

CHAPTER 1

AN OVERVIEW OF ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

1.1 Introduction

The Seventy Fourth Constitutional Amendment Act (1992) paved the way for decentralisation of powers and transfer & devolution of more functions and funds to Urban Local Bodies (ULBs). Consequently, more diversified responsibilities were devolved through a three tier structure namely, *Nagar Nigams*¹ (NN), *Nagar Palika Parishad*² (NPP) and *Nagar Panchayats*³ (NP). To incorporate the provisions of the Seventy Fourth Constitutional Amendment, the legislature of Uttar Pradesh enacted the Uttar Pradesh Urban Local Self Government Law (Amendment) Act, 1994.

The Government implemented the system of democratic governance down to grass root level in ULBs through the Uttar Pradesh *Nagar Palika* Act, 1916 and Uttar Pradesh Municipal Corporation Act, 1959. The objective was to make ULBs self-reliant and to provide better civic facilities to the people of the areas under their jurisdictions.

1.2 State Profile

Uttar Pradesh is the most populated and the fifth largest state in the country spread over an area of 2.40 lakh Km² (approximately). There were 630 Urban Local Bodies (ULBs) in the State, governed by elected boards of their members with normally five years' tenure. The last election to these ULBs was held in 2012. The profile of ULBs is given in **Table 1**.

Table 1: Significant statistics

Sl. No.	Indicator	Unit	State Value	National Value	Rank amongst all states
1	Population	In crore	19.98	121.07	1 st
2	Population density	Per km ²	829	382	2 nd
3	Urban population (<i>per cent</i>)	<i>Per cent</i>	22.27	31.16	-
4	Number of ULBs.	Number	630	3842	2 nd
5	<i>Nagar Nigam</i>	Number	13	139	4 th
6	<i>Nagar Palika Parishad</i>	Number	194	1595	1 st
7	<i>Nagar Panchayats</i>	Number	423	2108	1 st
8	Gender Ratio	Females per 1000 Males	894	926	23 rd
9	Literacy (Urban)	<i>Per cent</i>	75.14	84.98	23 rd

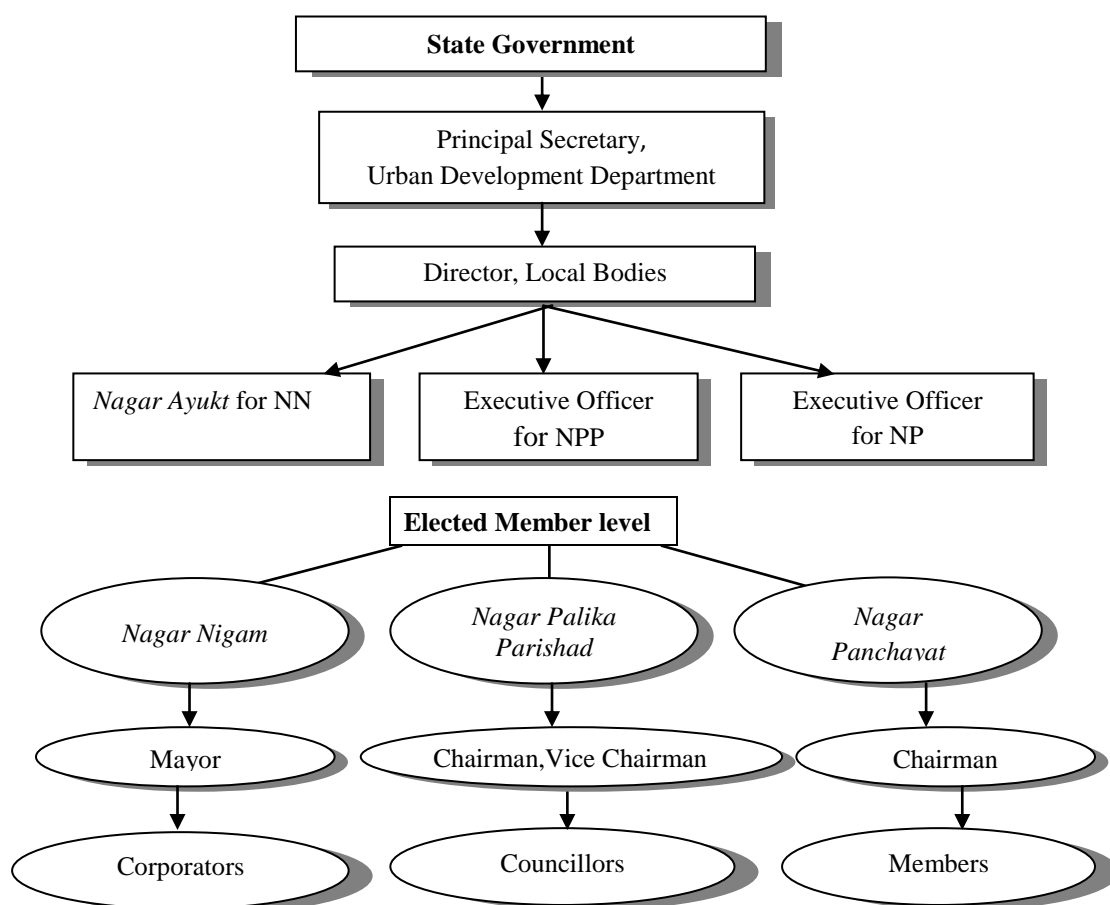
(Source: Census Report 2011 & Thirteen Finance Commission Report)

