

## CHAPTER III

### AN OVERVIEW OF URBAN LOCAL BODIES

#### 3.1 Introduction

**3.1.1** The 74<sup>th</sup> Constitutional Amendment Act of 1992 envisioned creation of local self-governments for the urban area population. The amendment provided new opportunities for urban governance reforms in the country and aimed at providing a democratic structure of governance at the local level. The State of Karnataka ranks fourth in the degree of urbanisation among the major states in India and the urban population as per 2001 Census was 1.80 crore which was 34 *per cent* of the population of the State. The percentage of urban population in the districts of Karnataka varied between 14 *per cent* in Kodagu and 88 *per cent* in Bangalore (Urban).

**3.1.2** In Karnataka, there are eight City Corporations (CCs), 44 City Municipal Councils (CMCs), 94 Town Municipal Councils (TMCs), 68 Town Panchayats (TPs) and four Notified Area Committees (NACs). The CCs are governed by the Karnataka Municipal Corporations Act (KMC Act), 1976 and the other ULBs are governed by the Karnataka Municipalities Act (KM Act), 1964 which specify the obligatory, special and discretionary functions to be discharged by these ULBs.

#### 3.2 Finances of ULBs

**3.2.1** The receipts of ULBs are broadly classified as (a) Tax and Non-Tax Revenue (NTR) and (b) Grants and Loans. The State laws empower the ULBs, being local self-governments, to impose taxes and collect fees for various services rendered by them, but the powers pertaining to the rates and revision thereof, procedure of collection, ceilings, method of assessment, exemptions and concessions *etc.*, are vested with the State Government.

##### 3.2.2 Revenues

Property tax is the most important source of tax revenues for ULBs, an average of 53 *per cent* of own revenues. In the ULBs (except BBMP), against the demand of ₹355.35 crore for the year 2010-11, a sum of ₹290.03 crore (82 *per cent*) was collected during the year 2010-11. As per the progress report of Geographic Information System (GIS) survey in BBMP, Demand, Collection and Balance (DCB) in respect of 9.47 lakh (64 *per cent*), out of total 14.70 lakh properties, is yet to be generated (November 2011).

Rental income, fee & user charges, sale & hire charges, *etc.*, constitute part of NTR. Apart from the rent and water charges, these are usually not related to a fixed and regular demand. The NTR receipts in 11<sup>49</sup> CMCs and two<sup>50</sup> CCs showed a decline during 2009-10 when compared to the previous year due to the failure in collection of dues outstanding, non-revision of lease agreements,

<sup>49</sup> CMCs – Bhadravathi, Bidar, Chikkaballapur, Gadag-Betageri, Kolar, Mandya, Ranebennur, Shimoga, Sirsi, Udupi and Yadgir

<sup>50</sup> CCs - Davanagere and Mangalore

short collection of licence fee, etc. There were arrears (March 2010) of ₹28.69 crore in collection of major components of NTR in these ULBs.

### 3.2.3 Financial position of CCs

The receipts and payments of all the CCs including BBMP during the years 2009-10 and 2010-11 are detailed in **Table 3.1** below:

**Table 3.1: Receipts and payments of CCs**

(₹ in crore)

CCs	2009-10		2010-11 (Provisional)					Percentage of increase(+)/decrease(-) compared to 2009-10	
	Receipts	Payments	Opening balance	Receipts	Total availability of funds	Payments	Closing balance	Receipts	Payments
BBMP	3,588.62	3,582.02	424.72	3,517.29	3,942.01	3,856.76	85.25	(-) <b>2</b>	(+) <b>8</b>
Belgaum	128.66	125.01	15.84	180.06	195.90	179.56	16.34	(+) <b>40</b>	(+) <b>44</b>
Bellary	131.05	131.87	27.95	104.19	132.14	113.48	18.66	(-) <b>20</b>	(-) <b>14</b>
Davanagere	177.70	168.83	32.85	205.14	237.99	229.17	8.82	(+) <b>15</b>	(+) <b>36</b>
Gulbarga	103.35	98.78	41.32	106.75	148.07	102.64	45.43	(+) <b>3</b>	(+) <b>4</b>
Hubli-Dharwad	213.35	212.45	25.58	208.03	233.61	220.84	12.77	(-) <b>2</b>	(+) <b>4</b>
Mangalore	286.62	282.51	32.19	211.24	243.43	192.94	50.49	(-) <b>26</b>	(-) <b>32</b>
Mysore	179.24	168.91	23.00	214.47	237.47	229.74	7.73	(+) <b>20</b>	(+) <b>36</b>
<b>Total</b>	<b>4,808.59</b>	<b>4,770.38</b>	<b>623.45</b>	<b>4,747.17</b>	<b>5,370.62</b>	<b>5,125.13</b>	<b>245.49</b>		

Source-Budget estimates of CCs for the year 2011-12

It could be observed that overall receipts in CCs decreased by ₹61.42 crore, whereas there was increase of ₹354.75 crore in expenditure during the year 2010-11 as compared to the previous year. In four<sup>51</sup> CCs, there was reduction in receipts ranging from 2 to 26 *per cent*, while the receipts in other four CCs increased from 3 to 40 *per cent*. Similarly, the expenditure in Bellary and Mangalore CCs decreased by ₹18.39 crore (14 *per cent*) and ₹89.57 crore (32 *per cent*) respectively and increased from 4 to 44 *per cent* in other six CCs. The complete information on financial transactions of all the ULBs up to 2010-11 was called for (September 2011) from DMA. However, information has not been furnished (May 2012).

