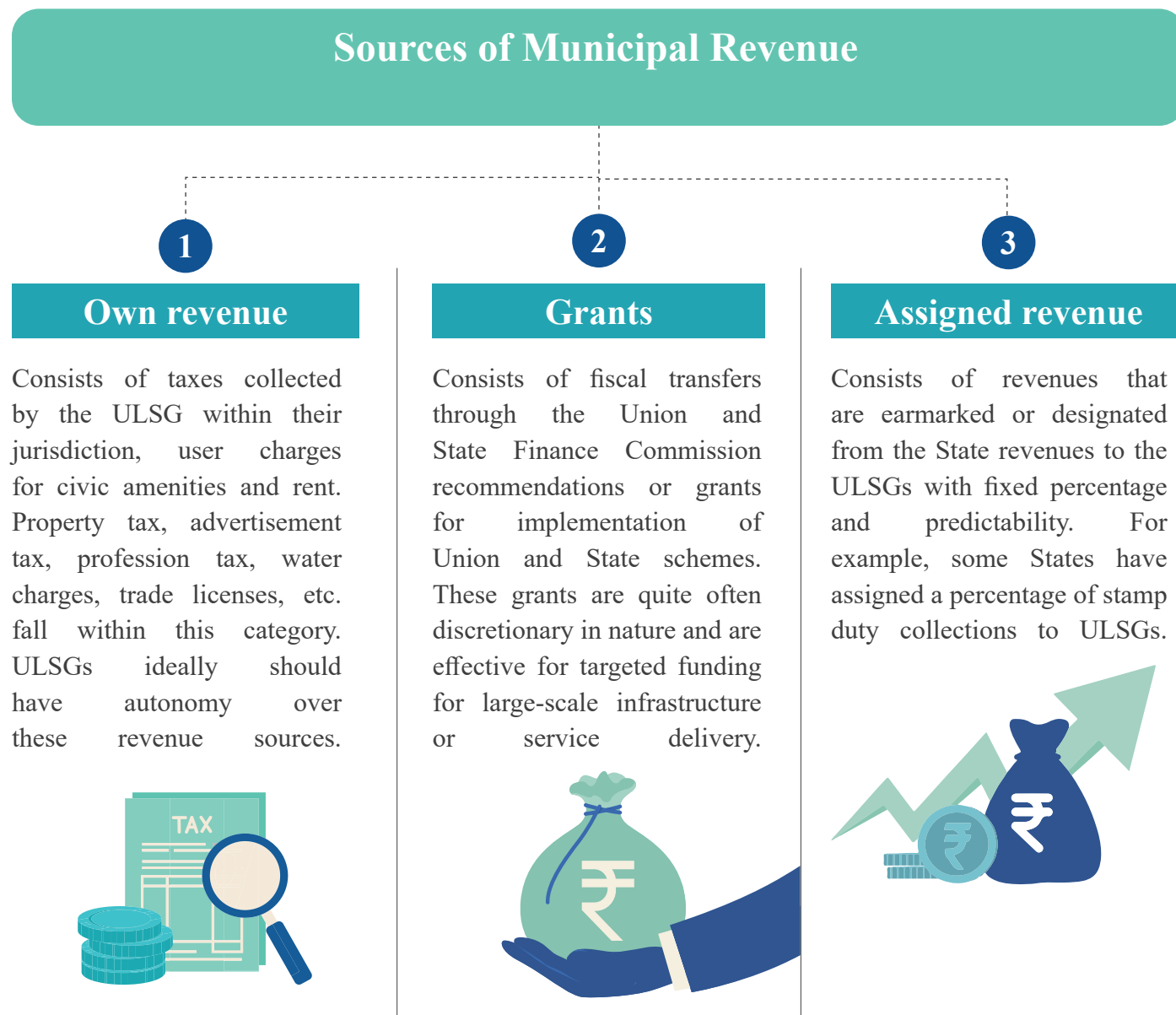


as grant revenues  
recommended by  
the State Finance  
Commissions (SFCs)  
owing to delays  
in the constitution  
of SFCs and short  
release of funds by  
State Governments.

***On average, ULSGs generate only 32 per cent of their funds from their own sources, leaving them highly dependent on Union and State Government grants.***

The revenue of ULSGs in India can broadly be categorised into three buckets—own revenue, grants and assigned revenue<sup>19</sup> (Figure 3.1).

**Figure 3.1: Sources of municipal revenue for ULSGs**



A higher share of municipal own revenue can make a significant impact on the financial sustainability of ULSGs. However, in 17 States<sup>20</sup> for which data is available, on average, only 32 per cent of ULSGs total revenues consist of own revenue. As indicated in Figure 3.2, the percentage of own revenue to total revenue of ULSGs of States such as Jharkhand, Manipur, Tripura and Uttarakhand has been less than 15 per cent.

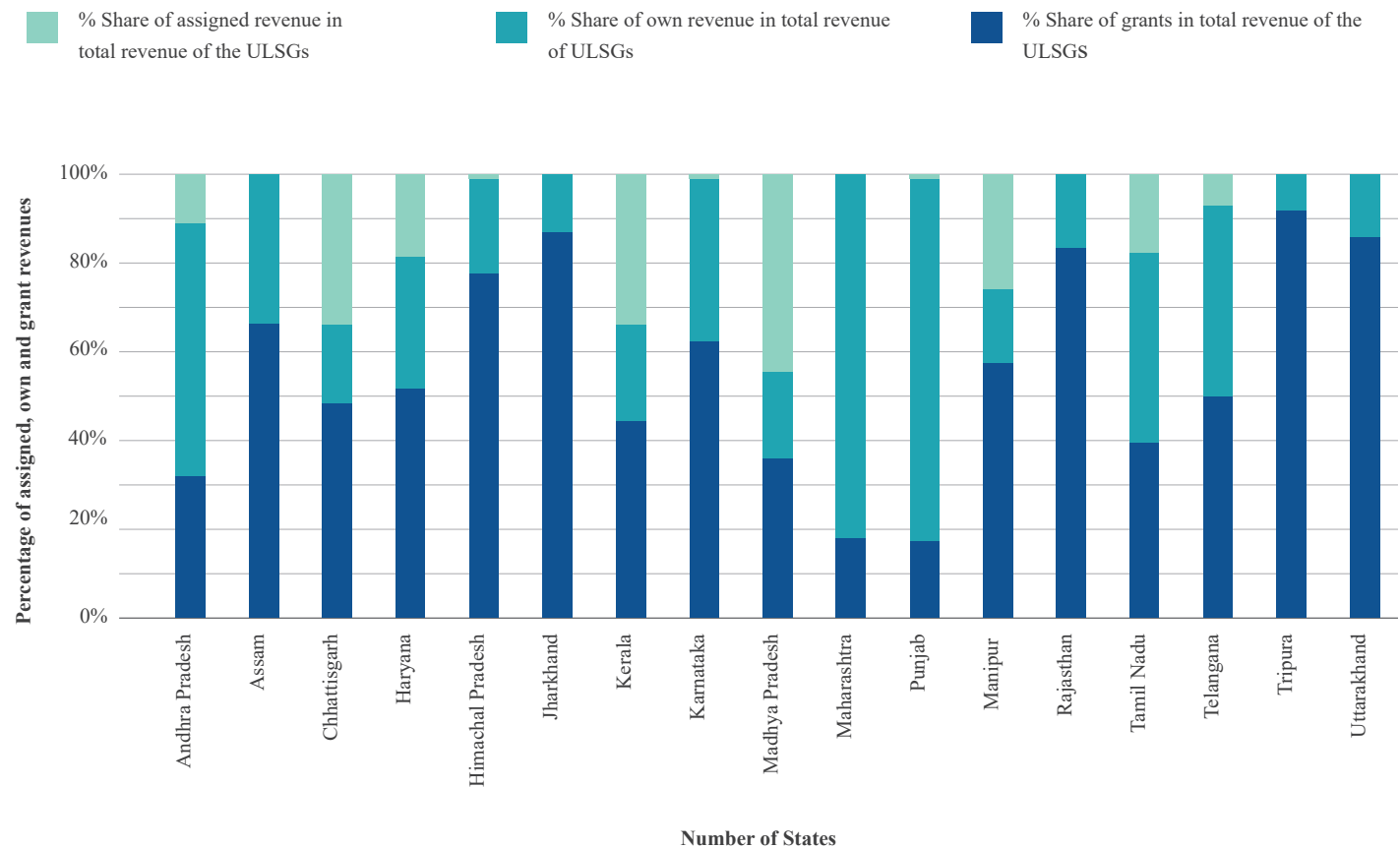
<sup>19</sup> Assigned revenue includes revenue shared by States after collection of tax.

<sup>20</sup> Data on revenue receipts is not available for Odisha. Own revenue data for Assam is only for Guwahati Municipal Corporation.