¹Represents ULBs, having the population of more than five lakh.

²Represents ULBs, having the population between 20 thousand and five lakh.

³Represents ULBs having the population below 20 thousand.

1.3 Organisational Structure of Urban Local Bodies



While Mayor heads the *Nagar Nigam*, Chairman heads *Nagar Palika Parishad* and *Nagar Panchayat*. The elected representatives exercise their powers and discharge duties through the committees of elected members. *Nagar Ayukt* in case of *Nagar Nigam* and Executive Officer in case of *Nagar Palika Parishad* and *Nagar Panchayat* are the administrative heads.

1.3.1 Standing Committees in ULBs

As per the provisions of Sections 88 to 105 of Uttar Pradesh *Nagar Nigam* Act, 1959 and Sections 104 to 112 of Uttar Pradesh *Nagar Palika* Act, 1916, a number of standing committees were required to be formed to carry out the business of ULBs. No specific information relating to committees formed and working in ULBs has been furnished by the Director, Local Bodies.

1.4 Maintenance of Accounts

Adoption of account formats prescribed by the Comptroller and Auditor General (CAG) of India

The CAG of India on the recommendation of the Eleventh Finance Commission prescribed the Budget and Accounting formats for accrual basis accounts for ULBs. The Ministry of Urban Development circulated (June

2003) it to the State Governments for their acceptance. The State Government issued an order in June 2008 for the implementation of the same in ULBs from the financial year 2009-10 onwards. As of August 2013, out of 630 ULBs, 611 were in advanced stages of operationalising accrual based Double Entry Accounting System (DEAS). Only 436 ULBs had finalised their Operating Balance Sheet (OBS) as on 1 April 2009 and Balance Sheet upto the Financial Year 2011-12. The remaining 194 ULBs did not finalise their OBS. Amendment in the existing Rules was also not made by the Government.

1.5 Audit Arrangement

1.5.1 Primary Auditor

Director, Local Fund Audit is the primary auditor of ULBs in terms of the Uttar Pradesh Local Fund Audit Act, 1984. The accounts of such bodies ranging from 11 to 18 *per cent* remained unaudited by the Director, Local Fund Audit, Allahabad and were in arrears at the close of the years 2009-13. The year-wise position of audit is given in **Table 2**.

Table 2: Year-wise position of audit of units

Sl. No.	Year	Number of units		Units in arrear	
		To be audited	Audited	In number	In per cent
1	2009-10	623	556	67	11
2	2010-11	624	542	82	13
3	2011-12	625	529	96	15
4	2012-13	624	510	114	18

(Source: Director, Local Fund Audit)

