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**CHAPTER-3**  
**PROFILE OF URBAN LOCAL BODIES**

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#### 3.1 Background of Urban Local Bodies

The 74<sup>th</sup> Constitutional amendment paved the way for decentralization of power and transfer of 18 functions, listed in the twelfth schedule of the Constitution along with funds and functionaries to the Urban Local Bodies (ULBs). Though all the 18 functions stand transferred (August 1994) to ULBs except fire services, yet funds and functionaries remained to be transferred to the ULBs. To incorporate the provisions of the 74<sup>th</sup> Constitutional amendment, the Government of Himachal Pradesh (Local Self Government) enacted the Himachal Pradesh Municipal Corporation Act, 1994 and the Himachal Pradesh Municipal Act, 1994 for transferring the powers and responsibilities to the Urban Local Bodies. However, some obligatory and discretionary functions like maintenance of roads, streets, street lights, cleanliness etc. were being implemented by the ULBs prior to enactment of these Acts.

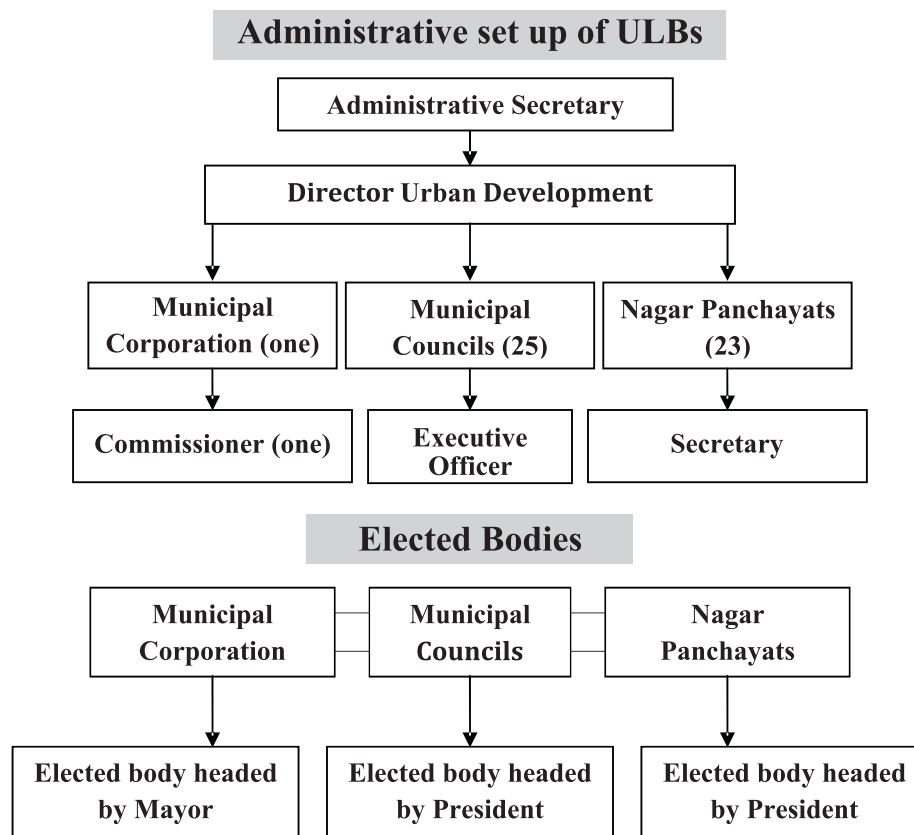
#### 3.2 Audit mandate

In Himachal Pradesh, audit of ULBs is being conducted by the Director, Local Audit Department. The state government has entrusted (March 2011) audit of ULBs to CAG with the responsibility of providing Technical Guidance and Support under Section 20(1) of the CAG's DPC Act, 1971. The results of audit are included in the Annual Technical Inspection Report (ATIR).