A still from Raipur, Chhattisgarh

**Figure 3.2: Share of own revenue, grants and assigned revenues to ULSGs**

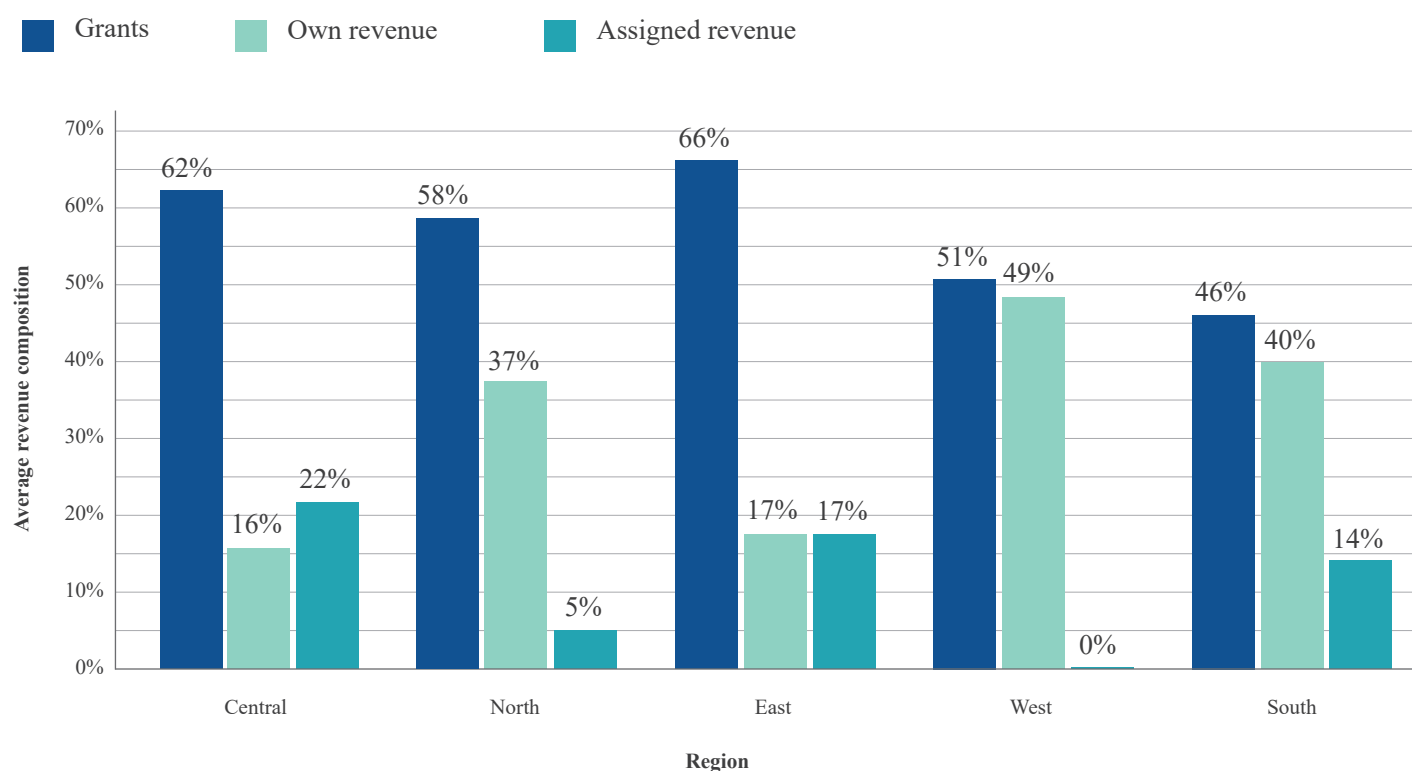


Note: In Tamil Nadu, grants from schemes and loans are considered under assigned revenue. Data on Jharkhand is based on test-checked ULSGs.



Further, regional analysis (Figure 3.3) suggests that central States namely, Madhya Pradesh and Jharkhand, on average, have been able to generate only 16 per cent of their own revenue out of the total revenue. Similarly, the northern States, namely, Himachal Pradesh, Haryana, Uttarakhand and Punjab, on average, have been able to generate 37 per cent of their own revenue out of their total revenue. However, if Punjab, where ULSGs generate 82 per cent of their own revenue, is removed from the analysis, then the regional average falls to 22 per cent. Like some of the central and eastern States, a significant portion of the northern States revenue comes via grants from Union and State Governments. Chhattisgarh, Madhya Pradesh and Manipur, however, have a substantial share of their total revenue coming from assigned revenue from the State, which indicates low own revenue or low overall revenue.

**Figure 3.3: Average revenue composition of ULSGs across regions**



The inability of ULSGs to generate adequate funds results in dependency on the grants from Union and State Governments. On average, grants constitute about 56 per cent of the total revenue of the 17 States analysed. As indicated in Figure 3.2, the share of grants to the total municipal revenue of States such as Uttarakhand, Jharkhand and Tripura has been more than 85 per cent.

*Since ULSGs are mostly dependent on the grants from the Union and State Governments, the predictability of fiscal transfers is important. On average, there was short receipt of grants revenue to ULSGs of ₹402 crore and ₹1,606 crore recommended by the Central and State Finance Commissions, respectively due to short release of funds, delay in the constitution of SFCs, non-adherence of ULSGs with the performance grant criteria, etc.*

SFCs play an important role in making recommendations for the devolution of funds to ULSGs. Hence, the timely constitution of SFCs, acceptance of their recommendations and the timely implementation of these recommendations have a significant bearing on the assured transfer of funds to ULSGs. Audit observed that, often, there is considerable delay both in the constitution of SFCs and the implementation of SFC recommendations. In several cases, State Governments did not release the entire amount recommended by the SFCs to the ULSGs. Due to this delay, shortfall of receipt to ULSGs in 15 States<sup>21</sup>, for which data is available, is on average, ₹1,606 crore. **Uttarakhand and Kerala are the only States that released 100 per cent of the funds to the ULSGs as recommended by the respective SFCs.**

Article 280(3)(C) of the Constitution mandates Central Finance Commission (CFC) of India to recommend the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. The Thirteenth Finance Commission and Fourteenth Finance Commission recommended basic grants and performance grants to ULSGs as a percentage of the divisible pool. ULSGs did not receive these grants from the State Government due to short release of funds. Therefore, on average, the short receipt of revenue to ULSGs in 18 States, for which data is available, is ₹402 crore. **Uttarakhand, Punjab and Kerala are the only States that released 100 per cent of the funds recommended by the CFC to the ULSGs.**

<sup>21</sup> Data unavailable for Jharkhand, Maharashtra and Tripura for SFC.

**Table 3.1: Shortfall of CFC and SFC grants to ULSGs**

States	SFC: Shortfall in Grants (₹ in crore)	Period of SFC	CFC: Shortfall in basic and performance grants (₹ in crore)
Andhra Pradesh	524.33	2015–2020	581.58
Assam	895.52	2015–2020	289.17
Chhattisgarh	256.10	2015–2020	184.83
Madhya Pradesh	312.60	2015–2020	602.55
Haryana	53.17	2015–2020	350.75
Himachal Pradesh	1.99	2015–2020	56.65
Jharkhand	Data unavailable	Data unavailable	488.45
Karnataka	15,564.00	2014–2019	331.92
Maharashtra	Data unavailable	Data unavailable	1,444.84
Manipur	477.54	2015–2020	40.25
Odisha	196.44	2015–2020	333.58
Punjab	3,280.00	2015–2020	0.00
Rajasthan	52.58	2015–2020	525.32
Tamil Nadu	1,306.89	2015–2020	1,323.60
Tripura	Data unavailable	Data unavailable	34.71
Telangana	1,170.00	2015–2020	647.00
Kerala	0.00	2015–2020	0.00
Uttarakhand	0.00	2015–2020	0.00

With respect to SFC grants, delays in the constitution of the SFC and acceptance of their recommendations are two of the main reasons behind the short release of funds to the ULSGs. For example, in Andhra Pradesh, the State Government extended the recommendation of the Third SFC (covering 2005–2006 to 2009–2010) for the period 2010–2011 to 2015–2016 and 2016–2017 to 2019–2020, without constituting the Fourth or

Fifth SFC. In 2010–2011, the government released ₹879.21 crore<sup>22</sup> due to the non-constitution of the Fourth SFC, but between 2016–2017 and 2019–2020, the State devolved only ₹495.37 crore which was recommended by the Third SFC. Similarly, in Haryana, delayed acceptance of the Fourth SFC recommendations caused a shortfall of ₹95 crore during the period 2015–2016.

<sup>22</sup> Combined State figures of Telangana and Andhra Pradesh upto 2015–16.

Another reason for the short receipt of funds for ULSGs is when States did not release the entire amount recommended by the SFCs, which can be attributed to financial constraints at the State level. For example, in Maharashtra, the audit observed that short disbursement of Nagarpalika Sahayak Anudan (compensating the loss of income due to the abolition of dearness allowance and octroi grant to Municipal Councils), road tax and Yatra Kar (pilgrimage tax) totalling ₹2,679 crore was due to financial constraints faced by the State Government. In Punjab, out of the mandated devolution of ₹3,287 crore by the SFC during 2015–2020, only ₹ seven crore (0.21 per cent) was released to ULSGs. The State Government stated that sufficient funds were released under the CFC grants and other schemes to avoid any adverse impact on development works. However, audit observed that this was not in tune with the recommendation of the SFC.

The shortfall in the devolution of funds recommended by the CFC also occurs for various reasons. The Union Government could withhold performance grants because of the inability of ULSGs to meet performance conditions. For

example, in Assam, there has been a short release of ₹95 crore as ULSGs did not meet the prescribed performance criteria laid down by the Fourteenth Finance Commission which included maintenance of proper books of accounts, showing an annual increase in their own revenue and achievement of service level benchmark with respect to the delivery of core basic services. Similarly, in Chhattisgarh, ULSGs did not receive performance grants of ₹184 crore for the period between 2018 and 2020.

In some cases, the Union Government did not release the due amount for ULSGs to the State Government. In Haryana, there was a short receipt of performance grants of ₹6.12 crore for the year 2016–2017. Similarly, the entire allocation of ₹242.10 crore for the years 2018–2019 and 2019–2020 was not released by the Union Government to the State Government. In Maharashtra, a performance grant of ₹1,444.84 crore for the years 2018–2019 and 2019–2020 was not received by the State Government.

## *Fiscal decentralisation measures for ULSGs are weak across India.*

Property tax on land and buildings is the mainstay of ULSGs own revenue. Audit observed that while municipal laws have authorised ULSGs to collect taxes like property tax, powers pertaining to the fixation of rates and revision thereof, the procedure of collection, method of assessment, exemptions, concessions, etc., are vested with the State Governments. ULSGs also have limited autonomy over profession tax, water charge, solid waste management cess/charge and entertainment tax.

The non-tax revenues of ULSGs typically comprise water charges, rent from commercial establishments, trade licenses, fire cess, solid waste management cess, fees for sanction of plans/mutations, market fees, parking fees, show tax, development charges, etc.

The lack of complete autonomy for ULSGs with respect to taxes and user charges limits their ability to adequately raise revenues commensurate with the cost of operations and maintenance.

## Requirement of administrative approvals from State Governments for basic infrastructure works due to inadequate financial autonomy of ULSGs

**5 out of the 6 States for which data is available (Table 3.2) require the administrative approval of the State Government to undertake infrastructure works** as the State Government has conferred only limited financial powers to ULSGs.

The restrictions/limitations on the financial powers of ULSGs negate the movement towards greater decentralisation.

