

## CHAPTER-IV

### 4 FINANCE AND ACCOUNTS OF URBAN LOCAL BODIES

#### 4.1 Introduction

Article 243 (W) of the Constitution of India envisages that the State Government may, by law, endow the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of Self Government and such law may contain provisions for devolution of powers and responsibilities upon municipalities subject to such conditions as may be specified there in with respect to (i) the preparation of plans for economic development and social justice and (ii) the performance of function and the implementation of the schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule.

#### 4.2 Status of ULBs in Gujarat

After the 74<sup>th</sup> Constitutional Amendment, the Urban Local Bodies (ULBs) were made full fledged and vibrant institutions of Local Self Government with clearly defined functions and responsibilities. Accordingly, the State Government reorganized (1993) these institutions into three level viz. Municipal Corporations (MCs), Nagarpalikas (NPs) and Notified Areas (NAs).

At present, there are Eight MCs, 159 NPs and 23 NAs. The MCs were constituted under the Bombay Provincial Municipal Corporations Act, 1888 as revised in 1949 and amended from time to time by the State Government. The NPs were constituted under the provisions of Gujarat Municipalities Act, 1963. The NPs are classified into four categories on the basis of population as ascertained in the preceding census. Each NP is divided into a number of wards, which is determined by the State Government with regard to population, geographical condition and economic consideration of the respective area. An elected member / councilor represents each ward.

#### 4.3 Households and Populations covered

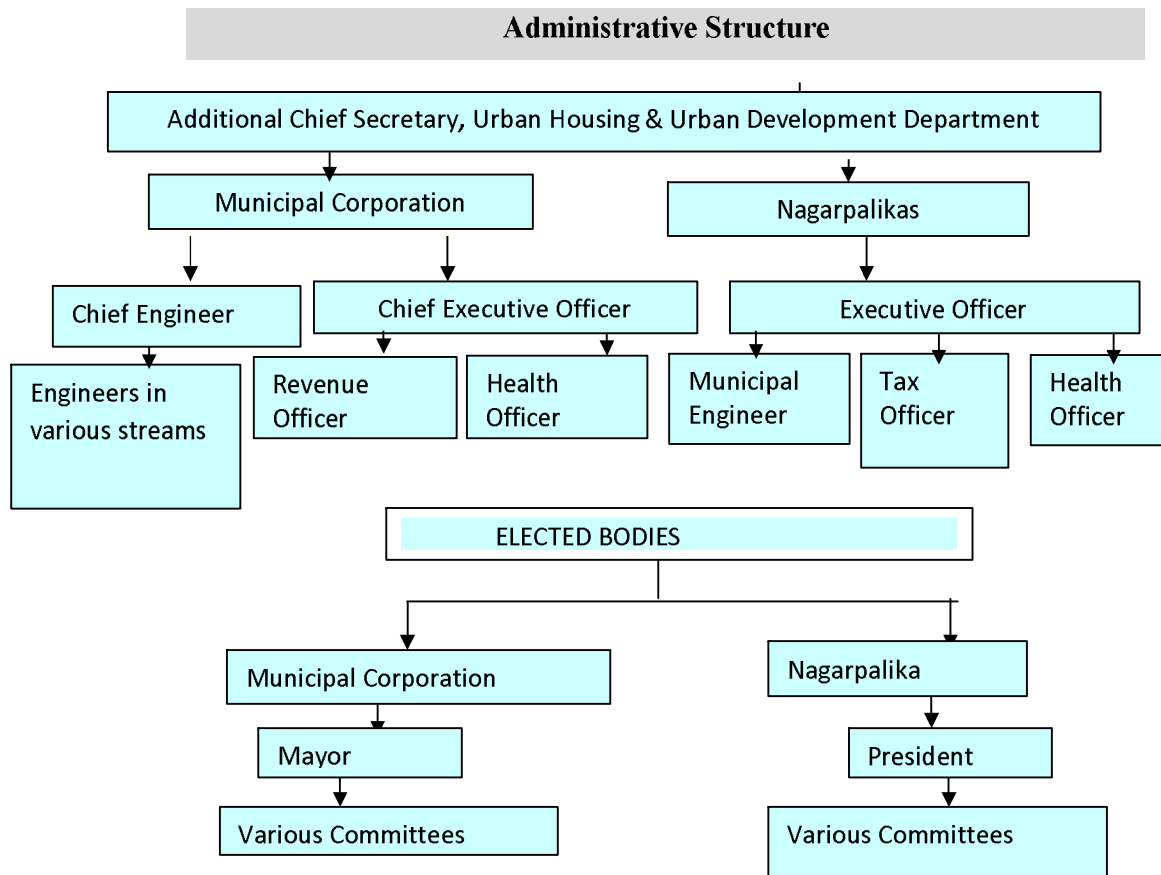
The Population of Gujarat is 5.07 crore (2001 census) of which 1.90 crore (37.36 *per cent*) reside in urban area. Total numbers of households in the State as per 2001 census are 96.44 lakh of which 37.58 lakh (38.97 *per cent*) reside in urban area.

