

**CHAPTER-III**  
**AN OVERVIEW OF**  
**URBAN LOCAL BODIES**

## CHAPTER-III

### SECTION "A" AN OVERVIEW OF URBAN LOCAL BODIES

#### 3.1 Introduction

Consequent upon the 74<sup>th</sup> Constitutional Amendment, the Urban Local Bodies (ULBs) were made full-fledged institutions of Local Self Governments and witnessed a significant increase in responsibilities with greater powers and distinct sharing of resources with the State Government. The amendment empowered ULBs to function efficiently and effectively and to deliver services for economic development and social justice with regard to 18 subjects listed in the XII<sup>th</sup> Schedule of the Constitution. The Government of Sikkim enacted the Sikkim Municipalities Act, 2007 empowering ULBs to function as institutions of Self Government and to accelerate economic development in urban areas.

Article 243 of the Constitution of India provides that elections in Panchayats and Municipalities shall be held once in every five years. Elections of the ULBs in the State were conducted on 30<sup>th</sup> April 2010.

The category-wise ULBs in the State as of March 2014 are shown in table 3.1:

**Table 3.1**  
**Category-wise ULBs in Sikkim**

Sl. No.	ULBs	Number of ULBs
1	Municipal Corporation	1
2	Municipal Council	1
3	Nagar Panchayats	5
	<b>Total</b>	<b>7</b>

The ULBs are governed by the Sikkim Municipalities Act, 2007. Each ULB area is divided into a number of wards, which is determined and notified by the State Government.

#### 3.2 Size of ULBs

The comparative position of ULBs in the State of Sikkim in terms of area and population is given in table 3.2:

**Table 3.2**  
**Statement showing area and population of ULBs**

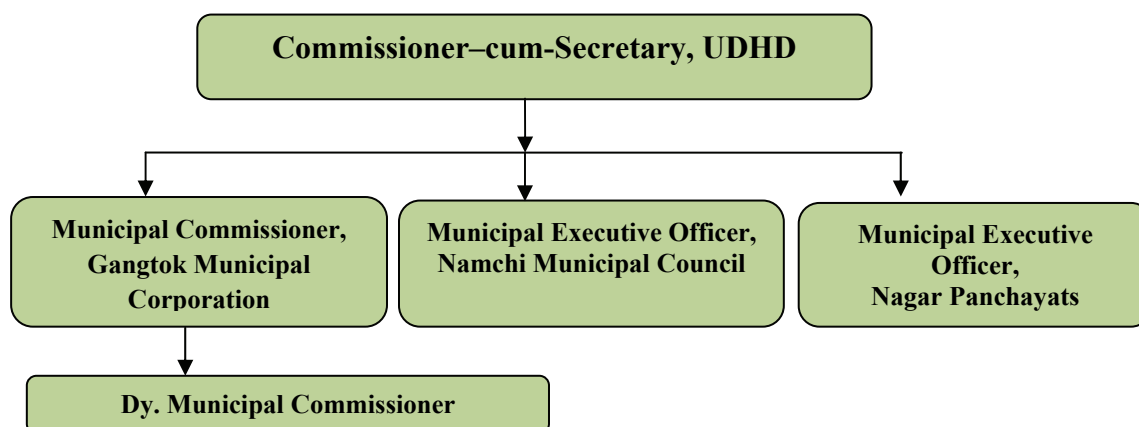
Sl. No.	Name of the ULBs	Area (in Sq. km.)	Total Population as per 2011 Census
1	Gangtok Municipal Corporation (GMC)	19.02	1,00,286
2	Namchi Municipal Council	11.00	12,190
3	Nagar Panchayats (all 5 together)	21.70	35,219

