

PART I
URBAN LOCAL BODIES

CHAPTER I
AN OVERVIEW OF
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SECTION 'A' AN OVERVIEW OF URBAN LOCAL BODIES

1.1 Background

The 74th Constitutional amendment gave constitutional status to Urban Local Bodies (ULBs) and established a system of uniform structure, regular election, regular flow of funds through Finance Commission etc. As a follow up, the States are required to entrust these bodies with powers, functions and responsibilities so as to enable them to function as institutions of self-government.

Consequent to the 74th amendment of the Constitution, the Government of Tamil Nadu amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution.

1.2 State profile

Tamil Nadu is one of the most urbanised States in India. The urban population of the State as per the 2011 census was 3.49 crore constituting 48.45 *per cent* of the total population (7.21 crore) in the State. The demographic and developmental status of the State is given in **Table 1.1**.

Table 1.1: Important statistics of the State

Indicator	Unit	State statistics
Population	Millions	72.14
Population density	Sq.Km	555
Urban population	Percentage	48.45
Number of ULBS	Numbers	719
Number of Corporations	Numbers	10
Number of Municipalities	Numbers	150
Number of Town Panchayats	Numbers	559
Gender ratio	Per 1,000 males	995
Literacy	Percentage	80.33

(Source: 2011 Census figures and Policy Note of the Municipal Administration and Water Supply Department for 2011-12).

1.2.1 Classification of Urban Local Bodies

The Municipalities and Town Panchayats are classified into different grades by the Government of Tamil Nadu based on their own revenue and population, as given in **Table 1.2**.

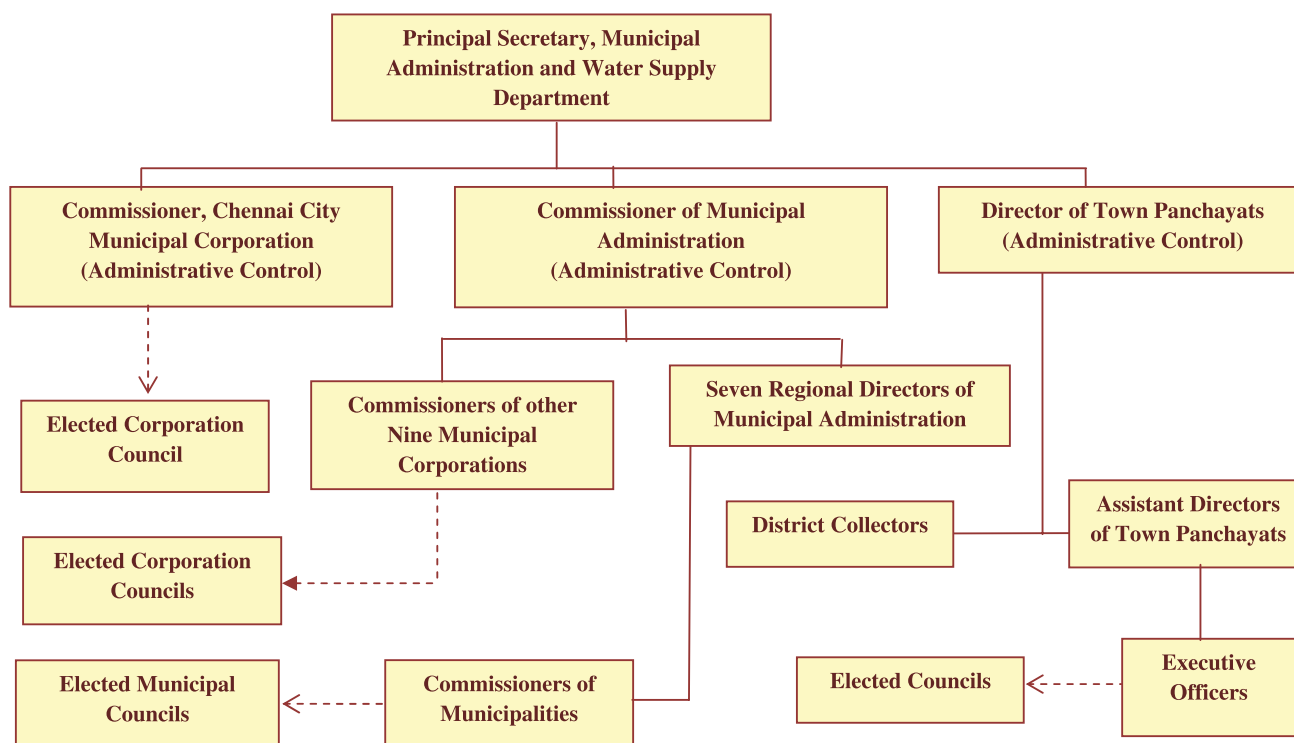
Table 1.2: Income-wise classification of ULBs