#### 3.3 Organizational structure of Urban Local Bodies

There is one Municipal Corporation, 25 Municipal Councils (MCs) and 23 Nagar Panchayats (NPs) in the State.

The overall control of the ULBs rests with the Principal Secretary (Urban Development) to the Government of Himachal Pradesh through Director, Urban Development Department. The organisational set-up of Urban Local Bodies is as under:



### 3.3.1 Standing committees

Various standing committees involved in financial matters and implementation of schemes are detailed in **Table 8** :

**Table 8 : Roles and responsibilities of the standing committees**

Level of ULBs	Name of the standing committee	Standing committee headed by	Roles and responsibilities of the standing committee
Urban Local Bodies (ULBs)	General Standing Committee	Mayor in Municipal Corporation and President in Municipal Council/ Nagar Panchayat	Performs functions relating to the establishment matters, communications, buildings, urban housing and provision of relief against natural calamities, water supply and all residuary matters.
	Finance, Audit and Planning Committee		Performs functions relating to the finances of municipality, framing of budget, scrutinizing prospects of increase of revenue, examination of receipts and expenditure statements, etc.
	Social Justice Committee	Deputy Mayor in Municipal Corporation and President in Municipal Council/ Nagar Panchayat	Performs functions relating to promotion of education and economic, social, cultural and other interests of SC&ST and backward classes, women and other weaker sections of the society.

### 3.3.2 Institutional arrangements for implementation of the schemes

In the Directorate of Urban Development, one project officer and two statistical assistants have been posted in the project section for overseeing implementation of various schemes by the ULBs. Against 3571 sanctioned posts, 655 posts (18.3 percent) were lying vacant in various categories in the ULBs and 240 employees were in excess in the MC Shimla (**Appendix-18**) as on 31 March, 2012. While advancing no justification regarding operation of excess posts, the commissioner, MC Shimla stated (November 2013) that MC provides basic facilities like water supply, construction of roads, drainage and paths etc. and also arranges cleanliness for the general public for which adequate number of workers are required. MC further stated that a number of drivers have been deployed for plying vehicles purchased under different schemes. The reply is not tenable as the number of posts against which excess staff deployed needs to be got sanctioned from the competent authority. The training plan of the department of Urban Development has been approved by the State Government on the basis of training calendar prescribed in the training manual. In addition, employees of ULBs are also deputed for training from time to time to various institutions/departments.

## 3.4 Financial profile

### 3.4.1. Fund flow to ULBs

For execution of various developmental works, the ULBs receive funds mainly from GOI and the State Government in the form of grants. GOI grants include grants assigned under the recommendations of the Central Finance Commission and grants for implementation of various schemes. The State Government grants are received through devolution of net proceeds of the total tax revenue on the recommendations of the State Finance Commission (SFC) and grants for implementation of state sponsored schemes. Besides, revenue is also mobilized by the ULBs in the form of taxes, rent, fees, issue of licenses, etc. The fund-wise source and its custody for each tier and the fund flow arrangements in flagship schemes are given in **Table 9 and 10** :

**Table 9 : Fund flow: Source and custody of funds in ULBs**

Nature of Fund	Municipal Corporation		Municipal Councils (MCs)		Nagar Panchayats (NPs)	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	Municipal Corporation	Bank	MCs	Bank	NPs	Bank
State Plan	State Government	Bank	State Government	Bank	State Government	Bank
State Finance Commission	State Government	Bank	State Government	Bank	State Government	Bank
Central Finance Commission	GOI	Bank	GOI	Bank	GOI	Bank
Centrally Sponsored Schemes	GOI	Bank	GOI	Bank	GOI	Bank

While Central and State grants are utilized by the ULBs for execution of Central and State sponsored schemes as per the guidelines issued by GOI and State Government,

the own receipts of ULBs are utilized for administrative expenses and execution of schemes/works formulated by the ULBs.