**Table 3.2: Financial powers of ULSGs**

Name of the State	State Government (SG)	Municipal Commissioner	Council	Standing/ Subject Committee	Mayor
Haryana	Director, ULSGs > ₹250 lakh < ₹300 lakh; SG: > ₹300 lakh;	< ₹100 lakh	₹100 lakh - ₹250 lakh	NA	NA
Himachal Pradesh	> ₹100 lakh	< ₹10 lakh	> ₹10 lakh	NA	NA
Karnataka	DC: >₹200 lakh to ≤ ₹500 lakh; DMA : >₹500 lakh to ≤ ₹1,000 lakh; SG: ≥ 1,000 lakh	<₹50 lakh	>₹100 lakh to ≤ ₹200 lakh	> ₹50 lakh to < =₹100 lakh	NA
Rajasthan	Full power	₹100 lakh	Up to budget provision	₹500 lakh	₹200 lakh
Tamil Nadu	> ₹135 lakh	₹10 lakh - ₹100 lakh	₹50 lakh	₹20 lakh to ₹30 lakh	
Uttarakhand	No role	≤ ₹10 lakh	> ₹25 lakh	> ₹12 lakh to ≤ ₹25 lakh	> ₹10 lakh to ≤ ₹12 lakh

Note:

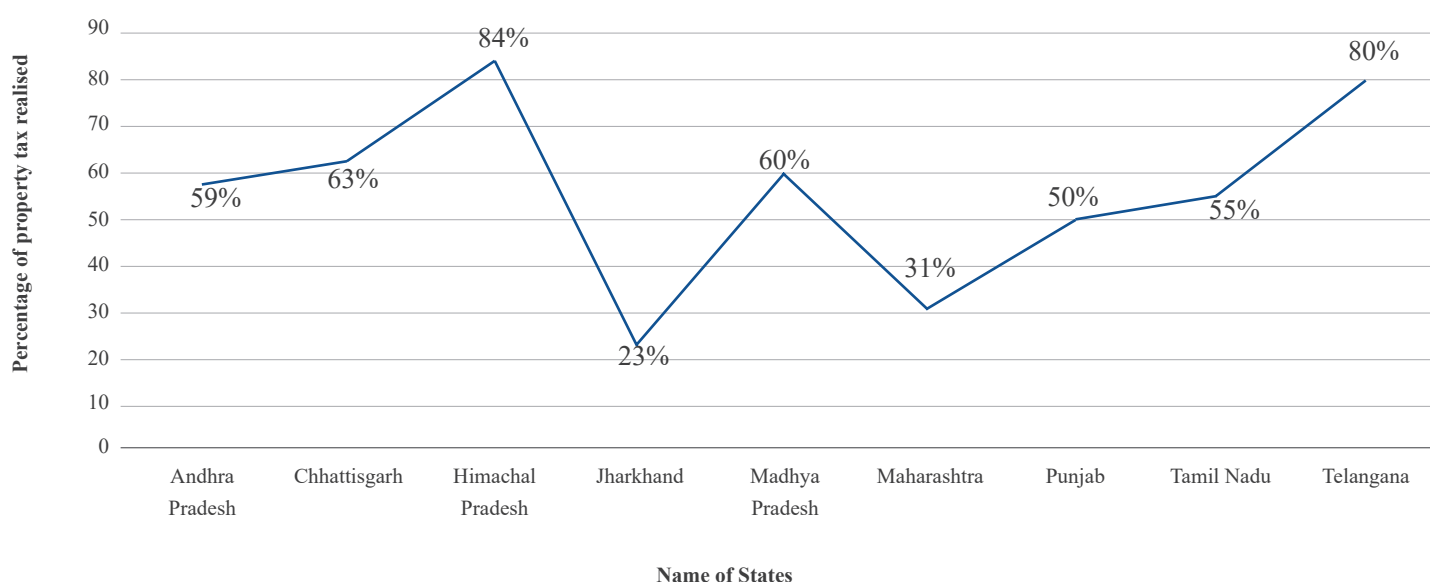
1. NA - Not available /Not specified; DC - Deputy Commissioner; DMA - Directorate of Municipal of Administration.
2. Data in respect of the other States are not available/not specified/ not categorised as above.

*Even as ULSGs are not adequately empowered with revenue sources, they struggle to optimise the revenue they have access to.*

On average, only 56 per cent of the demand for property tax is realised by ULSGs in 9 States<sup>23</sup>. ULSGs in States like Jharkhand and Maharashtra are able to collect around 27 per cent of demand for property tax. Audit observed that recovery of outstanding property tax

collections was low, due to poor capacities of ULSGs. For example, in Rajasthan, even as the State Government directed ULSGs to examine and monitor property tax dues, recovery of outstanding amounts was a dismal 9 - 10 per cent.

**Figure 3.4: Realisation of property tax as a share of total demand**



The audit also highlighted that the current property tax demand is sub-optimal. For example, in Madhya Pradesh, the property tax is levied at a rate between 6 and 10 per cent of the annual letting value. However, of the 33 test-checked ULSGs, in 10 ULSGs, the last revision was before 2010, 14 revised it between 2010 and 2015, and 8 revised it between 2015 and 2020<sup>24</sup>. In Tamil Nadu, even though property tax revision was done in 2018 after a gap of 10 years (20 years in Greater Chennai Corporation), it was withheld after a year. Audit observed that the loss of revenue for ULSGs in Tamil Nadu amounted to ₹2,598 crore

due to the non-revision of property tax since 2013. Geographical Information System (GIS) survey of properties was recommended by Third SFC in Madhya Pradesh. The audit noted that there was a remarkable increase (26 per cent to 1,612 per cent) in property tax collection of 30 per cent of the ULSGs after the GIS survey of properties.

The non-optimisation of revenue also applies to user charges like water charges, solid waste management cess, etc. Audit also observed that collections of Operations and Maintenance (O&M) through user

<sup>23</sup> Data for all ULSGs/test-checked ULSGs are available in respect of 9 States included in Figure 3.4. In Odisha, Holding tax realisation was 82% of demand, while in Haryana, realisation of property tax ranged from 37% to 61% in different tiers of ULSGs.

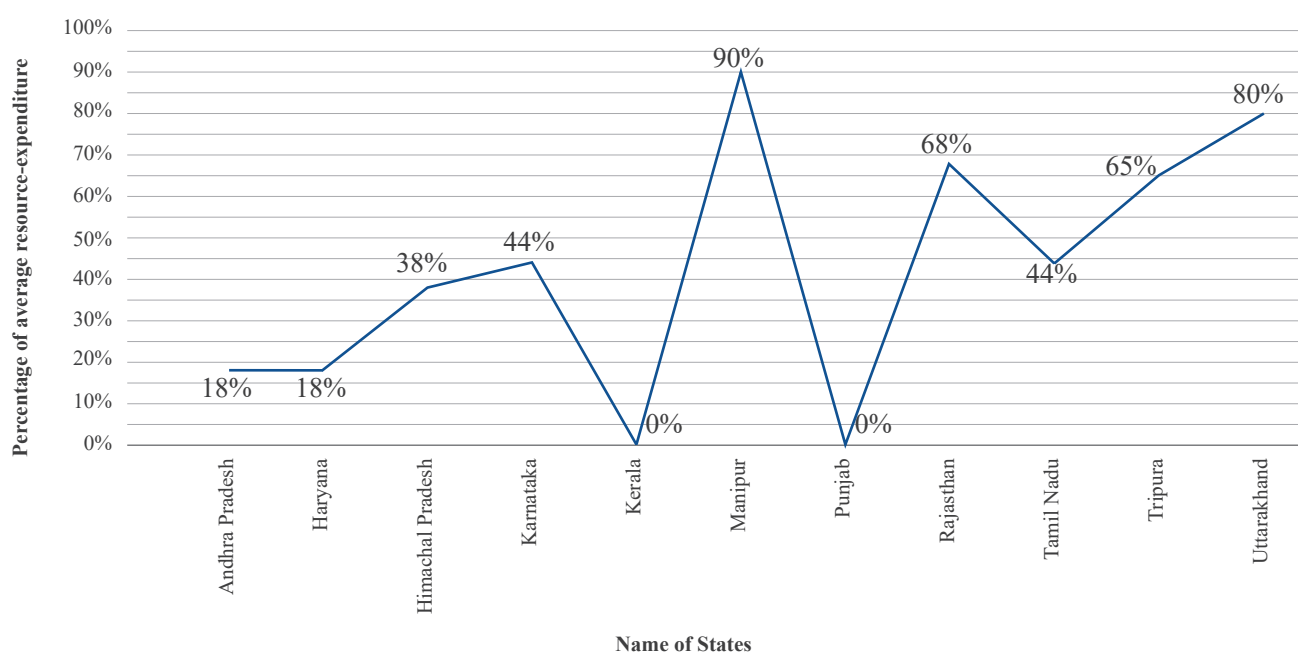
<sup>24</sup> One ULSG did not provide the information during the audit.

charges was low. For example, in Punjab, the average user charge collection is only 18 per cent. Similarly, in Madhya Pradesh, only 21–31 per cent of expenses incurred by ULSGs on O&M of water supply was recovered through user charges. In Chhattisgarh and Andhra Pradesh, more than 38 per cent and 62 per cent of the water charges have not been collected (test-checked ULSGs). In Rajasthan, for the test-checked ULSGs, audit observed that ULSGs spent ₹429.5 crore on solid waste management but were unable to recover an estimated amount of ₹329.8 crore (more than 77 per cent).

**Limited municipal own revenues, along with the increasing cost of operations, often result in an increasing resource-expenditure gap in ULSGs. In 11 States, ULSGs have an average resource-expenditure gap of 42 per cent.**

Resource-expenditure gap is the difference between own revenue and expenditure. On average, 11 States<sup>25</sup>, for which data is available, have a resource-expenditure gap of 42 per cent (Figure 3.5). Two States (Rajasthan – 68 per cent and Uttarakhand – 80 per cent), which show a high resource-expenditure gap have also shown low own source revenue percentages (17 per cent and 14 per cent, respectively).

**Figure 3.5: Average resource-expenditure gap of ULSGs**



<sup>25</sup> Data not available/not specified for Assam, Chhattisgarh, Madhya Pradesh, and Maharashtra. Telangana, Jharkhand and Odisha have only provided details of test-checked ULSGs. Expenditure does not include that from programme/grants. Kerala and Punjab have excess of own revenue over expenditure.



A busy street in Bengaluru, Karnataka

***Financial management of ULSGs is weak across States. Unrealistic budgeting has been observed in ULSGs of 13 States, with a maximum budget variance of 403 per cent and 274 per cent observed in receipts and expenditure respectively.***

A realistic and scientific budget that is based on estimating the cost of each municipal service (capital and O&M) and assessing the requirement and source of funds for efficient service delivery is a key indicator of robust financial management. In Rajasthan, audit observed that budget estimates of receipts and expenditures were not based on the actual receipts/expenditures in the previous years but were prepared by increasing a certain percentage in the estimates of the previous year, irrespective of the actual figures. This method of budget preparation is flawed as the stipulated date for approval of the budget of ULSGs is usually before the State budget preparation. Therefore, ULSGs allocate resources based on the expected receipt of funds and not on the actual receipt of funds. The shortfall in receipt of funds would affect the execution of planned activities.