Category of ULBs	Grade	Annual income	Number
Municipalities	Special grade	Above ₹ 10 crore	22
	Selection grade	₹ 6 crore and above but below ₹ 10 crore	35
	First grade	₹ 4 crore and above but below ₹ 6 crore	36
	Second grade	Below ₹ 4 crore	45
	Third grade	(Population above 30,000)	12
Total			150
Town Panchayats	Special grade	Above ₹ 20 lakh	12
	Selection grade	Above ₹ 16 lakh but below ₹ 20 lakh	244
	Grade I	Above ₹ 8 lakh but below ₹ 16 lakh	221
	Grade II	Above ₹ 4 lakh but below ₹ 8 lakh	82
Total			559

(Source: Policy Note 2011-12 of the Municipal Administration and Water Supply Department)

1.3 Organisational structure of ULBs

The Organisational structure for administering the ULBs in Tamil Nadu is as under:



(Source: Directorate of Municipal Administration)

1.4 Devolution of functions, functionaries and funds

Consequent to the 74th amendment of the Constitution, the Government of Tamil Nadu amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs. Twelve out of 18 functions enlisted in the Twelfth Schedule of the Constitution have been devolved to the Town Panchayats. As per the information furnished (June 2010) by the Commissioner of Municipal Administration (CMA), 17 functions (except Fire Service) have been devolved to the municipalities and municipal corporations. In respect of Chennai City Municipal Corporation, only 13 functions have so far been devolved and the function of water supply was handled by the Chennai Metropolitan Water Supply and Sewerage Board. As of March 2011, functionaries were not transferred to the ULBs to carry out the devolved functions.

Government reported that plan and non-plan discretionary grants were being transferred to the ULBs in addition to successive State Finance Commission grants. These earmarked grants were intended for specific functions such as water supply, roads, public health, street lighting, sanitation, etc. entrusted to the ULBs. The ULBs were empowered to revise and levy local taxes such as Property/House Tax, Profession Tax, etc. based on the recommendations of State Finance Commissions (SFCs), as accepted by the Government and as per the Local Bodies Acts.

1.5 Decentralised planning

1.5.1 Standing Committees

The ULBs constitute Standing Committees to perform the assigned functions. The list of various committees in the ULBs is given in **Table 1.3**.

Table 1.3: Standing Committees

Category of ULBs	Chief Political Executive	Standing Committees	Political executive of Standing Committees
Corporations	Mayor	Public Health, Town Planning, Works, Taxation and Finance, Education and Accounts	Chairman (elected among the members)
Municipalities	Chairman	Contract Committee, Town Planning Committee and Taxation Appeal Committee	
Town Panchayats	Chairman		

As per Section 241(1) of the Tamil Nadu Panchayats Act, 1994 the State Government constituted a District Planning Committee (DPC) in each of the 28 districts in November 1997. One DPC was formed in 2005 and two more were formed in April 2012 totalling to 31 DPCs. The DPC consists of the following members:

- The Chairman of the District Panchayat;
- The Mayor of the City Municipal Corporation in the district;
- The Collector of the district and

- such number of persons, not less than four-fifths of the total number of members of the committee, as may be specified by the Government, elected in the prescribed manner from amongst the members of the District Panchayat/Town Panchayats and councillors of the Municipal Corporation and Municipalities in the district, in proportion to the ratio between the population of the rural areas and of the urban areas in the district.