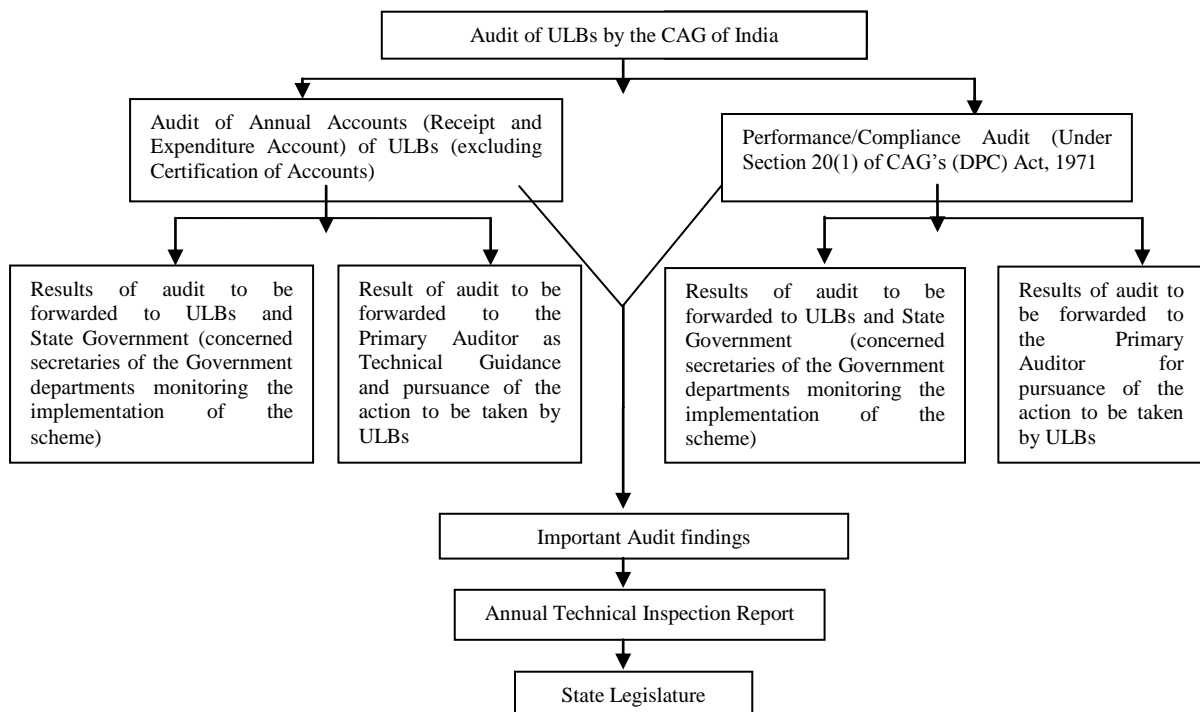
Director, Local Fund Audit, in terms of Section 8(3) of Uttar Pradesh Local Fund Audit Act, 1984, was required to prepare a consolidated audit report on the accounts of ULBs and submit it to the Government for placing it before the Legislative Assembly. Such reports were placed only upto 2008-09.

1.5.2 Audit mandate of the CAG of India

- I. Audit of Annual Accounts (Receipt and Expenditure Accounts) of ULBs is conducted by the CAG of India under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (CAG's (DPC)) Act, 1971. The result of audit is reported to ULBs, Director, Local Fund Audit (DLFA) and the State Government (to the concerned secretaries of the Government departments).
- II. Technical Guidance and Support (TGS) to the audit to ULBs (to Local Fund Auditors/Director, Local Fund Audit (DLFA) is given by the CAG of India under Section 20(1) of CAG's (DPC) Act, 1971.
- III. The parameters of TGS include test-check of accounts of ULBs, review of the auditing system and the internal control system of the Local Fund Auditor.

- IV. As a part of the TGS arrangements, the reports of the test-check of ULBs were sent by the Accountant General⁴ to the Director, Local Fund Audit for ensuring compliance of audit paras. No paras were settled reportedly due to shortage of manpower.
- V. The result of audit i.e. Technical Inspection Reports of ULBs are sent to ULBs, to the secretaries of the Government departments and the Director Local Fund Audit for pursuance of actions to be taken by ULBs.
- VI. Annual Technical Inspection Report (audit of ULBs conducted during preceding year) (ATIR) is sent by the Accountant General (Audit) to the State Government (to the concerned secretaries of the Government departments) by the end of June every year for the necessary remedial action.

Chart showing the procedure of audit of ULBs is depicted below:



The Eleventh Finance Commission recommended TGS arrangements for proper maintenance of accounts of ULBs and their audit by the CAG of India under Section 20(1) of the CAG's (DPC) Act, 1971. As per recommendations of the Thirteenth Finance Commission, the CAG is to be entrusted with TGS for all Local Bodies for all states, which will be a necessary consequence of the standardisation of accounting formats for all local bodies across State and to provide a credible assurance from the audit of accounts. The Government entrusted the audit of local bodies to the CAG of India in October 2001 and reiterated in March 2011. The required amendments in the rules regarding audit and maintenance of accounts have not been made by the Government. Categories of ULB units planned and audited during 2011-13 are depicted in **Table 3**.

⁴ Redesignated as Principal Accountant General (General & Social Sector Audit) with effect from April 2012.