The urban population of Gujarat has increased rapidly from 1.06 crore in 1981 to 1.42 crore in 1991 and again to 1.90 crore in 2001 representing 31.10 *per cent*, 34.47 *per cent* and 37.36 *per cent* of the total population respectively as against the national average of 23.70 *per cent* in 1981, 25.71 *per cent* in 1991

and 27.78 per cent in 2001. The last elections of six MCs and 53 NPs were held in October 2010 and the election of 27 NPs were held in February 2011. The first election of Gandhinagar MC (Formed in May 2010) is scheduled to be held in April 2011.

#### 4.4 Organizational setup

The NP / MC is a body corporate having a Board of Councillors. All the ULBs consist of elected members (Councillors) form each ward. The minimum numbers of wards are 21 and the maximum number is kept between 21 and 192 depending on the size of the ULB with reservation for SC, ST, OBC and women as per provisions. The following organogram depicts the structure of ULBs in the State of Gujarat.



The President / Mayor, elected by the majority of the Board of Councillors, is the executive head of the ULB. The executive powers of ULBs are exercised by the Council. The President / Mayor enjoys powers delegated by the Board. Various committees are formed to assist the NPs/ MCs.

The Chief Executive Officer (CEO)/Executive Officer (EO) appointed by the State Government is a whole time Principal Executive Officer of the MC/NP for administrative control of the ULB. Other officers are also appointed to discharge specific function. Functions of CEO/EO include general

supervision, control over the officials of the ULBs, organizing board meetings, monitoring and implementation of schemes and get the budget estimates prepared.

#### **4.5 Powers and functions**

The State Government vide Section 87 of the Gujarat Municipality Act, 1963 devolved various functions to be exercised in the sphere of Public works<sup>29</sup>, Education<sup>30</sup>, Public Health & Sanitation<sup>31</sup>, Development<sup>32</sup>, Town Planning<sup>33</sup> and Administration<sup>34</sup>. Similarly, vide section 63 to 72 of the Bombay Provincial Municipal Corporations Act, 1949 the State Government had devolved various functions and powers to Municipal Corporations.

#### **4.6 Financial Profile**

The ULB fund comprises receipts from its own source, grants and assistance from Governments, SFC / Central FC grants and loans obtained from any public financial institutions or nationalized banks or such other institutions as the State Government may approve. A flow chart of finances of a ULB is as given on succeeding page.

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<sup>29</sup> Naming streets and numbers of premises, giving immediate relief in the event of natural calamities.

