

CHAPTER-III

URBAN DEVELOPMENT AND URBAN HOUSING DEPARTMENT

AN OVERVIEW OF FINANCES AND ACCOUNTS OF URBAN LOCAL BODIES

CHAPTER - III

AN OVERVIEW OF FINANCES AND ACCOUNTS OF URBAN LOCAL BODIES

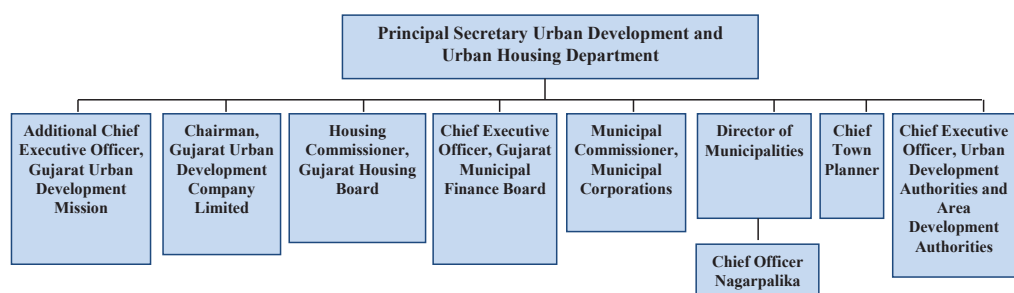
3.1 Introduction

Consequent upon the 74th Constitutional Amendment in 1992, Articles 243 P to 243 ZG¹ were inserted in the Constitution where by the legislatures could endow certain powers and duties to the Urban Local Bodies (ULBs) in order to enable them to function as institutions of self-Government and to carry out the responsibilities conferred upon them including those listed in the Twelfth Schedule of the Constitution.

As per Census 2011, Gujarat ranks sixth after Goa, Mizoram, Tamil Nadu, Kerala and Maharashtra in the tally of most urbanised States. The urban population of Gujarat was 2.57 crore, which constituted 42.55 *per cent* of the total population (6.04 crore) of the State and 2.12 *per cent* of the total population (121.02 crore) of India. In Gujarat, there were 187 ULBs, i.e. eight Municipal Corporations (MCs), 159 Nagarpalikas (NPs) and 20 Notified Areas² (NAs) as of March 2013. The MCs were constituted under the Gujarat Provincial Municipal Corporations Act³, 1949. The NPs were constituted under the provisions of Gujarat Municipalities Act, 1963. Each MC/NP is divided into a number of wards, which is determined and notified by the State Government considering the population, dwelling pattern, geographical condition and economic status of the respective area.

3.2 Organisational set-up

3.2.1 The administrative department dealing with affairs of the ULBs is the Urban Development and Urban Housing Department. An organisational chart indicating administrative set-up of the ULBs in Gujarat is as shown below:

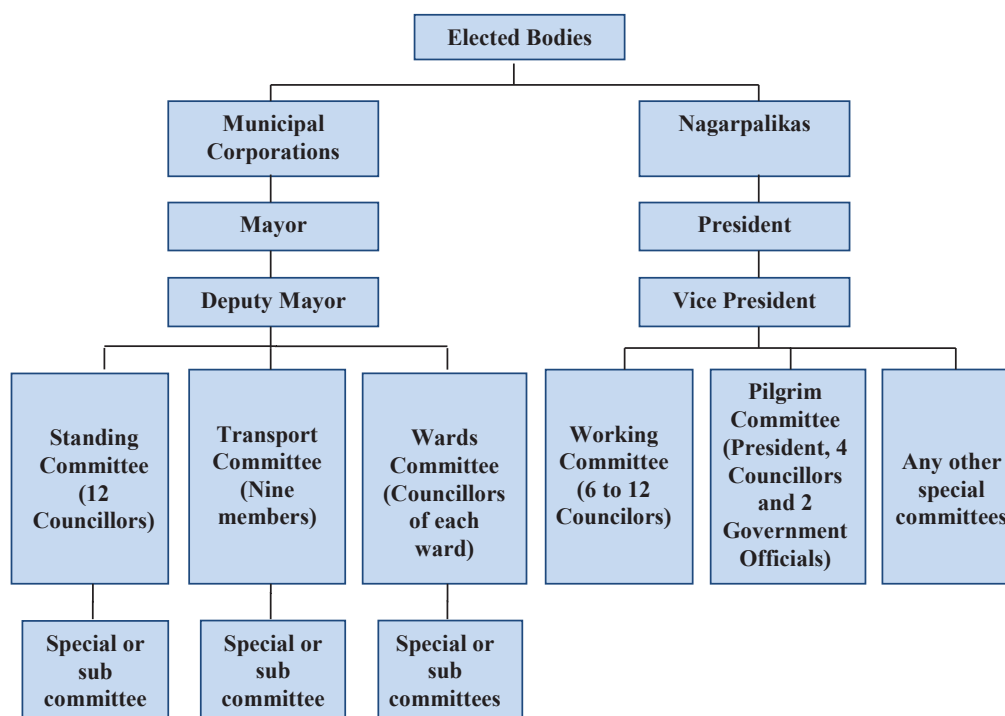


3.2.2 In order to ensure comprehensive development and to improve service delivery systems in the thickly populated and urbanised areas of the State, the State Government constituted various Boards and Authorities assigning specific functions to them as shown in the **Appendix-XVIII**.

- 1 Regarding constitution and composition of municipalities and ward committees, reservation of seats for SCs/STs, powers, authority and responsibilities of municipalities, power to impose taxes, audit of accounts, elections to the municipalities, constitution of district planning committee, *etc.*
- 2 Notified areas are declared by Industries and Mines Department. Every notified area shall have a committee called the Board of Management appointed by the Government and shall perform its function and duties as per Gujarat Municipalities Act, 1963.
- 3 Bombay Provincial Municipal Corporation Act, 1949 has been renamed as Gujarat Provincial Municipal Corporation Act, 1949.

3.2.3 Composition of ULBs

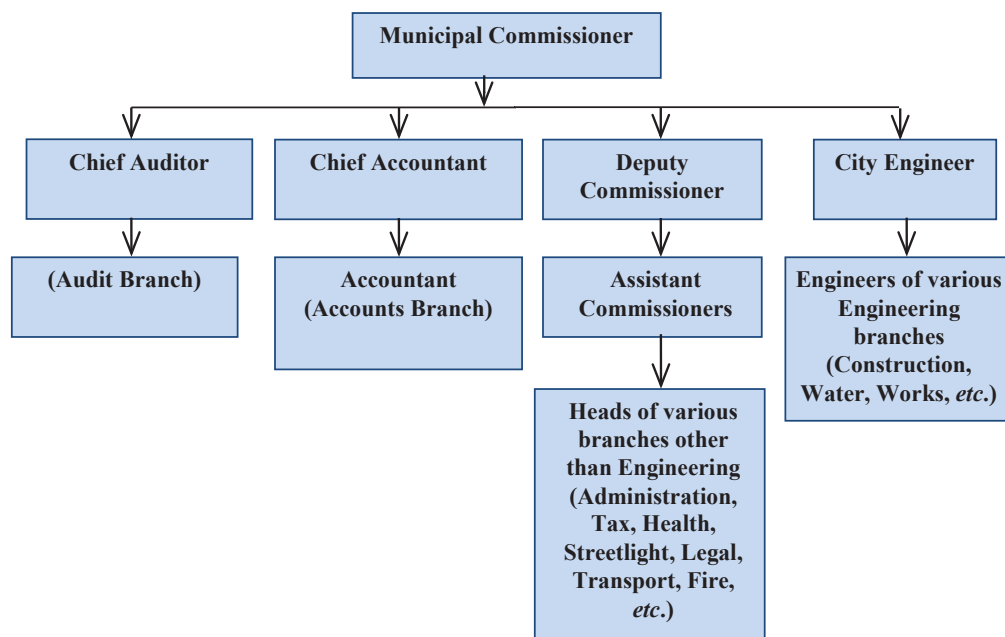
All the ULBs have a body comprising of Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected by majority of the Corporators/Councillors presides over the meetings of the Council and is responsible for governance of the body. The following chart shows the set-up of elected bodies in ULBs:



