

CHAPTER-I

INTRODUCTION

1.1. Background

Under Section 4 of the Jharkhand Municipal Act, 2000, the State Government may declare a town as a Municipal Corporation, a Municipality or a Notified Area Committee (N.A.C.), on the basis of a population of more than two lakh, not less than forty thousand and twelve thousand respectively and if the town has (1) an average number of not less than four hundred inhabitants per square Kilometer and (2) three-fourth of the adult population are engaged on pursuits other than agriculture.

The total population of Jharkhand State as per 2001 census was 26.95 million and the total population covered by the ULBs was 5.93 million. Two Municipal Corporations, 19 Municipalities and 18 NACs, declared by the State Government, fall under the jurisdiction of the State. Dhanbad Municipal Corporation was created (February 2006) by incorporating areas of Dhanbad Municipality and four NACs i.e. Jharia, Sindri, Katras and Chhatatand. The Municipal Corporations are governed by Ranchi Municipal Corporation (RMC) Act, 2001 whereas; Municipalities and NACs are governed by Jharkhand Municipal Act (JMA), 2000. The term of elected bodies of Municipal Corporation and Municipalities is five years. The State Government dissolved all local bodies during the period 1986 to 1995 and since then fresh elections were held only in March 2008 in 28 out of 39 ULBs. The other 11 ULBs are functioning without having elected bodies as yet. Elections in three ULBs* were not held due to pending court cases. Reason for non-holding of election in the remaining eight ULBs was not stated by the State Government.

In absence of elections, Urban Local Bodies, as envisaged by the 74th Constitutional Amendment, have not come into existence.

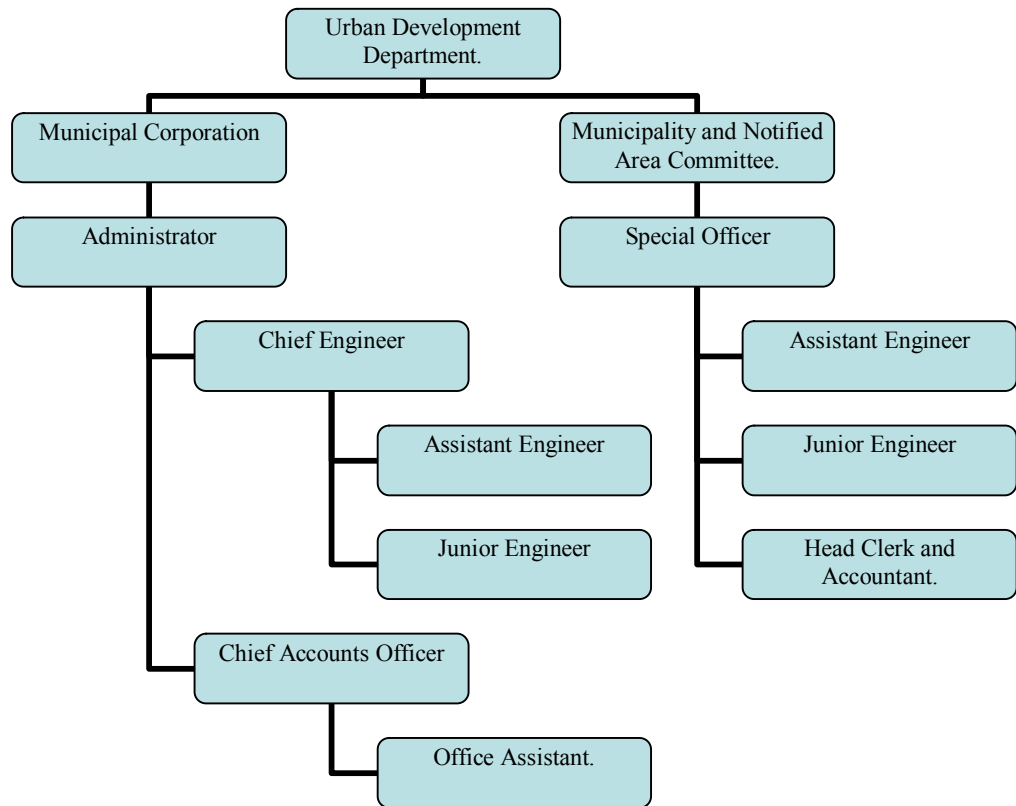
*Jamshedpur, Jugsalai and Mango.