Table 3: Audit of ULBs

Category of ULB	2011-12		2012-13	
	Unit Planned	Audited	Unit Planned	Audited
<i>Nagar Nigam</i>	4	3	8	6
<i>Nagar Palika Parishad</i>	16	16	29	31
<i>Nagar Panchayat</i>	25	24	60	49

(Source: Audit plan of the O/o PAG (G&SSA) UP)

Three hundred ninety five audit paragraphs (value: ₹ 447 crore) relating to the year 2011-12 and 485 audit paragraphs (value: ₹ 3,787.45 crore) related to the year 2012-13 were communicated to the heads of offices of the ULBs and the Director, Local Fund Audit, out of which three paragraphs (value: ₹ 5.26 lakh) were settled after obtaining replies from the department (August 2013).

1.6 Human resource arrangement

Position of Human resource arrangement for implementation of schemes and manpower sanctioned in ULBs *vis-a-vis* men in position is given in **Table 4**.

Table 4 :Human recourse arrangement

Number of Employees (As on 31-03-2012)						
Category of ULB		<i>Nagar Nigam</i>	<i>Nagar Palika Parishad</i>	<i>Nagar Panchayat</i>	Total	
Centralised	Sanctioned	1,457	1,124	359	2,940	
	Working	834	636	264	1,734	
Non Centralised	Sanctioned	16,997	12,368	3,272	32,637	
	Working	Regular	11,184	11,122	3,073	25,379
		Non-regular	1,168	1,845	2,251	5,264
Total		12,352	12,967	5,324	30,643	
<i>Safai Karmchhari</i>	Sanctioned	25,703	19,532	4,730	49,965	
	Working	Regular	20,039	15,989	4,216	40,244
		Non-regular	13,171	14,691	9,146	37,008
Total		33,210	30,680	13,362	77,252	
Total Employees	Sanctioned	58,496	49,560	19,758	1,27,814	
	Working	46,396	44,283	18,950	1,09,629	
Shortage /percentage		12,100 (20.69)	5277 (10.65)	808 (4.09)	18,185 (14.23)	

(Source: Director, Urban Local Bodies, Lucknow)

In Centralised category, 1,734 employees were working against the sanctioned strength of 2,940 with a shortage of 41 *per cent*. In Non-centralised category, 30,643 employees were working against the sanctioned strength of 32,637, a shortage of 6.11 *per cent*. In the category of *Safai Karmchhari* 77,252 employees were working against the sanctioned strength of 49,965 showing excess of 54.61 *per cent*.

1.6.1 Training of the officials for improving the skill/capacity

One lakh nine thousand six hundred twenty nine officers and employee were working (March 2013) in 630 ULBs. There were 630 mayors/chairmen and 11,290 elected corporators/members who are on the boards of ULBs. UP

lacked required infrastructure and institutional set-up for urban management and human resource development. To work in the spirit of Seventy-fourth Constitutional Amendment for empowerment of hub of urban development, there is an urgent need to design training module which is specific to the nature of duties and responsibilities of municipal functionaries. Director, Local Bodies proposed (August 2013) to establish an academy to improve the skill of the employees.

1.7 Transfer of functions to Urban Local Bodies

Article 234-W of the Constitution refers to the powers, authority and responsibilities that the legislature of a State may, by law, devolve upon the municipal bodies to enable them to function as institutions of self-government. As a follow up to the Seventy-fourth Constitutional Amendment Act, 1992, the State Legislature enacted laws in March 1996 for devolving 18 functions⁵ (enshrined in Twelfth Schedule of the Constitution), on ULBs.

A look at the list of functions makes it clear that the role of ULBs will not remain confined to the traditional functions relating to civic amenities. The Constitution envisages an active role of these bodies in poverty alleviation and planning for economic and social development of the urban areas as well. It is for the States to devolve specific powers and responsibilities to ULBs.

Some of the functions of ULBs listed in the Seventy-fourth Amendment, which have been incorporated in Sections 114 and 7 of the U.P. Municipal Corporation Act, 1959 and the U.P. Municipal Act, 1916 respectively, functions were being performed by Development Authorities, Regional *Jal Sansthans*, Regulated Area Authorities and concerned Government departments. Through G.O. No.461/IX-9-1996 dated 7 March, 1996 of the Urban Development Department, the State Government specified the functions that would be performed by different agencies.