**Table 10 : Fund flow arrangements in major centrally sponsored flagship schemes**

Sr. No.	Scheme	Fund flow Arrangements
1.	Swaran Jayanti Shahari Rojgar Yojana (SJSRY)	Funding under SJSRY is shared between the Centre and the State in the ratio of 75:25. The Central share is released to the state government in the form of demand draft and state share is apportioned through State budget.
2.	Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	Grant-in-aid is to be shared by central and state government in the ratio of 80:10 and balance 10 percent to be arranged by the ULBs from own sources.
3.	Integrated Housing & Slum Development Programme (IHSDP)	Eighty percent of the cost of the scheme flows from the Centre in the form of grants in aid. The remaining 20 per cent is shared by the state government, ULBs, parastatal agencies. The ULBs raise their contribution from their own resources or from beneficiary contribution.
4.	Urban Infrastructure and Governance (UIG)	Funding under UIG is shared between the Centre, State and ULBs in the ratio of 80:10:10. Sanction of Central share is released by Government of India to State Government. Accordingly, Central share and State share under this scheme are released through state budget to the ULBs. The ULBs raise their contribution from financial institutions.
5.	Basic Service to the Urban Poor (BSUP)	Eighty percent of the cost of the scheme flows from the Centre in the form of grants in aid. The remaining 20 per cent is shared by the state government, ULBs, parastatal agencies. The ULBs raise their contribution from beneficiary contribution.

### 3.4.2 Resources: Trends and Composition

The resources of ULBs for the period from 2008-13 are detailed in **Table 11:**

**Table 11: Time series data on resources of ULBs**

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Own Revenue	46.98	50.87	NA	NA	NA
CFC transfers (Finance Commission devolutions)	1.60	1.60	7.77	24.30	30.97
SFC transfers (State Finance Commission devolutions)	41.76	41.77	46.12	51.88	57.07
Grants from State Government	22.39	20.45	31.30	33.72	74.11
GOI grants for CSS	13.25	52.57	19.50	25.83	3.90
State Government grants for State schemes	59.90	63.82	85.19	109.90	78.01
<b>Total</b>	<b>185.88</b>	<b>231.08</b>	<b>189.88</b>	<b>245.63</b>	<b>244.06</b>

NA: Not available.

Note: The figures for 'Own Revenue' in respect of ULBs are not being compiled at the Directorate level due to shortage of staff at the Directorate.

Source: Director, Urban Development.

### 3.4.3 Application of Resources: Trends and Composition

The application of resources of ULBs for the period from 2008-09 to 2012-13 are detailed in **Table 12** :

**Table 12 : Application of resources sector-wise**

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Expenditure from own revenue	NA	NA	NA	NA	NA
Expenditure from CFC transfers (Central Finance Commission devolutions)	1.60	1.60	7.77	24.30	30.97
Expenditure from SFC transfers (State Finance Commission devolutions)	41.76	41.77	46.12	51.88	57.07
Expenditure from grants from State Government and Centre Government	102.10	110.17	85.81	110.45	78.01
<b>Total</b>	<b>145.46</b>	<b>153.54</b>	<b>139.70</b>	<b>186.63</b>	<b>166.05</b>

NA: Not available.

Source: Director, Urban Development.

It was noticed that all funds transferred by the Directorate of Urban Development to ULBs have been shown as expenditure. The exact figure of expenditure incurred by the ULBs was not available with the Directorate of Urban Development.

### 3.5 Audit coverage

Test-check of the records of Municipal Corporation, Shimla, six Municipal Councils<sup>4</sup> and eight Nagar Panchayats<sup>5</sup> was conducted during 2012-13 (**Appendix-2**). Important audit findings have been incorporated in Chapter 4 of this Report.