Source: Information furnished by the ULBs and Census Report 2011

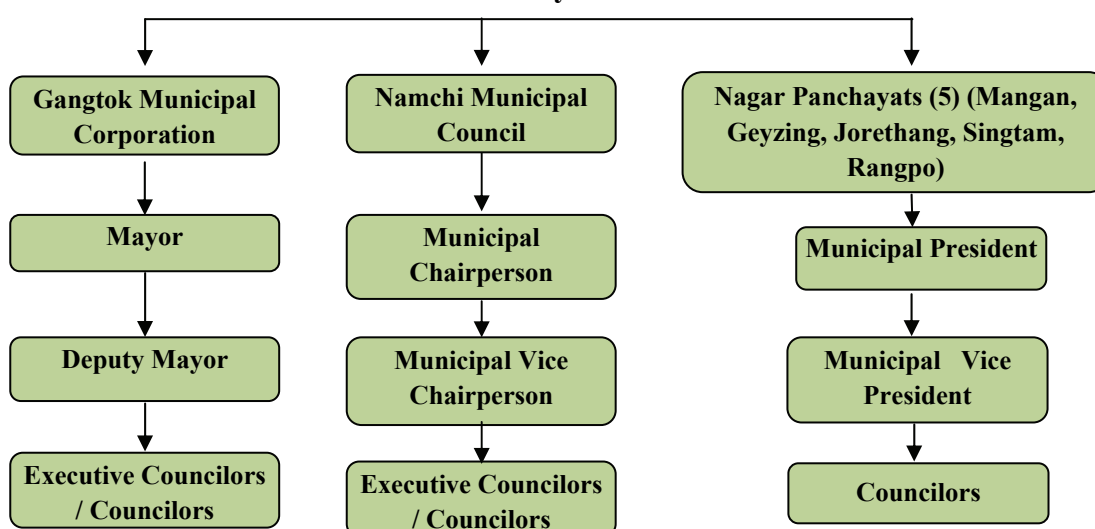
### 3.3 Organisational set up

The Commissioner-cum-Secretary, Urban Development & Housing Department (UDHD) is the overall in charge of Urban Local Bodies in the State. The organisational structure with respect to functioning of ULBs in the State is as under:

**Chart-3.1  
Administrative Body**



**Chart-3.2  
Elected Body**



#### 3.3.1 Composition of ULBs

All the ULBs have a body comprising of Councilors /Members elected by the people under their jurisdiction. The Mayor presides over the meetings of Municipal Corporation and the Chairperson/President presides over the meetings of the Council/Nagar Panchayats and is responsible for overall functioning of the body.

The Municipal Commissioner is the executive head of the Gangtok Municipal Corporation (GMC) while the Council/Nagar Panchayats (NP) is headed by the

Municipal Executive Officer. They exercise such powers and perform such functions as prescribed in the Act and as per instructions of the Urban Development & Housing Department.