According to the above mentioned G.O. following eight functions would be performed exclusively by ULBs:

1. Water supply for domestic, industrial and commercial purposes.
2. Public health, sanitation, conservancy and solid waste management.
3. Provision of Urban amenities and facilities, such as parks, gardens and play grounds.
4. Burials and burial grounds, cremation and cremation grounds.

⁵ (i) Urban planning including town planning, (ii) Regulation of land use and construction of buildings, (iii) Planning for economic and social development, (iv) Roads and bridges, (v) Water supply for domestic, industrial and commercial purposes, (vi) Public health, sanitation, conservancy and solid waste management, (vii) Fire services, (viii) Urban forestry, protection of the environment and promotion of ecological aspects, (ix) Safeguarding the interests of weaker sections of society including the handicapped and mentally retarded, (x) Slum improvement and up gradation, (xi) Urban poverty alleviation, (xii) Provision for urban amenities and facilities such as parks, gardens, play grounds, (xiii) Promotion of cultural, educational and aesthetic aspects, (xiv) Burials and burial grounds, cremations, cremation grounds and electric crematorium, (xv) Cattle ponds, prevention of cruelty to animals, (xvi) Vital statistics including registration of births and deaths, (xvii) Public amenities including street lighting, parking lots, bus stops and public conveniences, (xviii) and Regulation of slaughter houses and tanneries.

5. Cattle ponds, prevention of cruelty to animals.
6. Vital statistics including registration of births and deaths.
7. Public amenities including street lighting, parking lots, bus stops etc.
8. Regulation of slaughter houses and tanneries.

Following functions would continue to be performed by Government departments/agencies as mentioned below:

Sl. No.	Services	Department
1	Fire services	Fire Fighting Department
2	Urban forestry	Forest Department
3	Protection of environment and promotion of ecological aspects	Environment Department
4	Safeguarding the interest of weaker sections of society including handicapped and mentally retarded people	Urban Poverty Alleviation and Employment Department through SUDA and DUDA
5	Slum improvement and upgradation	Urban Poverty Alleviation and Employment Department through SUDA and DUDA

The responsibility for discharging the following functions has been shared between ULBs and other Government agencies by Government of Uttar Pradesh.

Sl. No.	Services	Department/ Government Agencies		
1	Urban planning including town planning.	Urban Development Authorities in 27 cities and by ULBs in remaining towns.		
2	Regulation of land use and construction of buildings.	Development Authorities in 27 cities, Regulated area Authorities in 74 towns and ULBs in remaining towns.		
3	Promotion of cultural, educational and aesthetic aspects.	(i)	Cultural Activities	Culture Department and ULBs.
		(ii)	Education	Education Department except middle level schools in Corporations.
		(iii)	Aesthetic aspect	Government Departments and ULBs.
4	Planning for economic and social development.	Development Authorities, <i>Vikas Parishads</i> , ULBs, SUDA, <i>UP Jal Nigam</i> , <i>UP Jal Sansthan</i> s and other departments.		
5	Roads and bridges	Development Authorities & ULBs.		

(Source: Director, Urban Local Bodies Lucknow)

As per Thirteenth Central Finance Commission's recommendation (Para 10.168), development authorities are to be dissolved and their functions taken over by the local bodies in whose jurisdiction they operate. As pointed out in Para 10.132, one of the reform measures mandated under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is "assigning or associating elected ULBs with city planning functions and transferring all

special delivery civic services in urban areas to ULBs over a period of seven years". In the interim, it was recommended that these bodies should share a percentage of their income (including income from land sales) with local bodies.

The Constitution envisages an active role of these bodies in poverty alleviation and planning for economic and social development of the urban areas as well. Partial devolution of the funds, functions and functionaries restricted the activities of ULBs.

1.8 Working of District Planning Committees

Article 243 ZD of the Constitution of India (Constitution) inserted vide Seventy-fourth Constitutional Amendment Act in 1993 states that "There shall be constituted in every State at the district level a District Planning Committee (DPC) to consolidate the plans prepared by the *Panchayats* and the Municipalities in the district and to prepare a draft development plan for the district as a whole." In pursuance with the above amendment, the Government of Uttar Pradesh enacted the Uttar Pradesh DPC Act, 1999 (Act) through Act no. 32 of 1999 in July 1999.

1.8.1 Role of District Planning Committee

The Act provided that there shall be constituted a DPC in each district to prepare District Development Plan (DDP) for a whole of the district integrating the plans prepared by ULBs and allocate funds to sectors and sub-sectors within outlines of the DDP.