1.2. Organizational setup

In absence of elected bodies, Municipal Corporations, Municipalities and NACs are being administered by an Administrator, a Special Officer and a SDO (Civil)-cum-ex-officio Chairman of the NACs respectively. The Secretary, Urban Development Department, Government of Jharkhand is the prime controlling authority at the State level.

Organograph

The following Organograph will show the Organisational structure of a ULB.



1.3 Powers and Functions

Powers and functions of the ULBs are described in Section 11 A of JMA, 2000 and Section 63 A of RMC Act, 2001. Some of the important functions of the ULBs are as follows:

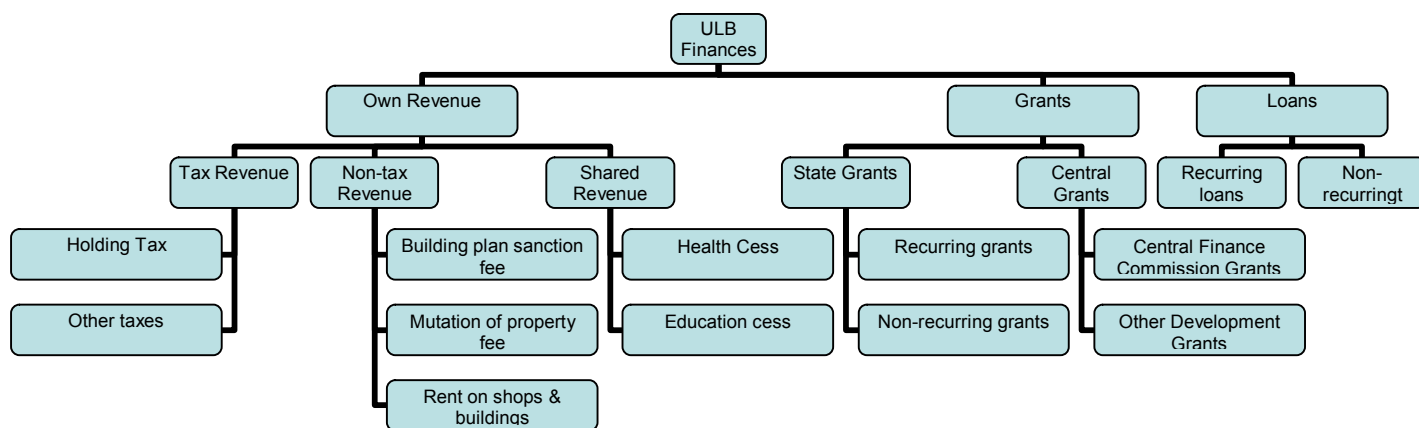
- Urban planning including town planning;
- Regulation of land use and construction of buildings;
- Construction of roads and bridges;

- Water supply for domestic, industrial and commercial purposes and
- Maintenance of public health, sanitation, conservancy and solid waste management.

In addition to the above functions, some other functions, which are also performed by the ULBs, are given in **APPENDIX-1**.

1.4. Financial Profile

The Urban Local Body Fund comprises of receipts from own resources and grants and loans from State Government. A flow chart of finances of the ULBs is as under:



Under the provisions of the Acts in force, all collections such as tax on holding; water tax; latrine tax; collection charges of Health Cess & Education Cess; tax on vehicles; tax on trades, professions, callings and employments; fee on registration of vehicles etc. are sources of tax revenue and building plan sanction fees, mutation of property fees, rent on shops & buildings, tolls and other fees and charges etc. constitute the main source of non-tax revenue. The State Government releases grant-in-aid and loans to the ULBs to compensate their establishment expenses. Grant and assistance are also received from the State Government and the Central Government for implementation of specific schemes and projects.