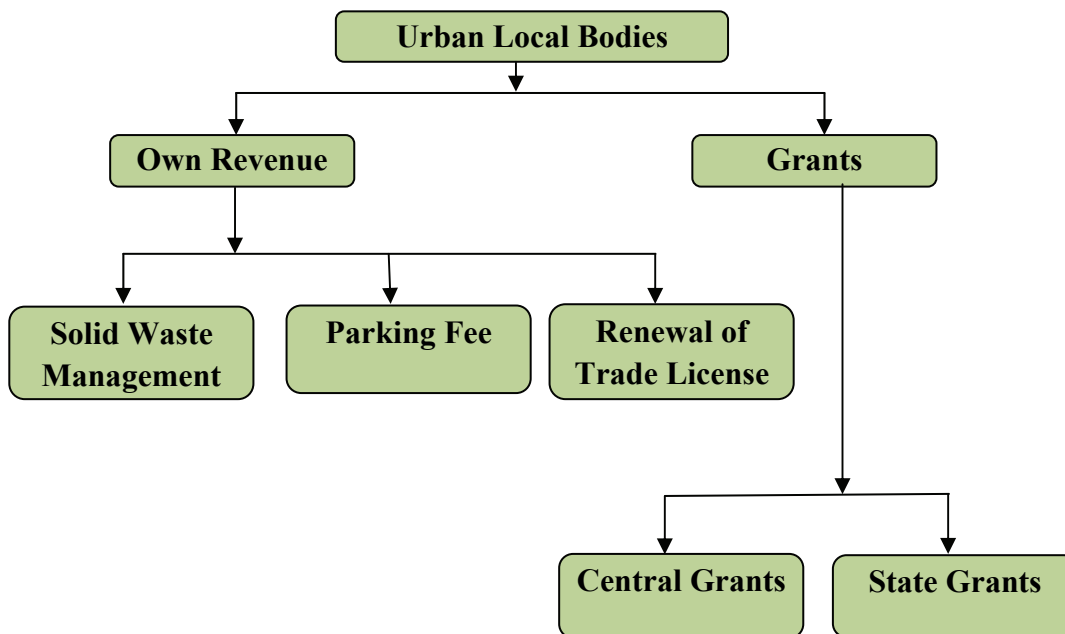
### 3.4 Financial Profile

#### 3.4.1 Resources of ULBs

The Finances of ULBs comprise of receipts from own sources, grants and assistance from Government of India (GOI) and State Government. State Government Grants are received through devolution of net proceeds of the total tax revenue on the recommendations of the State Finance Commission. While power to collect certain taxes is vested with the ULBs, powers pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemption, concessions, etc. are vested with the State Government. The own non-tax revenue of ULBs comprise of fee for solid waste management, parking fee and renewal of trade license, etc.

Grants and assistance released by the Governments are utilised for extending civic facilities to the urban population. Flow chart of finance of ULBs is as follows:

**Chart-3.3**



#### 3.4.2 Custody of fund in ULBs

The grants received for implementation of various schemes/programmes are kept in bank accounts of the ULBs duly authorised by the State Government. The Drawing & Disbursing Officers under ULBs are empowered to draw the funds from the banks after obtaining sanction from the Municipal Commissioner/Municipal Executive Officer.

### 3.4.3 Position of funds of ULBs

The detailed position of funds of ULBs for the period from 2010-11 to 2013-14 are shown in table 3.3:

**Table 3.3**

**Statement showing the position of funds of ULBs for the last three years**

(₹ in lakh)

ULBs	GMC				Council / NPs			
	Year	Central Grants	State Grants	Own Revenue	Total	Central Grants	State Grants	Own Revenue
2010-11	0	282.84	64.14	346.98	1.02	132.77	32.44	166.23
2011-12	51.25	505.13	277.47	833.85	85.27	168.14	117.27	370.68
2012-13	54.82	387.93	554.15	996.90	155.74	109.53	151.89	417.16
2013-14	11.70	204.25	391.27	607.22	48.36	133.61	234.96	416.93

Source: Information furnished by the ULBs

### 3.4.4 Own revenue of ULBs

Own revenue of ULBs includes revenues from solid waste management, parking fee, and renewal of trade license, etc. Collection of own revenue in respect of seven ULBs during the last three years is shown in table 3.4:

**Table 3.4**

**Statement showing collection of own revenue of seven ULBs**

(₹ in lakh)

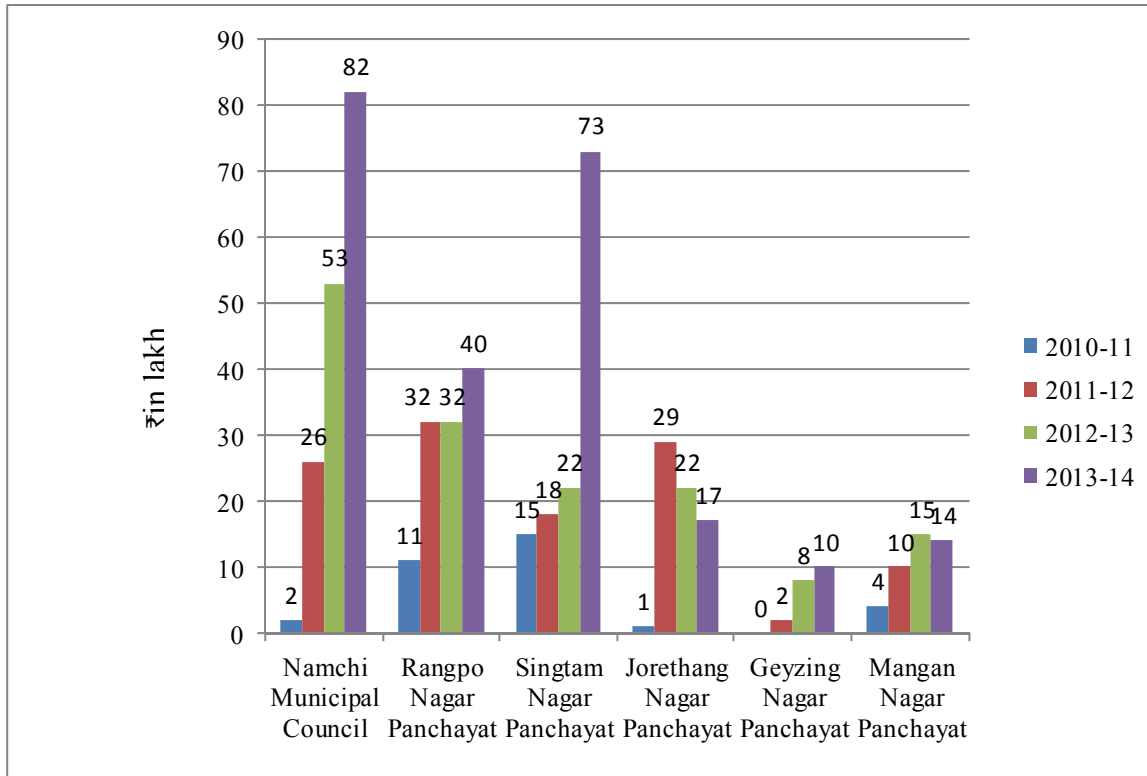
Sl. No.	Name of the ULB	2010-11	2011-12	2012-13	2013-14
1	Gangtok Municipal Corporation	64.14	277.47	554.15	391.27
2.	Namchi Municipal Council	2.24	25.60	53.05	81.76
3.	Rangpo Nagar Panchayat	10.63	32.28	31.73	39.92
4.	Singtam Nagar Panchayat	14.62	18.11	21.65	72.98
5.	Jorethang Nagar Panchayat	0.96	29.42	22.13	16.65
6.	Geyzing Nagar Panchayat	0.29	1.62	8.27	9.96
7.	Mangan Nagar Panchayat	3.70	10.24	15.06	13.69
	<b>Total</b>	<b>96.58</b>	<b>394.74</b>	<b>706.04</b>	<b>626.23</b>