The role and responsibility of the DPC is to consolidate the plans prepared by the District Panchayat, Panchayat Union Councils, Village Panchayats, Town Panchayats, Municipalities and Municipal Corporation in the district and prepare a draft development plan for the district as a whole.

At present, the Annual Plans prepared at the Government level are only consolidated and adopted as District plans. No separate inputs are received from the ULBs. Requirements at the grass root level were thus not completely reflected in the District plans.

1.6 Financial profile

1.6.1 Funds flow to ULBs

The major resource base of ULBs consists of State Finance Commission (SFC) grants, State Plan Grants, Central Finance Commission (CFC) grants, Centrally Sponsored Schemes (CSS) grants, Own revenue, Assigned revenue and loans as given in **Table 1.4** below:

Table 1.4: Funds flow mechanism in ULBs

Nature of Funds	Corporations		Municipalities		Town Panchayats	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own revenue	Assessees and users	Bank	Assessees and users	Bank	Assessees and users	Bank
Assigned revenue	State Government	Bank	State Government	Bank	State Government	Bank
SFC grants						
CFC/CSS grants	GoI	Bank	GoI	Bank	GoI	Bank
State Plan grants	State Government	Bank	State Government	Bank	State Government	Bank
Loans	GoI/State Government/ Financial Institutions	Bank	GoI/State Government/ Financial Institutions	Bank	GoI/State Government/ Financial Institutions	Bank

Table 1.5 below shows the details of receipts and expenditure of the ULBs for the period 2006-07 to 2010-11.

Table 1.5: Receipts and expenditure of the ULBs

	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-2010	2010-2011
Own revenue	2,834	1,511	1,742	1,992	2,174
Assigned revenue	298	453	451	370	372
Grants	1,709	2,000	1,944	2,658	3,969
Loans	151	114	353	428	636
Total receipts	4,992	4,078	4,490	5,448	7,151
Revenue expenditure	1,709	1,806	2,186	2,558	3,319
Capital expenditure	876	1,395	1,767	1,878	2,514
Total expenditure	2,585	3,201	3,953	4,436	5,833

(Source: Details furnished by the Commissioner of Chennai City Municipal Corporation; Commissioner of Municipal Administration and Director of Town Panchayats)

The percentage of expenditure and savings to the total receipts during 2006-07 to 2010-11 is given in **Table 1.6**.

Table 1.6: Percentage of expenditure and savings

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue expenditure	34	44	49	47	46
Capital expenditure	18	34	39	34	35
Savings	48	22	12	19	19

While the Capital expenditure over the years ranged between 18 and 39 *per cent* of the total receipts, Revenue expenditure ranged from 34 to 49 *per cent*. The savings were 12 to 48 *per cent* of the total receipts. The ULBs failed to utilize these savings towards Capital expenditure for creating additional infrastructure.

1.7 Accounting framework

Accrual-based system of accounting is being followed in all Municipal Corporations and Municipalities as per the orders of the Government of Tamil Nadu with effect from 2000-01 and in all Town Panchayats with effect from 2002-03. Tamil Nadu State was adopting a State Accounting Manual. Consequent to the introduction of National Municipal Accounting Manual (NMAM) and in order to comply with the condition stipulated by the XIII Central Finance Commission, the State Government initiated action to prepare a new Accounting Manual incorporating the principles laid down in NMAM to suit the requirement of ULBs in Tamil Nadu.