Financial profile of the 18 test checked ULBs were summarized below:

(Rs in lakh)

Sl. No	Name of ULBs	Period	Opening Balance	Receipts			Grand Total	Expenditure		Total	Closing Balance
				Grant	Loan	Own/Other Sources		Establis hment	Scheme		
1.	Ranchi	2007-08	3390.59	1123.43	734.26	1721.90	6970.18	2413.81	2079.64	4492.85	2477.23
3.	Deoghar	2006-08	859.02	1196.45	1194.54	261.50	3511.51	325.43	751.09	1076.52	2434.99
4.	Hazaribag	2006-08	649.48	519.88	412.89	266.85	1849.10	355.91	575.85	931.76	917.34
5.	Dumka	2006-08	694.75	900.52	1837.39	27.23	3459.89	54.59	1550.37	1604.96	1854.93
6.	Medninagar	2006-08	745.22	295.13	65.94	122.29	1228.58	114.35	340.01	454.36	774.22
7.	Pakur	2006-08	798.74	359.58	85.54	96.46	1340.32	36.98	918.73	955.71	384.61
8.	Jugsalai	2006-08	235.42	163.61	233.86	36.51	669.40	81.36	236.96	318.32	351.08
9.	Gumla	2006-08	779.26	292.27	340.60	129.62	1541.75	212.16	818.78	1030.94	510.81
10.	Lohardaga	2006-08	241.09	441.44	875.40	78.03	1645.96	82.67	738.83	821.51	824.45
11.	Chaibasa	2006-08	275.53	238.50	171.47	164.19	849.69	184.25	354.12	538.37	311.32
12.	Katras	2005-06	64.70	3.23	0.14	2.59	70.66	3.70	40.17	43.87	26.79
13.	Jharia	2005-06	92.57	38.95	10.95	5.70	148.17	26.37	100.59	126.96	21.21
14.	Bundu	2006-07	214.87	16.63	8.91	11.30	251.71	7.19	146.25	153.44	98.27
15.	Khunti	2006-08	142.92	159.27	167.45	1.00	470.64	5.00	356.07	361.07	109.57
16.	Mihijam	2006-07	450.05	45.95	22.14	3.18	521.32	16.18	87.86	104.04	417.28
17.	Latehar	2006-07	174.15	18.01	22.16	17.47	231.79	8.13	121.32	129.45	102.34
18.	Fusro	2006-07	244.24	86.66	51.58	17.99	400.47	NA	NA	127.11	273.36
19.	Koderma	2005-07	160.15	122.15	106.14	7.06	395.50	9.31	263.84	273.15	122.35

From the above table it is clear that the ULBs are financially dependent on grants/loans from the Government and their own revenues are meagre. Suitable action may be taken to enhance the percentage of collection of revenues by issuing more demand notices, warrants etc. to taxpayers, other collection drives alongwith penal measures against the taxpayers/collecting staff and to curtail avoidable expenditure, by the ULBs.

1.5. Audit Arrangement

The audit of the ULBs is conducted by the Examiner of Local Accounts, Jharkhand under Jharkhand & Orissa Local Fund Audit Act, 1925.

Under Section 120 (1) of RMC Act, 2001, the Annual Accounts of the Corporation shall be subject to audit under the Jharkhand and Orissa Local Funds Audit Act, 1925.

For the said Act, the Corporation shall be deemed to be a local authority whose accounts have been declared by the State Government to be subject to audit under Section 3 of the said Act and the municipal fund shall be deemed to be a local fund.

1.6. Audit coverage

Out of 39 ULBs, accounts of 18 ULBs (Eight NACs¹, Nine Municipalities² and

¹ Bundu, Fusro, Jharia, Katras, Khunti, Koderma, Latehar and Mihijam.

² Chaibasa, Deoghar, Dumka, Gumla, Hazaribag., Jugsalai, Lohardaga., Medninagar, and Pakur.

One Corporation³) *APPENDIX-II* covering the financial year 2005-06 to 2007-08 were test checked and findings of audit are discussed in the succeeding paragraphs.

1.7 Supercession and non-holding of election

Under Section 16 of the RMC Act, 2001 and Section 29 of JMA, 2000, the term of elected bodies of Municipal Corporation and Municipalities would be of five years. After expiry of the said period, the State Government, in exercise of powers conferred upon it under Section 530 of Patna Municipal Corporation Act, 1951 and Section 385 of Bihar Municipal Act, 1922, dissolved all local bodies during the period 1986 to 1995. Out of 39 ULBs, elections were held in 28 ULBs in March 2008. The other 11 ULBs are functioning without having elected bodies as yet. Elections in three ULBs⁴ were not held due to pending court cases. Reason for non-holding of election in the remaining eight ULBs was not stated by the State Government.