1.9 Vigilance Provisions

Prevention of Corruption Act, 1988, GoUP's Servants Conduct Rule, 1956, *Lok Ayukta* Act, strategic framework to combat corruption (2001) and paragraph 206 of UP Eleventh Plan document provide the framework for preventive vigilance and anti-corruption strategy. The institutional mechanism to fulfill the mandate includes *Lok Ayukta*, Vigilance set up under Director General level police officer with administrative control of Secretary Vigilance department, Economic Offences Wing and Anti-Corruption Branch in Police Department, Special task force for Serious Economic Offence under Secretary, Home Department. The vigilance mechanism adopted by GoUP in the light of Prevention of Corruption Act, 1988 is inadequate as *Lok Ayukta's* recommendations are not binding on GoUP.

1.10 Financial Profile

1.10.1 Fund flow to Urban Local Bodies

The resource base of ULBs consists of Own receipts, State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Central Government grants for maintenance and

development purposes. The fund-wise sources and its custody for each level are given in **Tables 5 (A) & 5 (B)**.

Table 5 (A): Fund flow to ULBs

Nature of Fund	Nagar Nigams		Nagar Palika Parishads		Nagar Panchayats	
	Source of the fund	Custody of the fund	Source of the fund	Custody of the fund	Source of the fund	Custody of the fund
Own Receipts	ULB	Fund collected by ULB themselves and deposited in bank by the Accounts Department of ULB.	ULB	Fund collected by ULB themselves and deposited in bank by the Accounts Department of ULB	ULB	Fund collected by ULB themselves and deposited in bank by the Accounts Department of ULB
State Plan	State Government	Accounts Department of ULB through treasury	State Government	Accounts Department of ULB through treasury	State Government	Accounts Department of ULB through treasury
State Finance Commission	State Government	Accounts Department of ULB through treasury	State Government	Accounts Department of ULB through treasury	State Government	Accounts Department of ULB through treasury
Central Finance Commission	Central Government	Accounts Department of ULB through bank which is electronically transferred by the State Government.	Central Government	Accounts Department of ULB through bank which is electronically transferred by the State Government.	Central Government	Accounts department of ULB through bank which is electronically transferred by the State Government.
Centrally Sponsored Schemes	Central Government +State Government +ULB	Accounts Department of ULB through bank which is electronically transferred by the State Government	Central Government +State Government +ULB	Accounts Department of ULB through bank which is electronically transferred by the State Government	Central Government +State Government +ULB	Accounts Department of ULB through bank which is electronically transferred by the State Government

(Source: Director, Urban Local Bodies, Lucknow)

Table 5 (B): Fund flow arrangement in major Centrally Sponsored Flagship Schemes

Name of Scheme	Fund flow arrangement
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	Fund under JNNURM as per guidelines issued by MOUD, GOI from all sources (Central+State+ULB) as according to their respective percentage share flow to the State Level Nodal Agency (SLNA) Account and from this they are released to the project account maintained by concerned ULB for which project is sanctioned.

(Source: Director, Urban Local Bodies, Lucknow)

1.10.2 Flow of revenue

With constitution of the Eleventh Finance Commission, ULBs were brought within purview of the Finance Commissions for the first time. The objective was to augment Consolidated Fund to enable the State to supplement resources of ULBs. Accordingly, the Twelfth Finance Commission recommended release of grants to the State Government for them. State

Government is to release grants to ULBs as recommended by its own State Finance Commissions. In all, the sources of revenues for ULBs comprised:

- Grants assigned under Twelfth Central Finance Commission and Thirteenth Central Finance Commission.
- Devolution of seven *per cent* of net proceeds of total Tax Revenue of the State Government under recommendations of the Third State Finance Commission.
- Funds from departments for functions transferred to ULBs.
- Revenue earned by ULBs out of their own resources such as taxes, rent, fees, taxi stands etc.