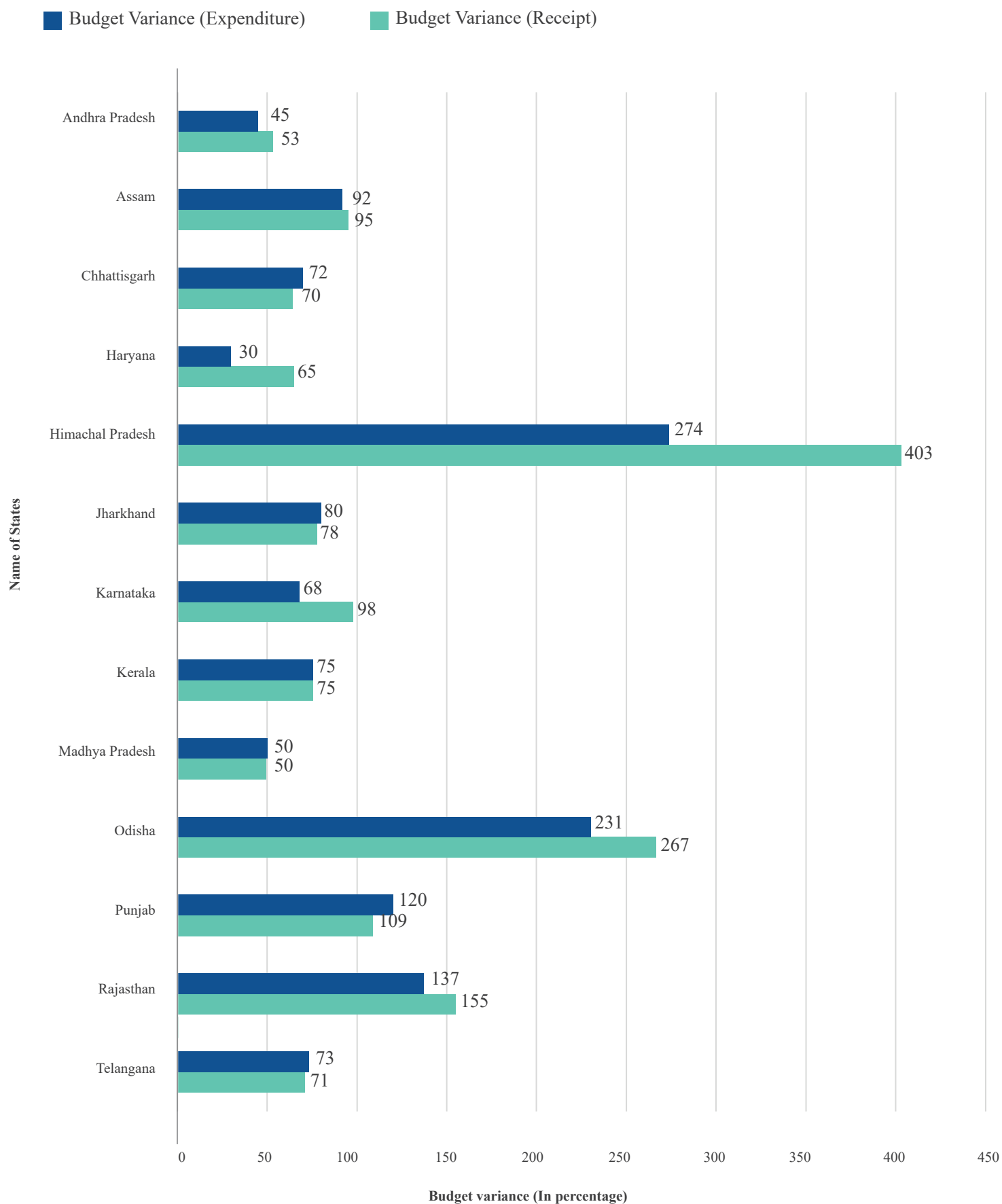
High budget variance in receipts and expenditures signals weak financial management in the form of unrealistic budgets. As indicated in Figure 3.6, the

ULSGs in 13 States, for which data is available, **the maximum budget variance is 403 per cent (budget variance in receipts in Himachal Pradesh) and 274 per cent (budget variance in expenditure in Himachal Pradesh).** These variances could be both positive and negative, indicating that ULSGs either received more funds than expected or received less than expected funds or underspent substantially. ULSGs in 4 States namely, Odisha, Punjab, Rajasthan and Himachal Pradesh have variances, including for receipts and expenditure, greater than 100 per cent.

Audit observed that out of 18 States<sup>26</sup>, the budget estimates of ULSGs in five States viz. Haryana, Himachal Pradesh, Punjab, Rajasthan and Telangana, are sent to the State Government for approval, whereas in case of Assam, Andhra Pradesh, Chhattisgarh, Jharkhand, Kerala, Karnataka, Madhya Pradesh and Odisha, the budget estimates approved by ULSGs are sent to the State Government for information.

<sup>26</sup> Data not available in respect of Maharashtra, Manipur, Tamilnadu, Tripura & Uttarakhand.

**Figure 3.6: Maximum percentage of budget variance across ULSGs in 13 States**



Note: Data available/specified for 13 States.

## Case Study 3.1

### The Karnataka Municipal Accounting and Budgeting Rules, 2006

The Karnataka Municipal Accounting and Budgeting Rules (KMABR), 2006 was introduced by the Government of Karnataka to improve fiscal responsibility and accounting and budgeting practices of ULSGs.

**Key provisions of the rules are as follows:**

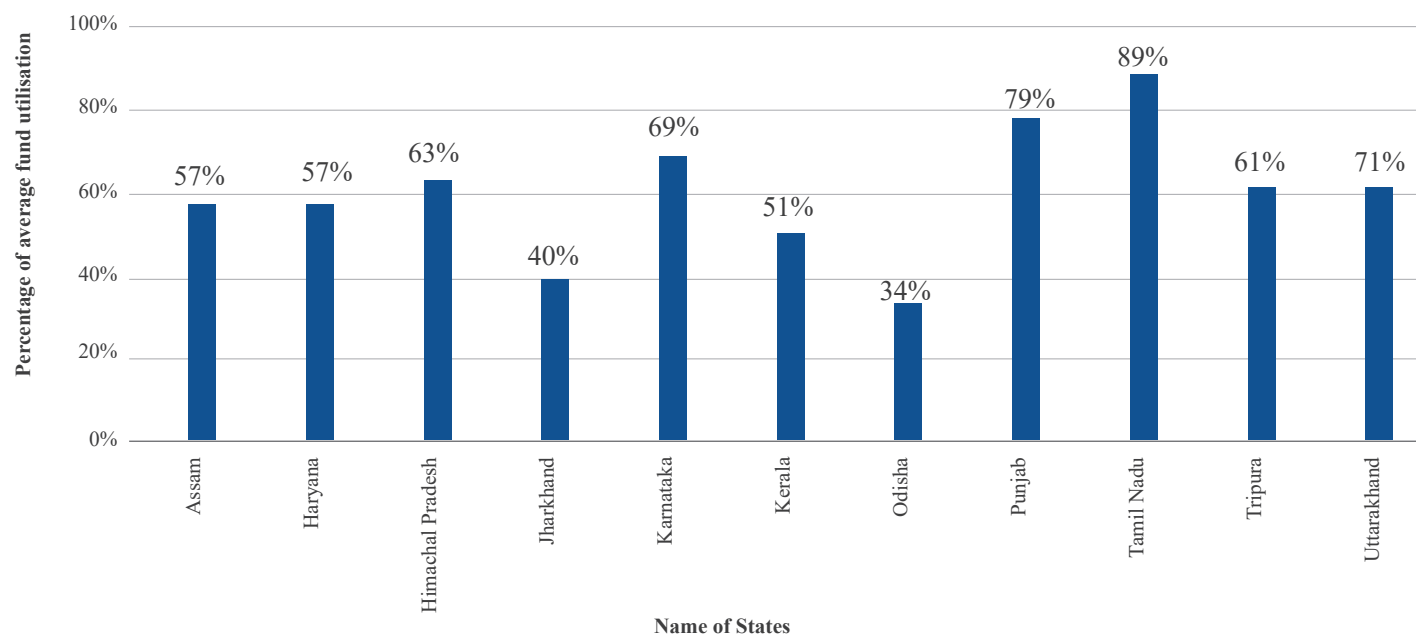
- Timelines of budget estimates [Chapter 24, 132].
- Systematic and time-bound citizen participation in budgeting [Chapter 24, 133( 2 )].
- Empanelment of Chartered Accountants as independent auditors of annual accounts [Chapter 23, 129( 1 )].
- Specified timelines for filing of auditor's report and audited financial Statements [Chapters 21, 125( 5 )].
- Timely disclosure of comprehensive Annual Performance Report that contains [Chapter 22, 126 ( 1 )]:
  - City Management Report.
  - Audited annual accounts .
  - Cost and performance indicators .
  - Budget variance Statement.
- The City Management Report that contains [Chapter 22, 127]:
  - Commentary on the financial performance and position.
  - Reasons for deviations from plan or any adverse performance.
  - Current progress and future plans.
  - Management comments on adverse comments in the auditor's report.

Source: Karnataka Municipal Accounting and Budgeting Rules, 2006. <https://ksaad.karnataka.gov.in/storage/pdf-files/municipalities%20rules%20eng.pdf>

***Limited financial autonomy and weak financial management of ULSGs appear to result in low fund utilisation. On average, ULSGs in 11 States have utilised only 61 per cent of the funds made available to them, potentially impacting municipal service delivery.***

Audit observed that ULSGs in 11 States in India have not been able to utilise their funds<sup>27</sup>. As indicated in Figure 3.7, five of the eleven States spend less than the average fund utilisation which is 61 per cent. Tamil Nadu and Punjab indicate significantly better expenditure planning and execution compared to the rest, while Jharkhand and Odisha have utilised only less than 50 per cent of their available funds.

<sup>27</sup> Data only available for 11 States.

**Figure 3.7: Average fund utilisation of ULSGs**

**Only 29 per cent of current expenditure in the ULSGs of 10 States was directed towards programmatic and development works.**

ULSGs have not prioritised development and programmatic activities as, on average, 29 per cent of the expenditure was dedicated to these activities, whereas 71 per cent thereof was spent on ‘other items’ such as operations and maintenance, establishment, interest payment, etc. in the ULSGs of 10 States for which data is available<sup>28</sup>. Amount spent on ‘other items’ ranged from 23 per cent to 100 per cent in ULSGs (Figure 3.8).