1.7.1 Loss of Rs.85.69 Crore due to non-receipt of grants under EFC and TFC.

Due to non-holding of elections for municipal bodies, the State Government did not receive Rs 85.69 crore upto 2007-08 as grants from Central Government on the recommendations of the Eleventh (Rs.26.89 crore) and Twelfth Finance Commission (Rs.58.80 crore).

1.7.2 Non-receipt of grants of Rs.1336.86 Crore under Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

JNNURM was launched by Government of India (December 2005) to ensure sustainable development of selected cities. The scheme was to be implemented during 2005-2012. The State Government and ULBs seeking assistance under the JNNURM were required to enter into Memorandum of Agreement with Government of India and undertake reforms at municipal level with thrust areas like potable water supply, sewerage and sanitation, solid waste management, road network, transportation, integrated development of slums, street lighting etc. Under the scheme, three cities (Ranchi, Dhanbad and Jamshedpur) of Jharkhand were

³ Ranchi.

⁴ Jamshedpur, Jugsalai and Mango

selected, alongwith 63 cities in the country. For Mission coverage, the pre condition was that the cities should have elected bodies in position. As per the Mission overview, the investment requirement based on City Development Programme (CDP) for the selected ULBs was as under:

(Rs in crore)

Sl. No	Name of City/ULBs	Category	Annual Funds Requirements	Grant		Loan from Financial Institutions (Per cent)	Share of Central & State grant required per year	Total grant required during 2005-08	Grant received under BSUP during 2007-08	Non-receipt of Grants
				Central (Per cent)	State (Per cent)					
1.	Ranchi	Less than One Million population as per 2001 census	31.89	80	10	10	28.70	86.10	31.70	54.40
2.	Dhanbad	One Million plus but less than 4 Million populations as per 2001 census.	307.62	50	20	30	215.33	645.99	9.52	636.47
3.	Jamshedpur		307.62	50	20	30	215.33	645.99	Nil	645.99
Total							459.36	1378.08	41.22	1336.86

The Municipal Board of Ranchi came into existence in March 2008 but had not undertaken any reforms required under the Mission. However, against total requirement of funds of Rs 86.10 crore during 2005-08, RMC got Rs.31.70 crore only for implementation of schemes under JNNURM, whereas, Dhanbad and Jamshedpur neither had elected bodies nor had undertaken any reforms required under the Mission. Moreover, Dhanbad Municipal Corporation got Rs 9.52 crore against total requirement of Rs 645.99 crore for 2005-08. Due to non-fulfillment of conditions of JNNURM by Jamshedpur resulted in non-receipt of Rs 645.99 crore during 2005-08 with consequential impact on civic facilities/ development in the cities.

A few comments on utilization of amounts received have been incorporated in para 6.9 and 6.12 of the Report.

1.8 Accounting reforms

1.8.1 Finalization of "State Municipal Accounts Manual"

Based on CAG's Task Force Report on accrual accounting in ULBs, the National Municipal Accounts Manual was developed and circulated to all States and they were requested to prepare the State specific Accounts Manual (March 2004).

The Govt. informed (March 2007) that the draft of 'State Municipal Accounts Manual' had been prepared on the basis of National Municipal Accounts Manual

and is under review at the Govt. level. Despite reminder (January 2008 & July 2008), the Govt. had not intimated further progress in this regard (July 2009).

1.8.2 Non-constitution of Steering Committee

As per the decisions taken in the National Seminar organized (September 2003) by the Ministry of Urban Development, a Steering Committee was to be formed in all the states to oversee the implementation of budget and accounting formats in ULBs. A representative of Accountant General (AG) of the concerned state was also to be made as member of Steering Committee as an observer. Urban Development Department, Govt. of Jharkhand formed a Steering Committee (February 2004) without any representative of AG. The Government was requested (April 2004) to include the Examiner of Local Account, Jharkhand as Member-Observer of the Steering Committee and several correspondences were made for formation of the said Committee (last reminder in September 2007), but nothing has been heard from the Government (July 2009).

1.8.3 Adoption / acceptance of database formats on finances of ULBs

Formats of database on finances of ULBs prescribed by the C & AG as per Eleventh Finance Commission, was sent to the State Govt. (October 2003) and Hindi version of the same, as desired was also sent (August 2005) for adoption and implementation by ULBs.