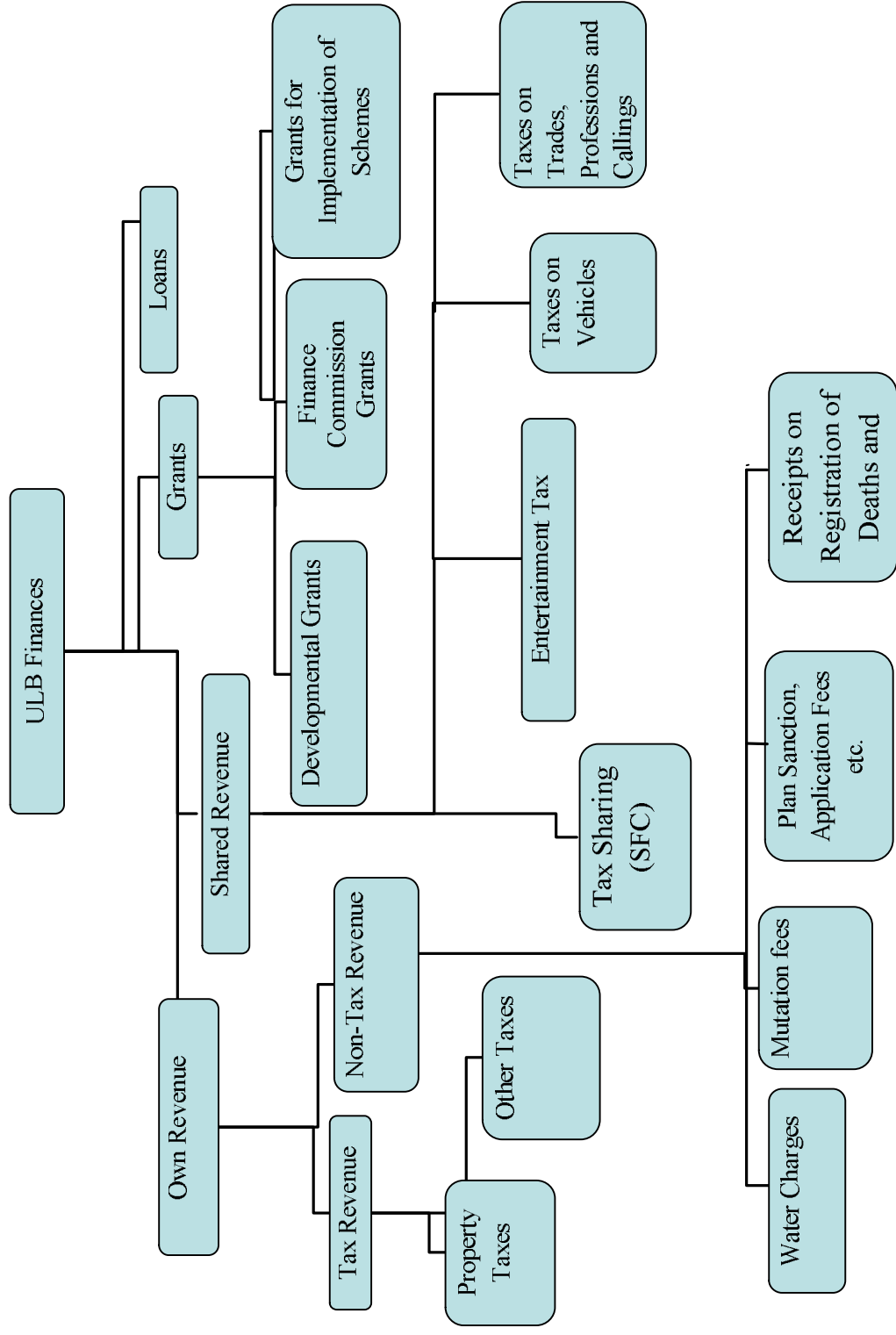
<sup>30</sup> Establishing & monitoring primary school.

<sup>31</sup> Regulating and abating offensive or dangerous trades or practice, securing and removing dangerous buildings or places and reclaiming unhealthy localities, obtaining a supply or additional supply of water, proper and sufficient for preventing danger to the health of inhabitants from the insufficiency or unwholesomeness of the existing supply, when such supply or additional supply can be obtained at a reasonable cost, Public vaccination, watering public streets and places, cleaning public streets, introducing and maintaining the system of water closet, depositing night soil and rubbish, providing special medical aid accommodation for the sick the time of dangerous disease, establishing & maintaining public hospitals, dispensaries and family planning centers and providing public medical relief.