Source: Information furnished by the ULBs

The above table indicates that the revenue collection had shown an increasing trend except in case of two Nagar Panchayats (Mangan and Jorethang) and GMC for the year 2013-14 as compared to 2012-13. The trend of own revenue collection by GMC and NPs are shown in the following bar graph:

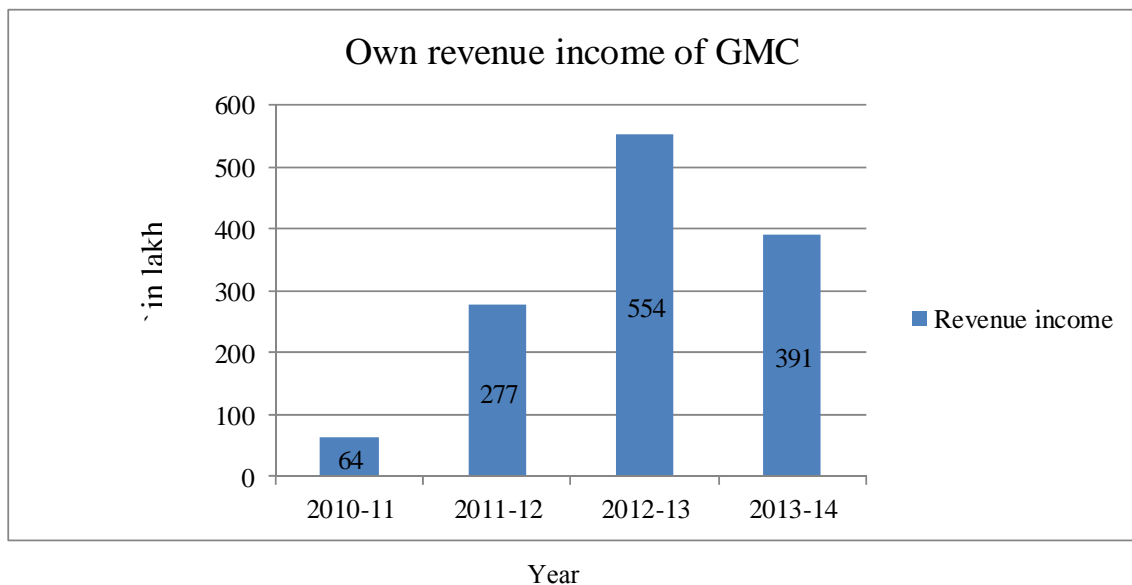
**Trend of own Revenue Relation**

**Chart – 3.4**



In case of GMC, the own revenue collection decreased from ₹ 554.15 lakh to ₹ 391.27 lakh during the period 2013-14 as compared to 2012-13 as shown in the following bar graph:

**Chart – 3.5**



Audit noticed that since ULBs were completely dependent upon State Government Grants, fall in assistance from State Government decreased the revenue of ULBs.