In spite of several reminders, formal adoption / acceptance of the same has not been received from the Government (July 2009).

1.9 Devolution of functions, funds, and functionaries

Functions:

Visualizing ULBs as institutions of self-government, the 74th Constitutional Amendment Act, 1992 left the extent of devolution to the wisdom of the State Legislatures. Major elements of devolution are transfer of functions, functionaries and funds to ULBs, accompanied by administrative control over staff and freedom to take administrative and financial decisions at local level. The JMA, 2000 was amended by the Act 2 of 1995 and a new Section 11-A was inserted and the ULBs are entrusted with the functions listed in the 12th Schedule of the Constitution.

During audit it was noticed that out of 18 functions mentioned in the Schedule, five functions (S.No.7,8,9,13 & 15) are not being performed by the ULBs, whereas two functions i.e. Urban Planning including Town Planning and Regulation of Land use and Construction of buildings are not being performed by two Corporations i.e. Ranchi and Dhanbad. These functions are performed by Ranchi Regional Development Authority and Mineral Area Development Authority respectively at present.

Funds:

Devolution of fund to ULBs should be a natural corollary to implement the transferred function. The quantum of assistance provided to ULBs by the Govt. during 2003-08 was as under:

(Rs in crore)						
Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
1	Revenue receipt of the State Government	5638	6661	8464	10010	12027
2	Revenue expenditure of the State Government	5406	6976	8491	9064	10832
3	Financial assistance to ULBs	18.18	48.83	77.28	109.58	146.07
4	Assistance as percentage of revenue receipt of State Government.	0.32	0.74	0.91	1.10	1.27
5	Percentage of assistance to revenue expenditure of State government.	0.34	0.70	0.91	1.21	1.38

Though the financial assistance to ULBs has increased from 0.32 to 1.27 during 2003-08 as a percentage of revenue receipts of the State Government, it is still not enough keeping in view the insufficient resources of the ULBs and the fact that 22 *per cent* of the total population of the State resides in urban areas.

Functionaries:

Devolution of powers and functions on the ULBs requires availability of qualified and trained personnel at all levels for efficient discharge of these functions. The ULBs should have administrative control over the staff to command loyalty and directions of purpose in the new scenario. A review of the system of transfer of functionaries to ULBs revealed that the available manpower in ULBs is not sufficient and requires attention of the State Government.

The position of sanctioned post and men- in- position in respect of the 15 ULB was as under:

Sl.No.	Name of the ULBs	Sanctioned Strength	Men in Position	Shortage	Percentage of shortage	Position as of 31 st March
1.	Ranchi	1382	895	487	35.24	2008
2.	Deoghar	311	189	122	39.23	--do--
3.	Hazaribag	292	256	36	12.33	--do--
4.	Dumka	224	77	147	65.63	--do--
5.	Medninagar	197	87	110	55.84	--do--
6.	Jugsalai	143	63	80	44.06	--do--
7.	Chaibasa	107	62	45	42.06	--do--
8.	Lohardaga	62	49	13	20.97	--do--
9.	Gumla	36	10	26	72.22	--do--
10.	Pakur	26	25	01	3.85	--do--
11.	Mihijam	19	12	07	36.85	2006
12.	Katras	09	02	07	77.78	--do--
13.	Bundu	09	01	08	88.89	--do--
14.	Koderma	09	Nil	09	100.00	2007
15.	Khunti	07	Nil	07	100.00	--do--
Total		2833	1728	1105	39.01	

The above table shows that in Koderma and Khunti NACs, there was no permanent staff, whereas in other ULBs the shortage of staff ranged from 3.85 *per cent* to 88.89 *per cent*. Due to shortage of man power the ULBs were facing trouble in running offices and in performing their primary duties of sanitation as well as other civic facilities to their inhabitants

1.10 Non-receipt of grants from the State Finance Commission

The State Finance Commission (SFC) was constituted by the State Government in January 2004 under Section 80-B of JMA, 2000. The major function of the SFC was to frame the principle that would govern the distribution of the net proceeds of taxes, duties etc. between the State and ULBs and also the grants-in-aid to ULBs with the main aim of enhancing the financial position of ULBs. The State Government has informed (November 2008) that no recommendation had been made available by the State Finance Commission.