<sup>32</sup> Constructing, altering and maintaining public streets, suitable accommodation for cows and buffalos, printing such annual report of the municipal administration, paying the alary and contingent expenditure on account of such police or guards as may be required by the Nagarpalika and improving agriculture by suitable majors.

<sup>33</sup> Devising town planning within the limits of borough according to the relating to town planning.

<sup>34</sup> Lighting public streets, places and building, extinguishing fires and protecting lives and property when fires occur. Removing obstruction and projections in public places, erecting substantial boundary marks and registering births, marriages and deaths.



#### 4.6.1 Sources of finances of ULBs

The property tax on land and building is the principal source of tax revenue of an ULB. The main sources of non-tax revenue of an ULB are plan sanction fees, mutation fees and water charges. All collections as permissible under the statute in force are meant for maintenance of administration and providing of services to the general public.

The State Government releases administrative grants to the ULBs to compensate their revenue expenditure. Grants and assistance released by the State Government and the Central Government are utilised for developmental activities as specified in the respective schemes or programmes.

The loans raised from different sources with prior approval of the State Government are utilised for execution of various projects / schemes.

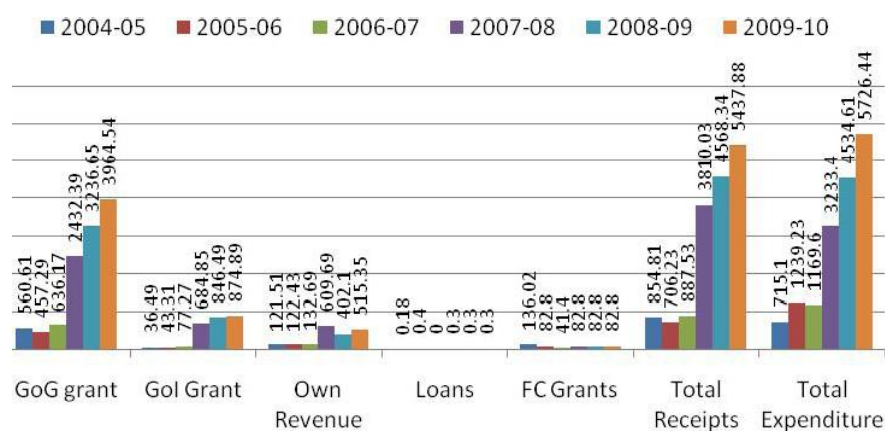
#### 4.6.2 Sector wise receipts and expenditure

The receipts and expenditure incurred during the last Six years ending March 2010 are given in **Table No.8** below.

**Table No.8: Receipts & Expenditure** ( ` in Crore)

|                          | 2004-05       | 2005-06        | 2006-07        | 2007-08        | 2008-09        | 2009-10        |
|--------------------------|---------------|----------------|----------------|----------------|----------------|----------------|
| GoG grant <sup>35</sup>  | 560.61        | 457.29         | 636.17         | 2432.39        | 3236.65        | 3964.54        |
| Gol Grant                | 36.49         | 43.31          | 77.27          | 684.85         | 846.49         | 874.89         |
| Own Revenue              | 121.51        | 122.43         | 132.69         | 609.69         | 402.10         | 515.35         |
| Loans                    | 0.18          | 0.40           | 0              | 0.30           | 0.30           | 0.30           |
| FC Grants                | 136.02        | 82.80          | 41.40          | 82.80          | 82.80          | 82.80          |
| <b>Total Receipts</b>    | <b>854.81</b> | <b>706.23</b>  | <b>887.53</b>  | <b>3810.03</b> | <b>4568.34</b> | <b>5437.88</b> |
| <b>Total Expenditure</b> | <b>715.10</b> | <b>1239.23</b> | <b>1169.60</b> | <b>3233.40</b> | <b>4534.61</b> | <b>5726.44</b> |