### 3.4.5 Grants received and expenditure therefrom

Receipts and expenditure by the GMC, Namchi Municipal Council and 5 NPs during the year 2013-14 are shown in table 3.5:

**Table 3.5**

**Statement showing grants received and expenditure there from of ULBs during 2013-14**

(₹ in lakh)

Type of ULBs	Grants received	Expenditure	Balance
Gangtok Municipal Corporation	215.95	165.43	50.52
Namchi Municipal Council	60.46	131.67	(-) 71.21 <sup>12</sup>
Nagar Panchayats	121.51	157.42	(-) 35.91 <sup>13</sup>
<b>Total</b>	<b>397.92</b>	<b>454.52</b>	<b>(-) 56.60</b>

Source: Information furnished by ULBs

From the above, it is seen that GMC could not utilize the full funds received during 2013-14 in absence of any plan to utilize the funds at their disposal.

### 3.5 Investment through major schemes

Receipt vis-a-vis expenditure incurred for major schemes implemented by ULBs during 2011-12 to 2013-14 are given in table 3.6:

**Table 3.6**

**Statement showing receipts and expenditure of major schemes**

(₹ in lakh)

Name of the Scheme	2011-12		2012-13		2013-14		Total	
	Receipts	Expenditure	Receipts	Expenditure	Receipt	Expenditure	Receipt	Expenditure
Swarna Jayanti Shahari Rojgar Yojana (SJSRY)	60.52	2.49 (4.11)	13.09	31.92* (243.85)	4.27	9.48* (222.01)	77.88	43.89 (56.36)
Backward Region Grant Fund (BRGF)	75.27	53.93 (71.65)	172.36	78.40 (45.49)	65.30	68.20 (104.44)	312.93	200.53 (64.08)
Thirteenth Finance Commission Fund	0.73	--	9.49	3.46 (36.46)	6.18	3.54 (57.28)	16.40	7.00 (42.68)
<b>Total</b>	<b>136.52</b>	<b>56.42</b> <b>(41.33)</b>	<b>194.94</b>	<b>113.78</b> <b>(58.37)</b>	<b>75.75</b>	<b>81.22</b> <b>(107.22)</b>	<b>407.21</b>	<b>251.42</b> <b>(61.74)</b>

Source: Information furnished by ULBs

\* Expenditure also incurred from the previous year's unspent balances available under the schemes. Figures in bracket indicate percentage.

Out of ₹ 77.88 lakh available for SJSRY, ₹ 43.89 lakh was utilised indicating 56.36 per cent utilisation. Similarly, ₹ 200.53 lakh and ₹ 7 lakh were utilised for BRGF and TFC as against the availability of ₹ 312.93 lakh and ₹ 16.40 lakh respectively. The expenditure of BRGF and TFC was 64.08 per cent and 42.68 per cent respectively. Reason for low utilisation of funds were neither reflected in records nor furnished to Audit.

<sup>12</sup> Excess expenditure done from last year's savings and own revenue.

<sup>13</sup> Excess expenditure done from last year's savings and own revenue.

### **3.6 Status of devolution of functions**

The Sikkim Municipalities Act, 2007 envisaged transfer of functions of various departments of the State Government to ULBs. Only three functions (viz. Public health, sanitation conservancy and solid waste management; Urban poverty alleviation; and public amenities including street lighting, parking lots, bus stops and public conveniences) out of 18 functions listed in the XII<sup>th</sup> Schedule of the Constitution had been partially transferred by the State Government to the ULBs as of March 2014.

### **3.7 Accountability framework**

#### ***3.7.1 Power of the State Government***

Acts governing the ULBs entrusts the State Government with the following powers so as to enable the State to monitor the proper functioning of the ULBs:

- frame rules to carry out the objectives of the Sikkim Municipalities Act;
- dissolve the ULBs, if the ULBs fail to perform or default in the performance of any of the duties assigned to them;
- removal of difficulties in giving effect to the provisions of the Act; and
- creation, abolition, recruitment and placement of staff of State Government at the disposal of the Municipality.