1.8 Audit arrangements

As per the Government Order issued in August 1992, audit of ULBs had been entrusted to the Director of Local Fund Audit (DLFA). The DLFA certifies the correctness of accounts, assesses internal control system and reports cases of loss, theft and fraud to the audited entities and to the State Government. The Principal Accountant General provides technical guidance to DLFA on a continuing basis regarding audit of accounts of the ULBs in terms of Government of Tamil Nadu's order of March 2003.

The Principal Accountant General also audits the ULBs under Section 14(2) of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971.

1.8.1 Audit of ULBs by the Principal Accountant General

Audit of ULBs by test checking of records are followed-up through Inspection Reports issued to the Commissioner of Municipal Administration and to the ULBs concerned. Government issued general orders in April 1967 fixing a time limit of four weeks for response by the authorities for all paragraphs included in the Inspection Reports issued by the Principal Accountant General. As of June 2012, 3,440 paragraphs contained in 658 Inspection Reports for the period 2008-09 to 2010-11 were pending for settlement for want of satisfactory replies.

The Public Accounts Committee (PAC) commenced the process of discussion of the CAG Audit Reports on Local Bodies in January 2012. Audit Reports on ULBs upto 2006-07 were discussed and recommendations of the PAC are awaited. As of June 2012, Action Taken Report on 99 recommendations relating to 1985-86 to 1995-96 of the Municipal Administration and Water Supply Department was pending for final settlement, which *inter-alia* consisted of paragraphs relating to ULBs included in the Audit Reports (Civil).

SECTION 'B' – FINANCIAL REPORTING

1.9 Introduction

Financial reporting in the ULBs is a key element of accountability. Matters relating to drawal of funds, form of bills, incurring of expenditure, maintenance of accounts, rendering of accounts by the ULBs are governed by the respective ULB Acts. A chart depicting various sources of revenue of ULBs is given in **Appendix 1.1**.

1.10 Accounts maintained by Urban Local Bodies

The following accounts are prepared on accrual basis by adopting Double Entry Accounting System as prescribed under the Tamil Nadu Accounting Manual for ULBs in Tamil Nadu by all the municipalities, nine municipal corporations (excluding Chennai) and all the town panchayats:

- Revenue Fund and Capital Fund
- Water Supply and Drainage Fund (except town panchayats)
- Elementary Education Fund (except town panchayats)

The Chennai City Municipal Corporation maintains (i) a General Fund comprising both Revenue and Capital Funds and (ii) an Elementary Education Fund. The cash balance of each of the funds is maintained in separate bank account.

The figures in this Chapter are compiled from the details furnished by the ULBs. However, in the absence of data compiled from the audited accounts of the ULBs by the Department/Government, the accuracy of these figures cannot be authenticated and the data given here are provisional subject to audit by DLFA.

1.11 Financial Reporting Issues

1.11.1 Position of outstanding loans

The position of outstanding loans of ULBs as of March 2011 is given in **Table 1.7**.

Table 1.7: Position of outstanding loans in ULBs

Sl. No.	Category of ULBs	Position of consolidated loan			
		Opening balance as on 1 April 2010	Fresh loans availed during 2010-11	Repayment made during 2010-11	Closing balance as on 31 March 2011
1.	Chennai City Municipal Corporation	153.54	57.95	39.30	172.19
2.	Other municipal corporations	450.13	250.50	79.22	621.41
3.	Municipalities	517.44	296.07	114.92	698.59
4.	Town panchayats	236.85	31.61	35.36	233.10

(Source: Details furnished by the Commissioner of Chennai City Municipal Corporation, Commissioner of Municipal Administration and Director of Town Panchayats)

1.11.2 Arrears in Accounts

While accepting the Third State Finance Commission (TSFC) recommendation, the State Government stated that the accounts would be finalised within three months after the end of the financial year. The due dates for submission of accounts to DLFA by Municipal Corporations, Municipalities and Town Panchayats were 30 June, 15 May and 30 April respectively. The number of ULBs who did not submit their accounts as on 31 March 2011 for the years 2008-09 and 2009-10 are given in **Table 1.8**.