(Source: Budget publications and figures received from the Department)



<sup>35</sup> Inclusive of JNURM and MCorps. funds

It could be observed from the above that allotment of grants by GoG and Gol reflected increasing trend during the years 2007-08, 2008-09 and 2009-10 due to increased allocation under TFC and CSS. The expenditure had also increased during 2007-10 it was less than the total receipts of the respective years during 2007-08 and 2008-09. During the year 2009-10 the expenditure was in excess by ` 288.56 crore which was funded from earlier year's surplus.

#### **4.7 State Finance Commission**

Article 243 W of the Constitution had made it mandatory for the State Government to constitute a State Finance commission (SFC) within a year from the commencement of the Constitutional Amendment Act and thereafter on expiry of every five year to review the financial condition of the ULBs and to make recommendations to the Governor for devolution of funds. Gol guidelines (June 2005) stipulated that state government was to act within six months of SFC's recommendations.

It was, however, noticed (as commented in paragraph-1.10 of chapter – I of part-A of this Report) that the State Government had neither maintained periodicity for constitution of SFCs nor placed reports (submitted by the belatedly constituted SFC) in Assembly within six months time, defeating the very purpose of the constitution of SFC.

#### **4.8 Thirteenth Finance Commission**

As per recommendations of Thirteenth Finance Commission (TH.FC) Gujarat State is eligible to get Central Grant of ` 1301.81 crore for ULBs during period 2010-15. Out of this ` 851.16 crore has been earmarked for GBG and ` 450.65 crore for GPG. Accordingly Government of Gujarat was entitled to get GBG of ` 121.20 crore during 2010-11. However, Government of India has released (July 2010) only 1<sup>st</sup> installment of ` 60.61 crore towards GBG for ULBs. Remaining amount of ` 60.59 crore entitled during 2010-11 was yet to be received (March, 2011).

As per the TH.FC nine conditions were to be fulfilled by 31<sup>st</sup> March, 2011 for becoming eligible to draw general performance grant.

#### **4.9 Annual Accounts**

The Accrual Based Accounting System is being followed with parallel running of cash based system on trial basis in all ULBs. The formats for database on finances of ULBs as prescribed by the CAG have been accepted by the Government (September 2004 & August 2007). However, these are yet to be operationlised (March, 2011). As per respective Acts/ Rules, the ULBs prepare the accounts pertaining to the period from 1<sup>st</sup> April to 31<sup>st</sup> March of particular year and after getting it approved by the respective Standing Committees/General Body, the accounts are submitted to respective controlling/administrative department by 31<sup>st</sup> of July each year and submitted to DLFA for audit. The audit observations on Annual Accounts of the ULBs are included in Chapter-V of Part-B of this Report.

#### 4.10 Audit arrangements

##### 4.10.1 Pending audit by Director, Local Fund Audit

The DLFA is the primary Auditor of the NPs and NAs whereas in case of MCs, audit work has been assigned to the Chief Auditor of the respective MC. Audit of all the 23 NAs by DLFA is in arrear since inception. Details of arrears in audit of NPs by the DLFA as of 31<sup>st</sup> December, 2010 are given in the **Table No. 9** below:

**Table No.9 : Arrears of audit by DLFA**

| Year    | Total Number of NPs | Arrears in audit by DLFA |
|---------|---------------------|--------------------------|
| 2005-06 | 140                 | 12                       |
| 2006-07 | 140                 | 39                       |
| 2007-08 | 161                 | 95                       |
| 2008-09 | 159                 | 138                      |
| 2009-10 | 159                 | 159                      |
| 2010-11 | 159                 | 159                      |

DLFA stated (December, 2010) that the arrears in audit was due to shortage of staff. The reply is not tenable as audit in abeyance for considerable period would lead to weak internal monitoring and fraught with the risk of frauds and irregularities which cannot be timely detected.