The position of receipt and expenditure of ULBs during 2008-13 is given below in **Tables 6, 7 and 8.**

Table 6: Time series data on resources of ULBs

(₹ in crore)						
Sl. No.	Heads	2008-09	2009-10	2010-11	2011-12	2012-13
1	Own revenue	804.12	783.79	936.40	1,089.19	1,307.02*
2	CFC transfers (Finance Commission devolution)	103.40	103.40	274.92	517.51	756.49
3	SFC transfers (State Finance Commission devolution)	2,149.47	2,090.28	2,559.52	3,084.89	3,697.56
4	GoI grants for CSS	1,106.66	770.52	866.50	1,512.43	1,279.38
5	State Government Grants for State schemes	65.24	100.04	96.49	26.85	75.97
6	Other receipt	202.92	200.17	171.22	269.48	296.41
Total		4,431.81	4,048.20	4,905.05	6,500.35	7,412.83

(Source: Director, Urban Local Bodies, Lucknow)

*(Provisional)

Table 7: Application of sector-wise resources

(₹ in crore)						
Sl. No.	Heads	2008-09	2009-10	2010-11	2011-12	2012-13
1	Expenditure from own revenue	804.12	783.79	936.40	1,089.19	1,307.02*
2	Expenditure from CFC transfers (Finance Commission devolution)	103.40	103.40	274.92	517.51	756.49
3	Expenditure from SFC transfers (State Finance Commission devolution) and other receipt two <i>per cent</i> additional stamp duty	2,352.39	2,290.45	2,730.74	3,354.37	3,993.97
4	GoI grants for CSS	1,106.66	770.52	866.50	1,512.43	1,279.38
5	State Government Grants for State schemes <i>Adarsh Nagar Yojana.</i>	65.24	100.04	96.49	26.85	75.97
Total		4,431.81	4,048.20	4,905.05	6,500.35	7,412.83

(Source: Director, Urban Local Bodies, Lucknow)

*(Provisional)

It is evident from the above tables that all the receipts are shown as application of the resources.

Table 8: Receipt and expenditure of ULBs

(₹ in crore)

Sl. No.	Year	Expenditure		Source of revenue							Receipt	Expenditure
		Revenue	Capital	Own Revenue				Transfers from 12 th CFC/ 13 th CFC	Assigned+ Devolution (SFC)	JNNUR M+ Adarsh Nagar Yojna		
				Tax Revenue		Non Tax (Inclusive of User Charges)	Total Own Receipts					
				Immovable Property Tax	Other Taxes							
1	2008-09	2,237.50	1,956.68	394.47	29.01	380.64	804.12	103.40	2,352.39	1,171.90	4,431.81	4,194.18
2	2009-10	3,162.04	1,732.23	455.04	57.68	271.07	783.79	103.40	2,290.45	870.56	4,048.20	4,894.27
3	2010-11	3,359.90	1,893.87	507.39	78.67	350.34	936.40	274.92	2,730.74	962.98	4,905.04	5,253.77
4	2011-12	4,207.63	2,457.61	647.16	68.88	373.15	1,089.19	517.51	3,354.37	1,539.28	6,500.35	6,665.24
5	2012-13*	5,049.15	2,959.13	776.60	82.66	447.78	1,307.02	756.49	3,993.98	1,355.34	7,412.83	7,998.28

(Source: Director, Urban Local Bodies, Lucknow)

*(Estimated + Actual)

1.10.3 Allocation of budget and releases to ULB

The position of budget allocation *vis-a-vis* funds released to ULBs is given in **Table 9**.

Table 9: Allocation of SFC funds from State Budget

(₹ in crore)

Sl. No.	Financial Year	General		Revised		Total		Less(-)/ More (+)
		Budget Provision	Released to ULBs	Budget Provision	Released to ULBs	Budget Provision	Released to ULBs	
1	2008-09	2035.50	1995.77	153.69	153.69	2189.19	2149.46	(-)39.73
2	2009-10	2120.59	2065.13	25.15	25.15	2145.74	2090.28	(-)55.46
3	2010-11	2565.68	2514.37	45.15	45.15	2610.83	2559.52	(-)51.31
4	2011-12	2790.00	2758.76	326.13	326.13	3116.13	3084.89	(-)31.24
5	2012-13	3373.65	3303.91	393.66	393.66	3767.31	3697.57	(-)69.74

(Source: Director, Urban Local Bodies, Lucknow)

The variation in SFC fund devolved to ULBs with reference to general budget provision arises due to the incentive fund of two *per cent* and slum fund one *per cent* which is to be released to only those who become eligible by augmenting own resources and the slum population is above 15 *per cent*.

Table 10: Allocations of Central Finance Commission funds

(₹ in crore)

Sl. No.	Financial Year	General Basic Grant		General Performance Grant		Total		Less (-)/ More (+)
		Sanctioned	Released	Sanctioned	Released	Sanctioned	Released	
1	2008-09	103.40	103.40	-	-	103.40	103.40	-
2	2009-10	103.40	103.40	-	-	103.40	103.40	-
3	2010-11	274.92	274.92	-	-	274.92	274.92	-
4	2011-12	318.83	344.60	109.02	172.91	427.85	517.51	(+) 89.66
5	2012-13	372.61	391.47	255.72	365.01	628.33	756.48	(+)128.15

(Source: Director, Urban Local Bodies, Lucknow)

The fund released to ULBs is higher as the State had fulfilled the nine conditions of the Thirteenth CFC for additional grants. In addition to that the fund of non-performing States is also distributed among the performing States.