## 3.3 Finance Commissions

### 3.3.1 State Finance Commission

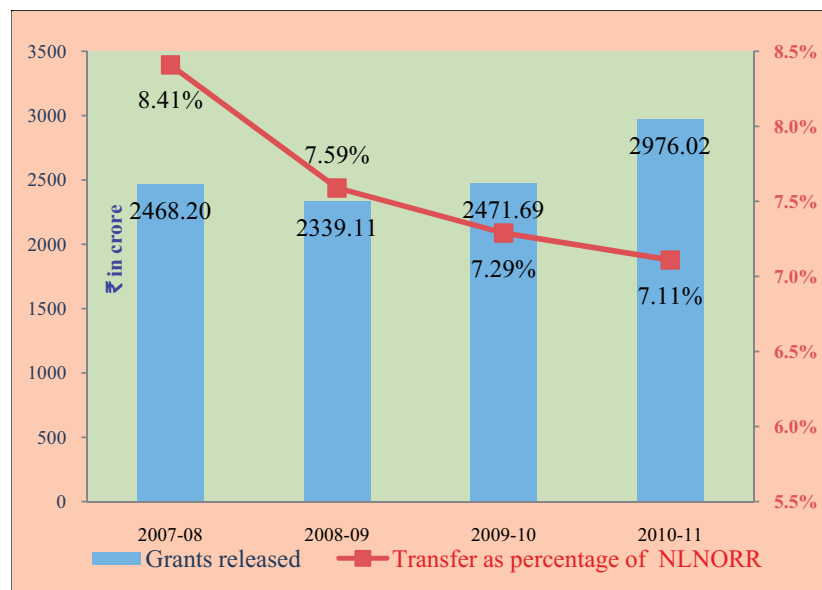
The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional amendments mandated the constitution of State Finance Commission (SFC) every five years to determine the sharing of revenue between the State Government and local bodies. So far, three SFCs have been constituted and recommendations of the first and second finance commissions have been implemented.

On the basis of the second SFC's recommendations in January 2003, the State Government had decided (June 2006) to increase devolution of funds to ULBs from six to eight *per cent* of Non-Loan Net Own Revenue Receipts (NLNORR) of the State during the period 2005-10.

<sup>51</sup> BBMP, Bellary, Hubli-Dharwad and Mangalore

The details of release of grants to ULBs during the years 2007-11 are shown in **Chart 3.1** below:

**Chart 3.1: Release of grants as percentage of NLNORR**



Source: State finance accounts

It could be observed from the above that devolution to ULBs which was 8.41 per cent of NLNORR during 2007-08 had decreased to 7.11 per cent during 2010-11.

The third SFC had recommended (December 2008) the devolutions to the ULBs at 10 per cent of State's Net Own Revenue Receipts, to be implemented from 2010-11 onwards. However, the State Government decided only in October 2011 to allocate 8.50 per cent of NLNORR during 2011-12 and increase it by 0.5 per cent every year. It was also decided by the State Government that since the entry tax was largely collected in the urban areas, the entire entry tax proceeds would be assigned to the ULBs.

### 3.3.2 Thirteenth Finance Commission

The Thirteenth Finance Commission (TFC) was constituted to recommend the measures needed to augment the consolidated funds of the States to supplement the resources of the Panchayat Raj Institutions (PRIs) and ULBs. The Commission recommended grants-in-aid to the local bodies as a percentage of the previous year's divisible pool of taxes, over and above the share of the States. The amounts allocated to the ULBs in the State for the period 2010-11 was ₹185.48 crore which was released in two instalments.

## 3.4 Accountability framework

### 3.4.1 Internal control and monitoring mechanism

Internal controls help to provide reasonable assurance of adherence to laws, rules and regulations as well as safeguards against fraud and mismanagement. These also ensure reliable financial and management information to higher authorities. However, there was no Internal Audit Wing (IAW) in DMA for

conducting periodical internal audit of ULBs every year. The Commissioner, DMA replied (December 2011) that steps are being taken to get sanction of the State Government for creation of IAW.

### **3.4.2 Audit mandate**

**3.4.2.1** The Controller, State Accounts Department (SAD) is the statutory auditor of ULBs in terms of KMC and KM Acts. The Commissioner/Chief Officer is responsible for rectification of any defects or irregularities pointed out in the report of the SAD. The DMA has the power to penalise for illegal payment or loss caused by gross negligence or misconduct based on the recommendations of the Controller, SAD.

### **3.4.2.2 Audit under Technical Guidance and Support (TGS) module**

The State Government entrusted (May 2010) the audit of accounts of all ULBs (except NACs) to the Comptroller and Auditor General of India (CAG) under Section 14(2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 from 2008-09 to 2010-11. Subsequently, audit of all ULBs was entrusted (October 2011) to the CAG based on TGS module from the year 2011-12.

### **3.4.2.3 Response to Audit observations**

The Commissioners/Chief Officers are required to comply with the observations contained in the Inspection Reports (IRs) and rectify the defects and omissions and report their compliance to Audit within three months from the date of issue of IRs. It was observed that though the State Government was intimated of the position through regular correspondence, the Secretary, UDD and the DMA failed to effectively ensure prompt and timely action by the concerned officers of the ULBs. As a result, 276 Inspection Report paragraphs were outstanding as at the end of October 2011 where money value objections involving ₹31.17 lakh were more than six months old.