##### 4.10.2 Audit by C&AG

State Government has entrusted (May 2005) the audit of NPs and NAs to CAG under section 20(1) of the CAG's (DPCs) Act, 1971. Accounts for the period 2004-08 of 22 NPs were test-checked during 2009-10 and 2010-11. Results of audit are given in the succeeding chapters.

#### 4.11 Outstanding Inspection Report Paragraphs

##### 4.11.1 Outstanding paras of DLFA Inspection Reports

Total 141308 numbers of paragraphs of Inspection Reports (IRs) as issued by DLFA were outstanding as on 31 December, 2010, as detailed in **Table No.10**:

**Table No.10 : Outstanding paras of DLFA**

|     | Up to 2000-01 | Addition during 2001-09 | As on 31 <sup>st</sup> December, 2010 |
|-----|---------------|-------------------------|---------------------------------------|
| NPs | 84946         | 25377 <sup>36</sup>     | 110323                                |

The reasons for huge outstanding paras though called for (March 2011), were not provided by the DLFA.

##### 4.11.2 Pending paragraphs of Accountant General (Civil Audit), Gujarat

Status of outstanding IRs and paragraphs issued by Sr. DAG (LBAA), Ahmedabad, Gujarat, is given in **Table No.11** at next Page

<sup>36</sup> 2001-02 ;3529; 2002-03:3953; 2003-04:3878; 2004-05:,4924; 2005-06:,4144; 2006-07:,2843; 2007-08:,1297; 2008-09:, 809;

**Table No.11 : Pending paras of Accountant General (CA), Gujarat**

| Year of audit | Inspection Reports | Outstanding Paras |
|---------------|--------------------|-------------------|
| 2007-08       | 19                 | 320               |
| 2008-09       | 30                 | 381               |
| 2009-10       | 20                 | 247               |
| <b>Total</b>  | <b>69</b>          | <b>948</b>        |

#### **4.12 District Planning Committees**

The State Government constituted (1973) District Planning Board (DPB) for each district headed by the Minister in-charge of the concerned district. The State Government under provision of Article 243 Z D of the Constitution of India constituted (July 2006 and January 2009) District Planning Committees (DPC) in all the District by a Government Resolution. Minister in-charge of the district is chairperson of the DPC in each district. The DPC consolidates the plans prepared by the ULBs in the district and prepares a Draft Development Plan (DDP) for the district as a whole on the matters of common interest of the LBs keeping in view the available resources, whether financial of otherwise, and forwards the DDP to State Government with recommendations.

Due to election of ULBs and PRIs in all the 26 districts of Gujarat State during October 2010 and February 2011, all the DPCs have been dissolved. The reconstitution of DPCs has not been done till date (March 2011).

#### **4.13 Conclusion**

State Government adopted the formats for database on the finances of ULBs. However, the same are yet to be operationalised. Neither the prescribed periodicity for constitution of SFCs, as per Constitutional provisions, was maintained nor action was taken by the State Government on recommendations of the belatedly constituted SFCs. Pendency of audit by DLFA and arrears in settlement of outstanding IRs and paragraphs of DLFA and that of Sr. DAG (LBAA) indicate weak internal control system in ULBs. Though election process of PRIs and ULBs has been completed, reconstitution of dissolved DPCs in all the 26 districts is yet to be done.

#### **4.14 Recommendations**

The following measures are recommended for ensuing better accountability system in ULBs.

- Functions enlisted in the 12<sup>th</sup> Schedule may be devolved to the ULBs with adequate funds and functionaries.
- SFCs should be constituted as per Constitutional provision and immediate actions be taken on the SFCs recommendations.
- Immediate action should be taken by the GoG to fulfill the conditions prescribed for availment of General performance grant under THFC from 2011-12 on onwards.
- Government should prioritise finalisation of the accounts of ULBs and its audit by the primary auditors.
- Director Municipalities and concerned COs are required to form an apex level committee for clearance of outstanding paragraphs.