#### ***3.7.2 Audit mandate***

According to Section 60(1) of the Sikkim Municipalities Act, 2007, the municipal accounts as contained in the financial statements including the accounts of special funds, if any, and the balance sheet shall be examined and audited by the Director, or any other person, as may be appointed by the State Government or an Auditor appointed by the Municipality from the panel of professional Chartered Accountants prepared in that behalf by that Government. According to Section 61(1) of the Sikkim Municipalities Act, 2007, as soon as practicable after the completion of audit of the accounts of the Municipality, but not later than the thirtieth day of September each year, the Auditor shall prepare a report of the accounts audited and examined and shall send such report along with the report of the results of the test check of accounts of the Comptroller & Auditor General (C&AG) of India to the Chief Municipal Officer. Based on the recommendations of the 13<sup>th</sup> Finance Commission, the State Government entrusted (June 2011) audit of all ULBs in the State under Technical Guidance and Support/Supervision arrangement (TGS) to the C&AG as per standard terms and conditions under section 20(1) of CAG's DPC Act, 1971. Accordingly, the audit of ULBs is being conducted from 2012-13, by the Accountant General (Audit), Sikkim.



### **3.8 Conclusion**

The ULBs were yet to become fully functional in discharging various functions delegated to them. The utilisation of available funds ranged between 42.68 *per cent* and 64.08 *per cent* indicating inadequate absorption capacity of the ULBs. Revenue generation of the ULBs was not sufficient for defraying the establishment cost and for reducing dependence on Government grants.

## SECTION “B”

### FINANCIAL REPORTING

#### 3.9 Legal Framework

**3.9.1** Financial reporting is a key element of accountability. According to Section 57(1) and 58 (1) of the Sikkim Municipalities Act, 2007, the ULBs should prepare the Annual Financial Statements which would include Income and Expenditure Accounts for the preceding year within four months of the close of a financial year. The annual Balance Sheet of assets and liabilities in the prescribed form should be prepared within three months of the close of the financial year.

#### **3.9.2 Accounting Reforms**

Based on the recommendation of XI<sup>th</sup> Finance Commission, the Ministry of Urban Development, GOI in consultation with Comptroller and Auditor General of India developed the National Municipal Accounts Manual (NMAM) which is based on double entry accrual based system of accounting. The Urban Development & Housing Department, Government of Sikkim had drafted (March 2008) the Sikkim Urban Local Bodies Accounting Manual based on the NMAM. The Manual was not approved by the Government till date of audit. The accounts of ULBs were maintained under cash based Double Entry System.

#### **3.9.3 Budget**

Under Sections 51 (5), 53 (1) and 53 (2) of the Sikkim Municipalities Act, 2007, the Budget estimates of Municipality for a year should be prepared in the prescribed form and presented before a meeting of Municipality, especially convened for the purpose on the thirty-first day of August in each year and should be adopted after discussion by the thirtieth day of September in each year. A copy of the Budget estimates adopted by the Municipality should be sent to the State Government. The Budget estimates received by the State Government shall be returned to the Municipality before the thirty-first day of March of the year immediately preceding the year to which the budget estimate relates with or without modifications of the provisions thereof and the budget estimate for the current year shall be reviewed by the 31<sup>st</sup> day of October each year and a revised budget estimate for the year shall be prepared by 30<sup>th</sup> day of November each year and adopted by the councilors within the 31<sup>st</sup> day of December each year.

Test check of records of 4 ULBs<sup>14</sup> revealed that none of the ULBs had prepared the budget till date and expenditure was incurred without preparation and approval of the budget. Since preparation of budget is the basic tool of accountability, failure to do so indicated very low priority being given to good governance.

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<sup>14</sup> (i) Gangtok Municipal Corporation, (ii) Jorethang Municipal Council, (iii) Gyalshing Nagar Panchayat and (iv) Mangan Nagar Panchayat.

#### **3.9.4 Certification of Accounts**

The State Government has not made any provisions in the State Acts/Rules for certification of accounts of the ULBs.

#### **3.10 Conclusion**

The State Government was yet to approve the Sikkim Urban Local Bodies Accounting Manual. This is essential for preparation of budgets in accordance with Sikkim Municipalities Act, 2007 which would strengthen internal control and financial management in the ULBs. The ULBs did not prepare their budget and expenditure was incurred without preparation and approval of the budget which is the basic tool of accountability and good governance. This indicated that low priority was given to good governance.