1.10.4 Expenditure under major CSS

The major Centrally Sponsored Scheme (JNNURM) was being implemented in ULBs. The Government of India initiated JNNURM in December, 2005 with the objective of encouraging of reforms and fast-tracking development of major cities. Expenditure through ULBs in this scheme is given in **Table 11**.

Table 11: Expenditure under major CSS (JNNURM)

(₹ in crore)

Sl. No.	Year	Expenditure	Amount	Total
1	2008-09	TE	1,106.66	1,106.66
		EU	1,106.66	1,106.66
2	2009-10	TE	770.52	770.52
		EU	770.52	770.52
3	2010-11	TE	866.5	866.5
		EU	866.5	866.5
4	2011-12	TE	1,512.43	1,512.43
		EU	1,512.43	1,512.43
5	2012-13	TE	1,279.38	1,279.38
		EU	1,279.38	1,279.38

(Source: Director, Urban Local Bodies, Lucknow)

(TE = Total Expenditure EU = Expenditure through ULB)

The data regarding expenditure of grants was not reliable as the grants made available to ULBs were treated as final expenditure in the records of the Director, Urban Local Bodies, Lucknow and no system was in place to ascertain the actual expenditure.

1.10.5 Revenue realised from own resources

ULBs are required to generate revenues by collecting taxes, rent, fees etc. from the people of the area under their jurisdiction. Position of target fixed by the Government for revenue realisation and achieved there against during 2011-13 is given in **Table 12**.

Table 12: Revenue realised from own resources

(₹ in crore)

Name of ULB	No.	2011-12			2012-13		
		Target	Achievement	Percentage of shortfall	Target	Achievement	Percentage of shortfall
<i>Nagar Nigam</i>	13	972.00	833.20	14	1117.80	999.84	11
<i>Nagar Palika Parishad</i>	194	311.87	198.87	36	358.65	238.64	33
<i>Nagar Panchayat</i>	423	79.87	57.12	28	91.85	68.54	25
Total	630	1,363.74	1,089.19		1,568.30	1,307.02	

(Source: Director, Urban Local Bodies, Lucknow)

1.10.6 Devolution of State Finance Commission grant

Second SFC recommended that 7.5 per cent of net proceeds of the Tax Revenue of the State Government should be devolved to ULBs and the Third SFC reduced it to seven per cent. The devolution of funds during 2008-13 is given in **Table 13**.

Table 13: Devolution of State Finance Commission Grants

(₹ in crore)

Sl. No.	Year	Net proceeds of Tax Revenue of State Government	Funds to be devolved	Funds devolved	Short/Excess devolution (per cent in bracket)
1	2008-09	28,659	2,149	2,149	-
2	2009-10	33,877	2,541	2,090	-451 (18)
3	2010-11	43,464	3,042	2,560	-482 (16)
4	2011-12	50,351	3,525	3,085	-440 (12)
5	2012-13	57,498	4025	3,698	-327 (8)
Total		213,849	15,282	13,582	1,704 (11)

(Source: Director, Urban Local Bodies, Lucknow)

The Government did not devolve the net proceeds of the Tax revenue in any year during 2009-13 as recommended by the Second SFC and Third SFC. The shortfalls in devolution ranged between 8 and 18 per cent.

1.11 Internal Control

➤ *Nagar Palika Parishads* and *Nagar Panchayats* did not have any pre-check system for bills. As such, payments were made without pre-checking of the bills.

1.12 Conclusion

- The maintenance of accounts was inadequate and the approved formats of account were not adopted. Further, assets and liabilities of ULBs were not assessed.
- Compliance to huge number of audit paragraphs was pending since long.
- Full devolution of funds, functions and functionaries to ULBs as envisaged in the Constitution did not take place.
- The Government did not devolve net proceeds of the Tax Revenue during 2008-13 as recommended by the Second SFC and Third SFC. The grants made available to ULBs were treated as final expenditure in the records of the Director, Local Bodies Lucknow. Thus, the books of accounts did not depict true and fair view of financial position of ULBs.