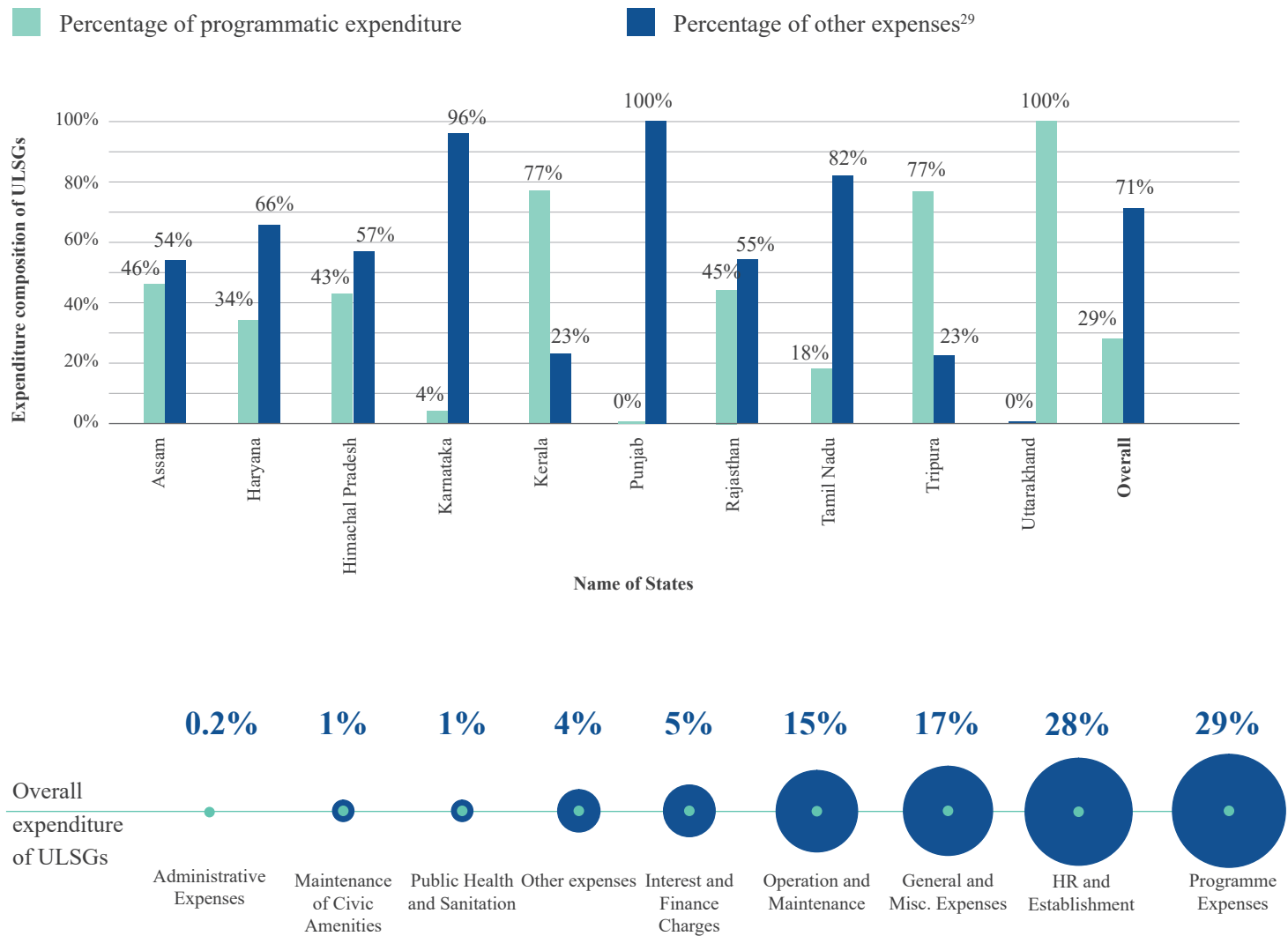
As indicated in Figure 3.8, Uttarakhand, Punjab and Karnataka have allocated less than 4 per cent for development or programmatic expenses. In Tamil Nadu, expenditure incurred towards programmes decreased from 24 per

cent in 2016–2017 to 15 per cent in 2019–2020.

In Karnataka, the operation and maintenance expenditure of ULSGs constitutes about 60 per cent of the total expenditure, followed by expenses on human resources. The capital expenditure, i.e., programme expenses and expenses out of grants constitute only 4 per cent of the total expenditure. Even in Rajasthan, where the majority of funds have been allocated to development expenses, the salaries, contractual obligations and miscellaneous non-recurring expenditures are given priority and development works are allocated only based on remaining funds.

<sup>28</sup> Data available for only the 10 States included in the Figure 3.8.

**Figure 3.8: Expenditure composition of ULSGs across States**



Investments in infrastructure, facilities and other long-term assets contribute to the ULSGs growth and development, which is essential for sustainable urban development.

<sup>29</sup> Other expenses constitute HR expenses, general expenses, O&M, interest and finance charges.



Charminar in Hyderabad, Telangana

# 04

## Do ULSGs have the powers to mobilise and incentivise human resources commensurate with their functions?

An adequate and skilled workforce is a *sine qua non* for the empowerment of ULSGs. They play a critical role in the effective and efficient governance of a city and impact the ability of a city to deliver good quality of life to its citizens.

This chapter analyses whether ULSGs are equipped with an adequate workforce and if there is an enabling institutional mechanism for them to ensure a robust workforce.

*This chapter will answer the following questions:*

- 1 Do ULSGs have power over their staff with regard to recruitment, transfer and initiating disciplinary actions?
- 2 Are ULSGs adequately staffed commensurate with their functions and the population?
- 3 Do ULSGs have systematic capacity building for their workforce?



Cleanliness drive in Dhanbad, Jharkhand

## Data Highlights

ULSGs of

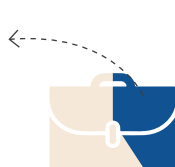
**16 States**

have limited or no powers over recruitment.



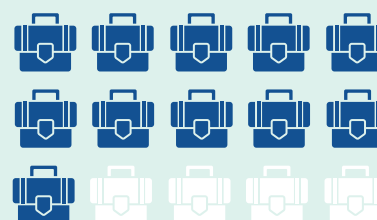
Average staff vacancy in ULSGs against sanctioned strength is

**37 per cent.**



**11 out of 15 States**

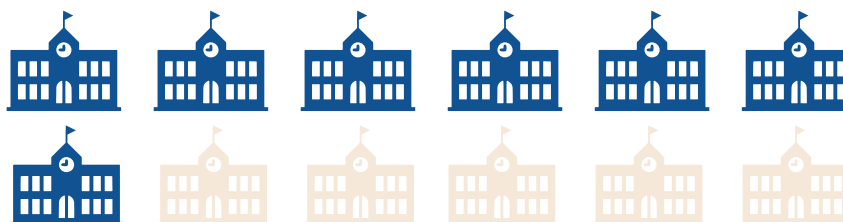
have notified Municipal Cadre and Recruitment Rules.



Only

**7 out of 12 States**

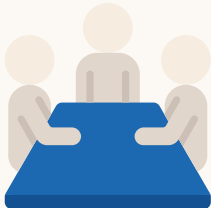


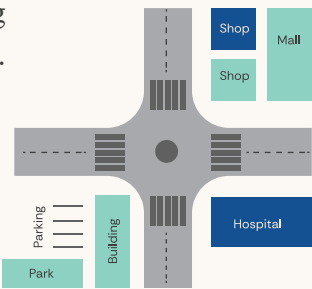

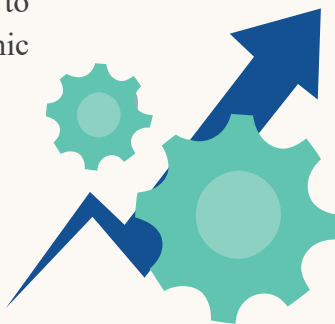

have training institutes for capacity building of their municipal staff.



***ULSGs do not have powers over their staffing decisions and are not empowered to assess their workforce requirements.***

An illustrative list of the assessment of municipal workforce requirements based on the functions undertaken by ULSGs is provided in Table 4.1.

**Table 4.1: Broad framework of activities carried out by ULSGs (Illustrative)**

<p><b>1 Administration</b></p> <p><i>Activities:</i></p> <p>General administration, including meetings of the Council and various committees.</p> 	<p><b>5 Engineering</b></p> <p><i>Activities:</i></p> <p>Construction/O&amp;M of roads, drains, buildings, parks, playgrounds, water supply, street lighting etc.</p> 
<p><b>2 Revenue</b></p> <p><i>Activities:</i></p> <p>Assessment and collection of various taxes, rent, advertisements and other property-related activities.</p> 	<p><b>6 Town Planning</b></p> <p><i>Activities:</i></p> <p>Town planning activities such as the issue of building licenses etc.</p> 
<p><b>3 Accounts</b></p> <p><i>Activities:</i></p> <p>Preparation and maintenance of accounts, preparation of budget etc.</p> 	<p><b>7 Welfare</b></p> <p><i>Activities:</i></p> <p>Implementation of schemes relating to social and economic development.</p> 
<p><b>4 Public Health</b></p> <p><i>Activities:</i></p> <p>Sanitation, street sweeping, solid waste management and other public health-related activities.</p> 	

ULSGs are best placed to undertake an assessment of their municipal staff considering various criteria such as geographical area, population density, demography, property type, etc. However, audit observed that assessment of staff requirement for ULSGs in a few States is done by the Government. Further, ULSGs from 16 States, for which data is available, have limited or no powers over recruitment as given in Table 4.2.

The State Governments sanction of posts also did

not align with the actual requirement of the ULSGs. For example, in Himachal Pradesh, while ULSGs such as the Shimla Municipal Corporation requested 720 new posts, the State Government sanctioned only 20 new posts. States like Andhra Pradesh and Karnataka have not conducted any assessment of staffing requirements in the last 10 years<sup>30</sup>. This highlights that the workforce requirement in the ULSGs of these States has not kept pace with the growth of the urban population and service delivery.

**Table 4.2: Status of ULSGs power over recruitment of municipal staff**

Power over recruitment	States
Limited	Assam, Kerala, Maharashtra, Manipur, Tripura and Uttarakhand
No	Andhra Pradesh, Chhattisgarh, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Odisha, Punjab, Rajasthan and Telangana

Note: Data not available/not specified for Jharkhand, Tamil Nadu.