### 3.6 Financial reporting and accounting framework of ULBs (internal control system)

A sound internal control system significantly contributes to efficient and effective governance of the ULBs by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. The reports on compliance and controls, if effective and operational, assist the ULBs and the State Government in meeting their basic stewardship responsibilities including strategic planning, decision making and accountability of the stakeholders. The following weaknesses/gaps were noticed in the internal control system:

#### 3.6.1 Non-certification of Accounts

Instructions have been issued by the Director, Urban Development Department to all the ULBs to maintain their accounts from April 2009 on an accrual basis. All 49 ULBs test checked in audit had maintained their accounts on accrual based system. The Himachal Pradesh Accounts Manual for ULBs has been prepared and adopted by the State Government (April 2007) on the basis of National Municipal Accounts Manual (NMAM). The ULBs were also directed (April 2009) to switch over to the

<sup>4</sup> Baddi, Mandi, Sundernagar, Manali, Nahan, Bilaspur.

<sup>5</sup> Bhota, Arki, Chopal, Gagret, Bhunter, Narkanda, Sunni, Sarkaghat.

double entry system. In the absence of specific provisions in the State's Acts/Rules, certification of accounts by an independent agency remained non-existent in the ULBs.

### **3.6.2 Budget estimates**

The budget estimates of ULBs are to be prepared as per Himachal Pradesh Municipal Code, 1975 in the prescribed form, keeping in view the budget estimates of expected income and expenditure for the next financial year and are placed before the House of the Committee for passing the same. After passing of the budget by the House of the Committee, it is submitted to the Director, Urban Development for approval. The year-wise position of budget provision and the expenditure by the test-checked Municipal Corporation, MCs and NPs during 2009-12 is given in **Table 13** :

**Table 13 : Budget estimates vis-à-vis expenditure**

(₹ in crore)				
Year	Budget Estimate	Actual Expenditure	Savings (-) Excess (+)	Percentage of saving/ excess
2009-10	173.07	75.41	(-)97.66	56
2010-11	196.47	77.68	(-)118.79	60
2011-12	118.63	75.11	(-)43.52	37

Note: Unit-wise position is given in **Appendix-19**

It is evident from the table 14 that preparation of budget estimates was not done in a realistic manner resulting in persistent savings ranging from 37 to 60 *percent* during the above period.

### **3.6.3 Internal audit of ULBs**

Under Section 161(3) of Himachal Pradesh Municipal Corporation Act and Section 255(1) of Himachal Pradesh Municipality Act, 1994, the accounts of the ULBs are to be audited by a separate and an independent agency. The State Government issued (October 2008) a notification, according to which the Director, Local Audit was required to prepare annual plan for the conduct of audit. As per audit plan for the year 2012-13, all 21 ULBs planned for audit have been audited upto 31<sup>st</sup> March 2013.

### **3.6.4 Pending audit observations**

The Commissioner, Executive Officer, Secretary of the Municipal Corporation, Municipal Council and Nagar Panchayat, respectively, are required to comply with the observations, contained in the Inspection Reports (IRs) issued by the Principal Accountant General (Audit), Himachal Pradesh, rectify the defects/omissions and report their compliance to settle the observations. The details of IRs and paragraphs issued, settled and outstanding as on 31<sup>st</sup> March 2013 are included in **Table 14** :

**Table 14 : Position of pending IRs/Paras.**

Sr. No.	Year of issue of Inspection Reports	Outstanding IRs/ Paras as on 31.03.2012		Addition		Total		No. of IRs/ paras settled during 2012-13		No. of outstanding IRs/Paras as on 31.03.2013.	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	Upto 2009-10	85	676	-	-	85	676	-	53	85	623
2.	2010-11	15	157	-	-	15	157	-	09	15	148
3.	2011-12	15	164	-	-	15	164	-	-	15	164
4.	2012-13	-	-	15	175	15	175	-	-	15	175
	<b>Total</b>	<b>115</b>	<b>997</b>	<b>15</b>	<b>175</b>	<b>13</b>	<b>1172</b>	<b>-</b>	<b>62</b>	<b>130</b>	<b>1110</b>

Increasing trend of inspection reports and outstanding paras is indicative of inadequate response to audit findings and observations, which resulted in erosion of accountability.