Table 1.8: Position of non-submission of accounts by the ULBs

Category of ULBs	Number of ULBs	
	2008-09	2009-10
Corporations	0	10
Municipalities	3	56
Town Panchayats	0	64

(Source: Details furnished by DLFA in September 2011)

While three Municipalities did not submit their accounts for the year 2008-09, all the ten Municipal Corporations, 56 Municipalities and 64 Town Panchayats did not submit their accounts for the year 2009-10. The pendency in preparation of accounts of ULBs and the eventual delay in audit of their accounts might result in continued existence of deficiencies in the accounts. This also deprived the respective councils of an opportunity to analyse the financial position of the ULBs in time.

1.11.3 Arrears in Audit

The DLFA reported (January 2012) that the audit of accounts of all the ULBs upto the year 2007-08 had been completed. Position of arrears in audit of the ULBs is given in **Table 1.9**.

Table 1.9: Position of non-completion of audit of the ULBs

Category of ULBs	Total number	2008-09 Number of units			2009-10 Number of units		
		Completed accounts (A)	Audit completed (B)	Audit pending (C)	(A)	(B)	(C)
Corporations	10	10	8	2	Nil	Nil	10
Municipalities	148 (2008-09) 148 (2009-10)	145	90	55	92	8	84
Town Panchayats	561 (2008-09) 561 (2009-10)	561	305	256	497	61	436

(Source: Details furnished by DLFA in September 2011)

Though all the Municipal Corporations, Town Panchayats and Municipalities (except three) submitted their accounts for the year 2008-09, audit of two Corporations, 55 Municipalities and 256 Town Panchayats was pending. For the year 2009-10, even though 92 Municipalities and 497 Town Panchayats

submitted their accounts, audit of 84 Municipalities and 436 Town Panchayats was pending as on March 2011. The reasons attributed (September 2011) by the DLFA for the arrears in audit was non-submission of annual accounts by all the Corporations, submission of defective accounts by the Municipalities, non-receipt of accounts on due dates and returning of defective accounts by the DLFA to the Town Panchayats for rectification and shortage of staff in certain cadre. The DLFA also stated that the vacancies could not be filled up due to pending court cases.

Based on the recommendations of TSFC, a District High Level Committee (DHLC) for settling the pending paragraphs of DLFA relating to Municipal Corporations and Municipalities and a State High Level Committee (SHLC) for monitoring the functions of DHLC were formed in 2007. A district committee for settling the pending paragraphs was already in existence.

The Director of Town Panchayats stated (January 2012) that 70 DHLC meetings and four SHLC meetings were conducted between January 2008 and December 2011 and 3,172 audit objections relating to town panchayats were settled in those meetings.

The DLFA reported that 2,72,379 paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats included in their Inspection Reports issued upto 2009-10 were pending for settlement as of March 2011. The year-wise and ULB-wise break-up is given in **Appendix 1.2**.

1.12 Conclusion

Transfer of all functionaries to the Urban Local Bodies to carry out the devolved functions had not been made by the Government making the devolution incomplete. Though the savings ranged between 12 and 48 *per cent* of the total receipts during the last five years, the ULBs failed to utilize the savings towards creation of additional infrastructure. Due to non-preparation of the accounts in time by the Urban Local Bodies, correct picture of their financial position could not be ascertained by the councils in time. While three Municipalities did not submit their accounts for the year 2008-09, all the ten Municipal Corporations, 56 Municipalities and 64 Town Panchayats did not submit their accounts for the year 2009-10. As of March 2011, audit of two Corporations, 55 Municipalities and 256 Town Panchayats was pending for the year 2008-09. For the year 2009-10, even though 92 Municipalities and 497 Town Panchayats submitted their accounts, audit of 84 Municipalities and 436 Town Panchayats was pending. As of June 2012, 3,440 paragraphs contained in 658 Inspection Reports of the Principal Accountant General for the period 2008-09 to 2010-11 were not settled for want of satisfactory replies.