***No State has devolved all powers regarding initiating disciplinary action and promoting staff of ULSGs as indicated below:***

**Table 4.3: States and powers of ULSGs over initiating disciplinary action and promoting municipal staff**

Powers to initiate disciplinary action and promote staff	States
Limited	Kerala, Manipur and Tripura
No	Andhra Pradesh, Chhattisgarh, Haryana, Himachal Pradesh, Madhya Pradesh, Karnataka, Odisha, Punjab and Telangana

Note: Data not available/not specified for Assam, Jharkhand, Maharashtra, Rajasthan, Tamil Nadu and Uttarakhand.

<sup>30</sup> 2021 is chosen as the base year for this analysis.

Audit observed that the Government, through the respective urban departments (Andhra Pradesh, Himachal Pradesh, Odisha and Rajasthan) or through empowered State Public Service Commissions (Haryana, Kerala and Maharashtra) control the recruitment of officials.

Further, several posts in ULSGs are filled through deputation (when staff from a State Government department is deputed to a ULSG), leading to scarcity of regular staff in ULSGs. This affected the accountability of such personnel, as ULSGs had no direct administrative control over them.

In Odisha, since there is no cadre for the post of health/sanitation officers in ULSGs, they are deputed from the State Health and Family Welfare Department. In Rajasthan, 97 officers from different departments of the State Government were posted on deputation in the Jaipur Municipal Corporation.

Further, officers are also deputed from ULSGs. For example, in Karnataka, 30 per cent of the Karnataka Municipal Administrative Services (KMAS) – the cadre exclusively for Municipal Commissioners/Chief Officers – were working in either parastatals or are on deputation to various departments.



## Case Study 4.1

### Creation of Municipal Cadre in Madhya Pradesh

Recognising the need for municipal staffing reforms, the Urban Administration and Development Department (UADD) in Madhya Pradesh initiated a project titled ‘Comprehensive Capacity Development of ULSGs’ which adopted a holistic approach to capacity development of ULSGs. One of the major components of the project included cadre reforms.

Prior to the reform, Madhya Pradesh had three municipal services consisting of executive, engineering and health services. Post - implementation of the project, the State created exclusive sub-municipal services in five areas namely, administration, engineering, sanitation, finance and revenue by restructuring the previous services and introducing two new cadres. It also defined a promotion channel for each post and contract rules for new and emerging areas.

Source: Relevant Municipal Cadre and Recruitment Rules of Madhya Pradesh

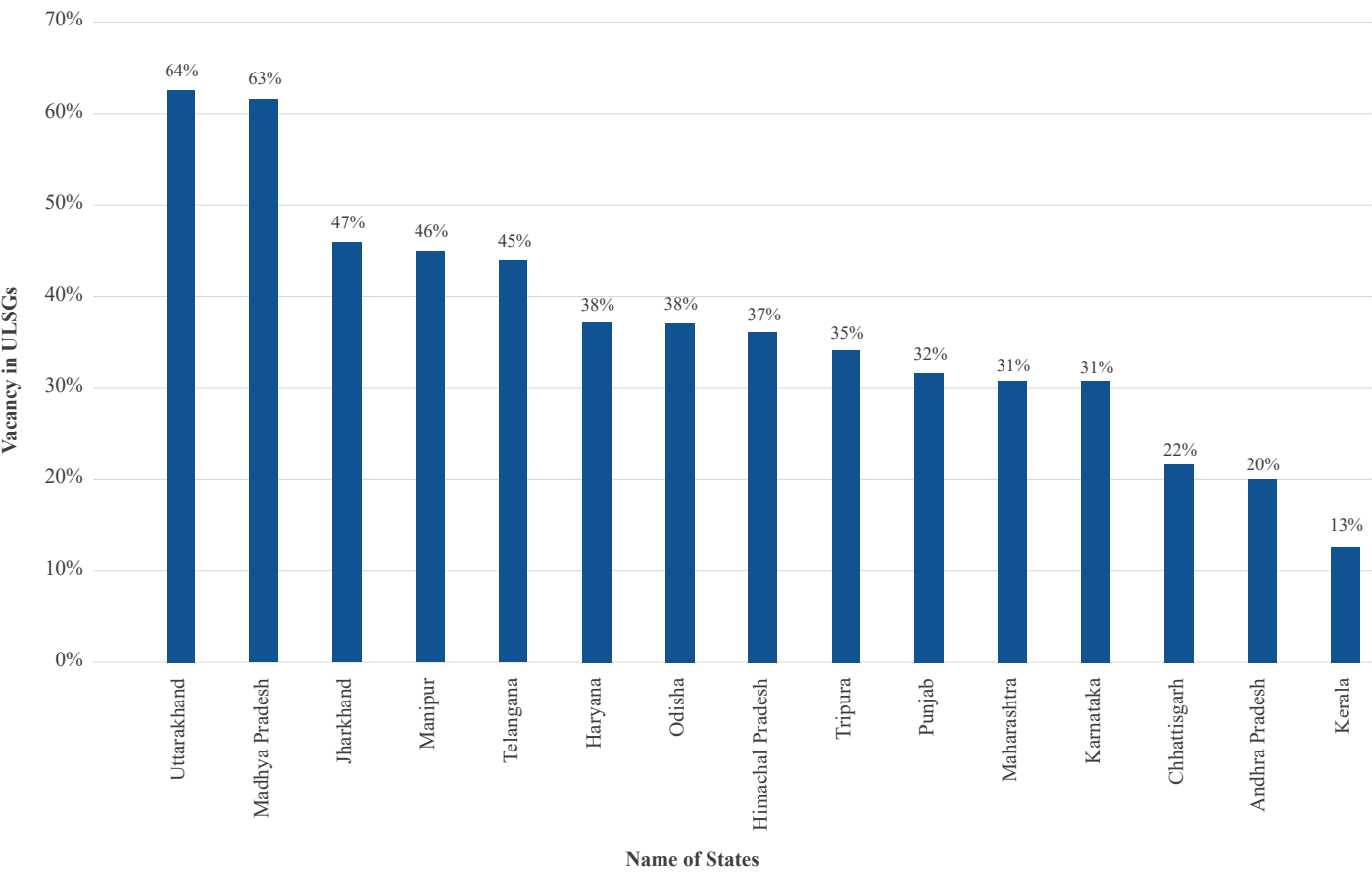
*ULSGs do not have adequate staff. On average, they have 37 per cent vacancies against sanctioned posts. Town Panchayats, on average, have 7 per cent and 3 per cent more vacancies than Municipal Corporations and Municipal Councils, respectively.*

Audit observed that one out of 3 sanctioned posts is vacant in ULSGs (Figure 4.1), affecting significantly the ability of ULSGs to discharge their functions.

**Audit found that the average vacancy in Municipal Corporations in 9 States, for which data is available, is 37 per cent against sanctioned strength**, with Madhya Pradesh (61 per cent), Telangana (53 per cent) and Jharkhand (45 per cent) having significantly greater vacancies than the national average (Figure 4.2)<sup>31</sup>. **Municipal Councils in 9 States have an average vacancy of 41 per cent**, with Madhya Pradesh (68 per cent) and Jharkhand (62 per cent) having significantly greater vacancies than average (Figure 4.3)<sup>31</sup>. Similarly, **Town Panchayats in 7 States have an average vacancy of 44 per cent** with Madhya Pradesh (73 per cent) and Haryana (66 per cent) having significantly greater than average vacancies (Figure 4.4)<sup>31</sup>.

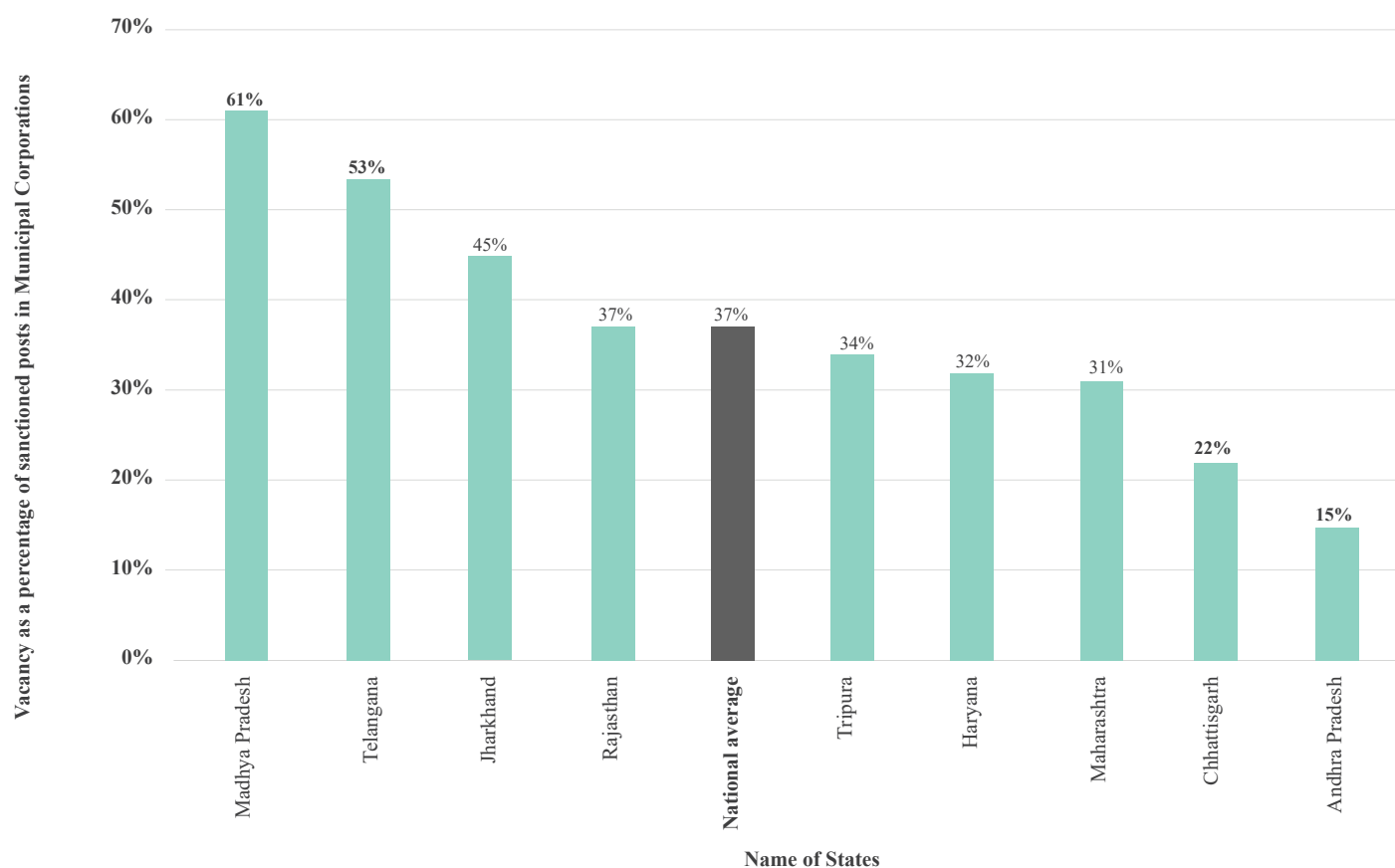
<sup>31</sup> Data is based on overall/test-checked ULSGs for States exhibited. For remaining States, the data is not available/not in specified form (tier-wise).

Figure 4.1: Average vacancy in ULSGs in States

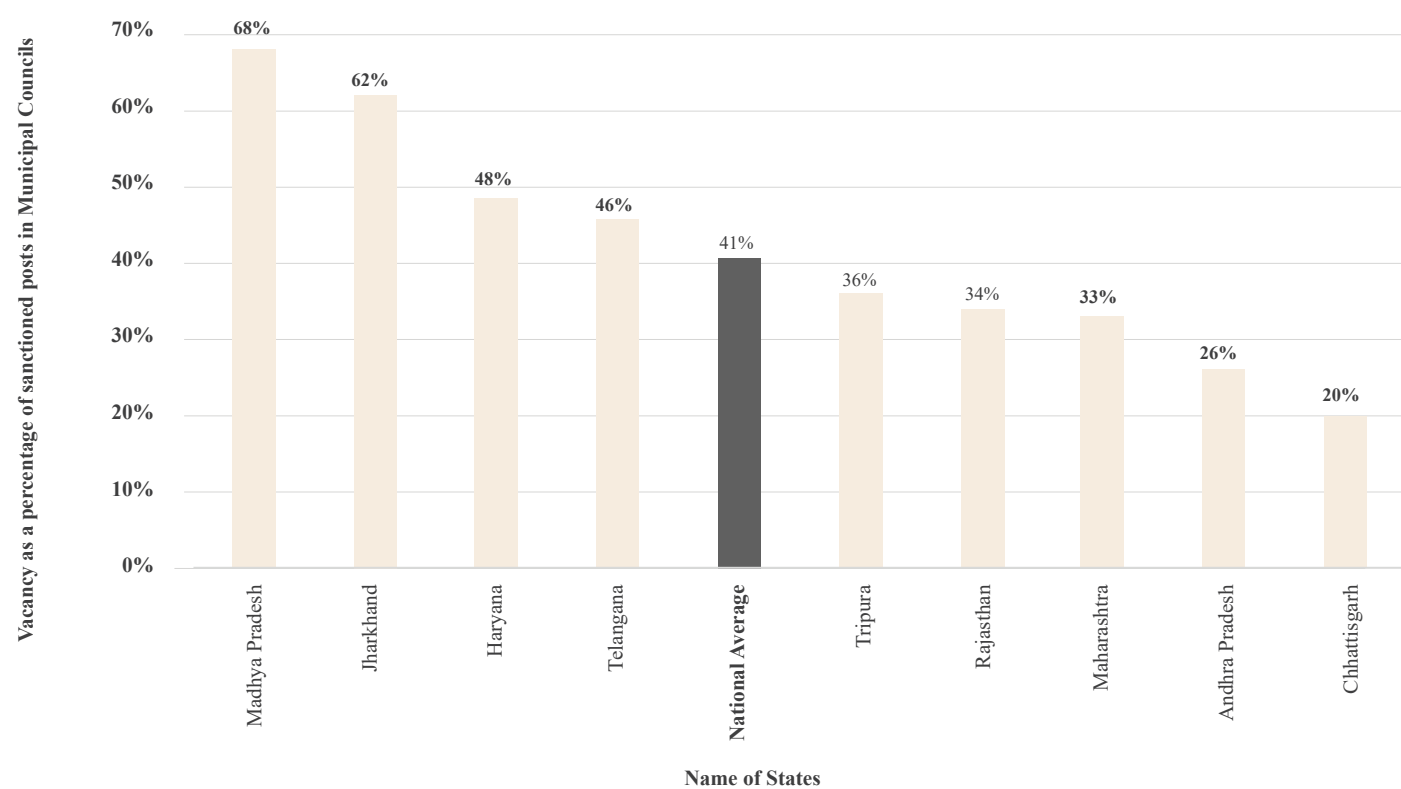


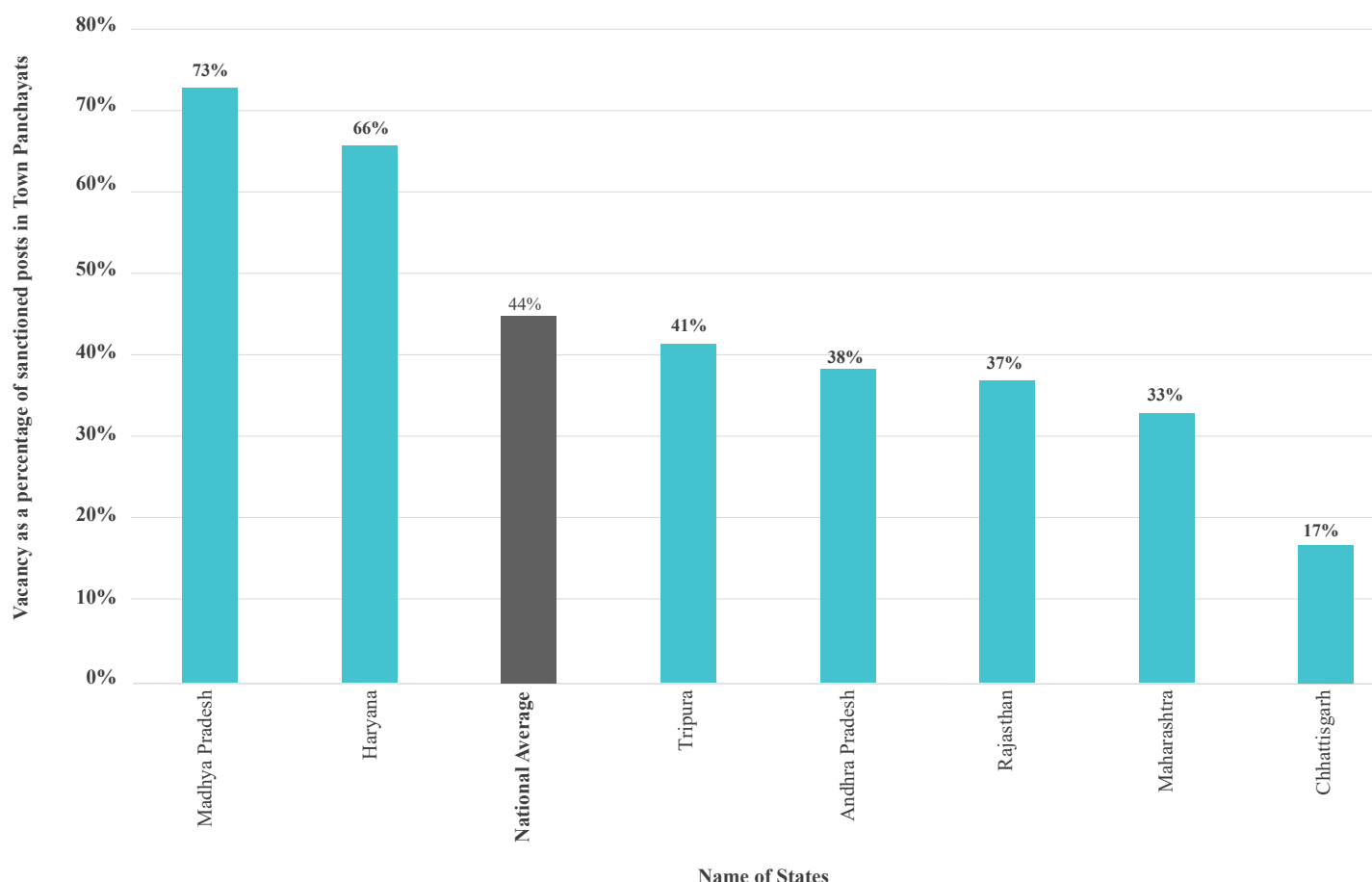
A view of Mumbai, Maharashtra

**Figure 4.2: Vacancy as a percentage of sanctioned posts in Municipal Corporations**



**Figure 4.3: Vacancy as a percentage of sanctioned posts in Municipal Councils**



**Figure 4.4: Vacancy as a percentage of sanctioned posts in Town Panchayats**

Madhya Pradesh consistently has the most vacancies ( $\geq 61$  per cent) in all categories of ULSGs, while Haryana and Jharkhand have significantly more vacancies in Town Panchayats in comparison to Municipal Corporations, indicating that staffing issues are more acute for smaller ULSGs in these States.

Several positions in ULSGs like Assistant Revenue Officers/Inspectors, Accountants, Health Inspectors and Engineers/Technical staff have high vacancy rates in various States. In Rajasthan, almost 61 per cent of the posts of Executive Officers, Revenue Officers and Revenue/Sanitary Inspectors were lying vacant. In Himachal Pradesh, the vacancies in positions such as Assistant Engineers, Junior Engineers and Draughtsmen ranged between 30 to 40 per cent. In Himachal Pradesh, 75 per cent of the

posts of Revenue Officers and 100 per cent of the posts of Chief Accountant/Accountant are vacant, affecting the collection of revenue/arrears resulting in lower realisation of own revenue by ULSGs.

In Karnataka, the vacancy is high in crucial posts with 92 per cent of Technical Assistant (Environment) posts remaining vacant. This, affects the efficient discharge of the devolved functions such as solid waste management, regulation of slaughter houses, etc. Additionally, 22 to 50 per cent of technical positions such as Junior/Senior Health Inspector are also vacant, which impacts the delivery of services related to public health. In Haryana, the overall shortage of municipal staff was 98 per cent in public health and 83 per cent in sanitation.



A still from Amravati, Maharashtra

It may be noted that these vacancies have been evaluated against the sanctioned posts, which themselves, in many cases, have not been updated in a scientific manner commensurate with the growth of cities. The primary criterion

for determining sanctioned strength is often solely based on the population of ULSGs, whereas other factors like geographical area, population characteristics, number of properties, etc, were not considered.

### *11 out of 15 States have notified Municipal Cadre and Recruitment Rules.*

Audit observed that, of the 15 States for which data is available, 4 States (Assam, Chhattisgarh, Jharkhand and Manipur) are yet to notify comprehensive Municipal Cadre and Recruitment (C&R) Rules<sup>32</sup>. The Municipal C&R Rules often do not specify function-wise requirement of staff which could bring in more transparency in terms of specifying the roles and responsibilities for each

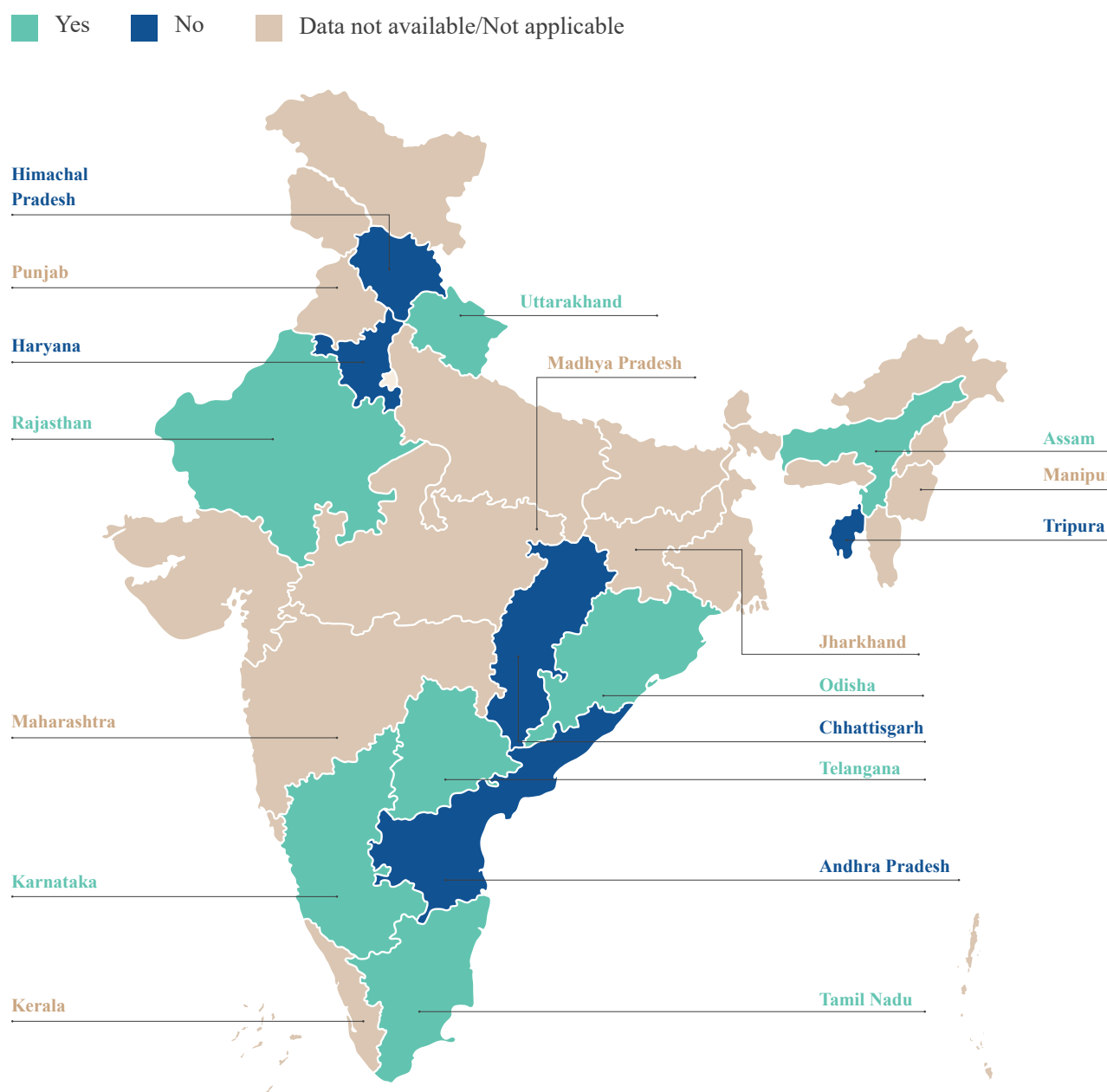
position, requirement of skills and qualification for each role, etc. This would also prevent any overlap of functions between two persons/posts. For example, in Karnataka, there was no sanctioned post of Environment Engineer in Town Panchayats and the existing Health Inspector was in-charge of solid waste management.

<sup>32</sup> Data not available for Madhya Pradesh, Telangana and Tripura.

*Seven States have training institutes for their municipal functionaries. Nominations to training programmes was low.*

Capacity building is important to strengthen the capabilities of personnel and to equip them with advanced skills that enable them to deliver better services. Seven States, namely, Assam, Karnataka, Odisha, Rajasthan, Tamil Nadu, Telangana and Uttarakhand have active training institutes dedicated for their municipal functionaries (Figure 4.5)<sup>33</sup>.

**Figure 4.5: Presence of training institutes for municipal functionaries**



<sup>33</sup> Data not available for Jharkhand, Kerala, Madhya Pradesh, Maharashtra, Manipur and Punjab.

Audit observed that there were low nominations of the participants for trainings. For example, in Punjab, only 182 officers/ officials (1 per cent) have been nominated for capacity building training programmes from 2017–2018 to 2019–2020. Similarly, in Rajasthan, only 17 per cent of total staff have been nominated for training from 2015–2016 to 2019–2020. In Andhra Pradesh, audit observed that in test-checked ULSGs, no trainings have been provided to the municipal staff.



Municipal workers in Gurugram, Haryana



Greater Chennai Corporation, Tamil Nadu - the oldest municipal institution of India

# 05

## How can State Governments ensure the efficacy of the 74<sup>th</sup> CAA to build robust ULSGs?

Considering that 50 per cent of India will be residing in cities by 2050, robust ULSGs are pertinent, for they are critical players in delivering good quality of life to their citizens. In this context, it need not be emphasised that State Governments work towards facilitating laws, policies, processes, institutions and institutional mechanisms to have robust ULSGs and thereby have economically, environmentally and democratically vibrant cities.

The recommendations contained in the Performance Audits conducted in 18 States on implementation of 74<sup>th</sup> CAA, for the concerned State Governments to contribute to the realisation of envisaged objectives of 74<sup>th</sup> CAA are summarised below:



A still from Ludhiana, Punjab

1. Take action to ensure that decentralisation turns into a reality, in line with constitutional provisions.

- Ensure efforts are made to guarantee ULSGs an adequate degree of autonomy for the functions assigned to them, without the intervention of other agencies/parastatals.
- Involve the ULSGs in critical functions such as planning, regulation, slum development, water supply, sanitation, etc.



2. Strengthen the State Election Commissions to ensure the conduct of municipal elections every five years.

- Entrust the task of delimitation to SECs.
- Ensure timely conduct of municipal elections and the formation of key committees such as Ward Committees, Standing Committees and Subject Committees in the ULSGs.



3. Establish platforms for citizen participation.

- Notify enabling rules for the constitution of Ward Committees and Area Sabhas in ULSGs.
- Constitute Ward Committees and Area Sabhas and put in place mechanism for their efficient and effective functioning.



4. Strengthen planning by constituting Planning Committees.

- Constitute Metropolitan Planning Committees (MPCs) and District Planning Committees (DPCs).
- Conduct meetings of MPCs and DPCs regularly to ensure the efficacy of these bodies.
- Ensure MPCs and DPCs prepare draft development plans with inputs from ULSGs.



### 5. Strengthen the State Finance Commission (SFC).

- Constitute SFC every five years as prescribed, to ensure the provision of funds to ULSGs.
- Strengthen the SFC by appointing a full-time Chairperson, members and administrative staff.
- Consider the recommendations of SFC in an appropriate and timely manner.
- Avoid delays in implementing the recommendations made by the SFC.
- Ensure timely transfer of SFC grants to ULSGs so that their financial position is strengthened.



A market in Puri, Odisha

## 6. Improve the financial sustainability of ULSGs.

- Amend laws and notify rules to ensure the levy and collection of all types of municipal taxes by ULSGs.
- Undertake efforts to enhance the tax collection capacity of ULSGs through training of staff, provision of electronic tax payments and improved assessment processes.
- Ensure revision in rates of taxes and user charges to enhance the resources of ULSGs.
- Optimise property tax collection by ULSGs:
  - Establishing functional Property Tax Boards to provide technical expertise to ULSGs in compliance with the Thirteenth Finance Commission recommendation.
  - Mandating that ULSGs levy property tax on capital value and complete GIS mapping of properties in a time-bound manner.
  - Reviewing the system of property tax to induce buoyancy.
  - Ensuring that ULSGs enforce the recovery of dues from defaulters of property tax.
- Incentivise ULSGs to formulate their budgets systematically and realistically.



7. Establish a robust workforce management system in ULSGs.

- Give adequate powers to ULSGs over various aspects of workforce including assessment and recruitment of skilled staff to effectively discharge devolved functions and efficiently collect revenue.
- Sanctioned strength of the workforce in ULSGs should be commensurate with their functions.
- Assess workforce requirement based on population, nature of population, geographical area, etc. and take appropriate steps for filling up the vacant posts.
- Ensure adequate workforce to ULSGs, besides imparting need-based training to staff at regular intervals.



Street vendors in Imphal, Manipur

Abbreviations	
BBMP	Bruhat Bengaluru Mahanagara Palike
BEST	Brihanmumbai Electric Supply and Transport
BMPC	Bengaluru Metropolitan Planning Committee
C&R	Cadre & Recruitment
CAA	Constitutional Amendment Act
CAG	Comptroller and Auditor General of India
CFC	Central Finance Commission
DDP	District Development Plan
DLFA	Directorate of Local Fund Audit
DPC	District Planning Committee
DULB	Directorate of Urban Local Bodies
FC	Finance Commission
GIS	Geographic Information System
GDP	Gross Domestic Product
HR	Human Resources
KMABR	Karnataka Municipal Accounting and Budgeting Rules
KMAS	Karnataka Municipal Administrative Services
MCGM	Municipal Corporation of Greater Mumbai
MCMB	MyCityMyBudget
MIC	Mayor-in-Council
MoHUA	Ministry of Housing and Urban Affairs
MPC	Metropolitan Planning Committee
O&M	Operations and Maintenance
PAG	Principal Accountant General
SARC	Second Administrative Reforms Commission
SCs	Scheduled Castes
SEC	State Election Commission
SFC	State Finance Commission
SLB	Service Level Benchmark
STs	Scheduled Tribes
SWM	Solid Waste Management
TCPD	Town and Country Planning Department
UADD	Urban Administration and Development Department
ULSG	Urban Local Self-Government
WC	Ward Committee

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