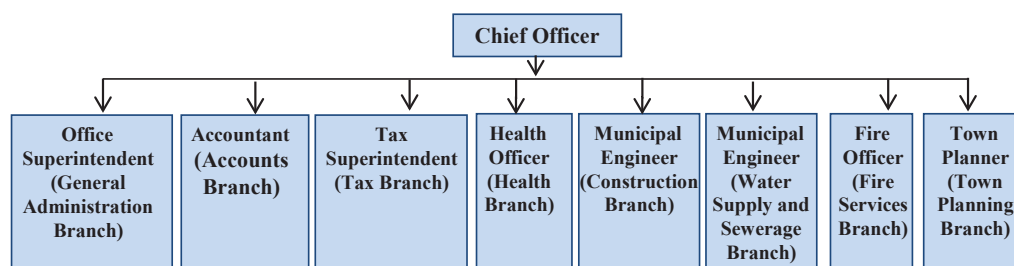
The Mayor, Deputy Mayor, President and Vice President are elected from amongst the elected councillors. The members of committees/sub-committees are elected from the elected councillors and the Chairperson of the committee is appointed from the members of the committee. The members of Transport Committee are persons with experience of Administration or transport or in engineering, industrial, commercial, financial or labour matters and who may or may not be councillors.

The Municipal Commissioner is the executive head of Municipal Corporation and Chief Officer is the executive head of Nagarpalika. The officers of ULBs exercise such powers and perform such functions as notified by the State Government from time to time. The executive set-up of MCs and NPs is shown as follows:

Executive set-up of Municipal Corporations



Executive set-up of Nagarpalikas

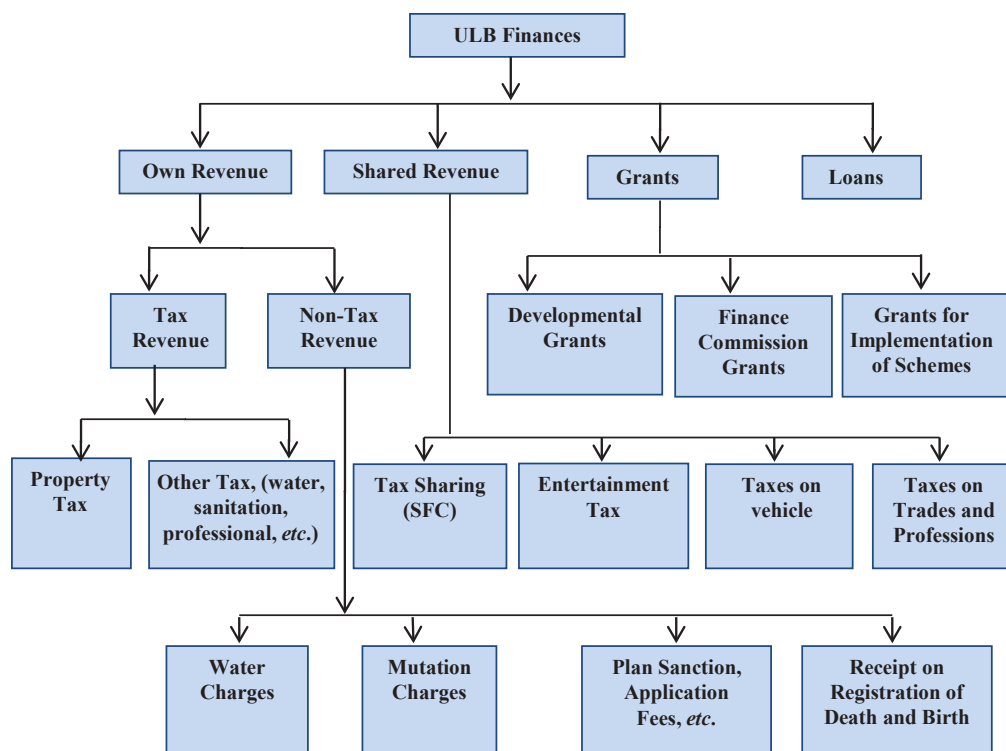


3.3 Financial management

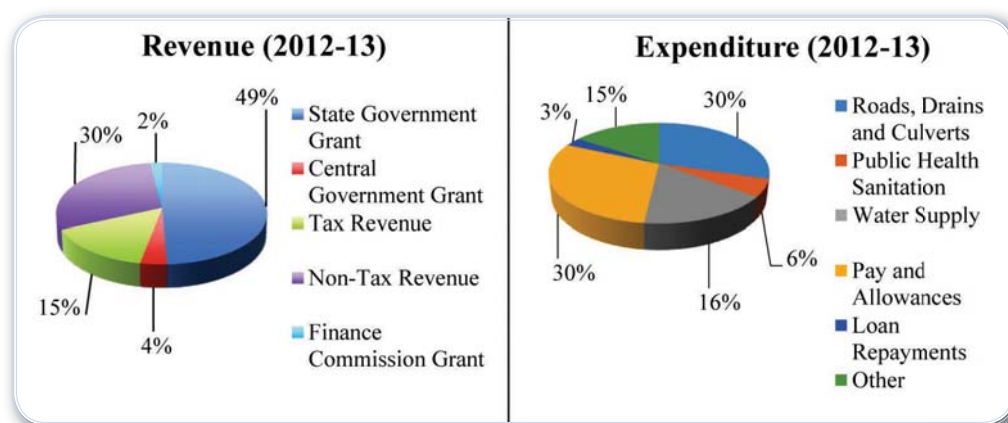
3.3.1 Sources of receipts and items of expenditure

The finances of ULBs comprise of receipts from own sources, grants and assistance from Government of India (GoI)/State Government and loans raised from financial institutions or nationalised banks. The ULBs do not have a large independent tax domain. However, compared to PRIs, who do not have any worthwhile own source of revenue, ULBs do have an identifiable and visible source of revenue like the property tax, which is difficult to evade. The property tax on land and buildings is the mainstay of ULB's own revenue. The property tax in the State is collected by the ULBs on Area Base System. The own non-tax revenue of ULBs comprises of fee for sanction of plans/mutations, water charges, *etc.*

Grants and assistance released by the State Government/GoI as well as loans raised from financial institutions are utilised for developmental activities and execution of various schemes. Flow chart of finances of ULBs is shown below:



3.3.2 Revenue and Expenditure of ULBs



The details of receipts and expenditure of ULBs are shown in **Table 1** below -

Table 1: Receipts and expenditure of ULBs

(₹ in crore)

	2010-11	2011-12	2012-13
Opening Balance⁴	3,349.04	7,919.94	10,631.16
Receipts			
Government Grant	5,670.71	3,530.41	5,287.16
Own Revenue	3,748.54	4,425.41	5,124.98
Finance Commission grant	121.20	191.00	191.40
Total Receipts	9,540.45	8,146.82	10,603.54
Total Funds available	12,889.49	16,066.76	21,234.70
Expenditure			
Roads, Drains, Culverts	916.11	783.33	2,317.00
Public Health sanitation	225.51	242.35	430.52
Water Supply	763.72	707.97	1,285.90
Pay and Allowances	2,011.63	2,198.80	2,332.55
Loan repayment	52.86	93.34	214.53
Others	999.72	1,409.81	1,202.41
Total Expenditure	4,969.55	5,435.60	7,782.91
Closing Balance	7,919.94	10,631.16	13,451.79

(Source: Information as furnished by UD&UHD)

The above position indicates that

- the total expenditure against total receipts during the period from 2010-11 to 2012-13 increased from 52 per cent (2010-11) to 73 per cent (2012-13);
- own revenue of ULBs increased by 37 per cent and the Government grant reduced by seven per cent during the period 2010-13;
- the increase in total expenditure (57 per cent) during 2010-13 did not match increase in total available funds (65 per cent) resulting in increase of closing balance to ₹ 13,451.79 crore as on 31 March 2013; and
- In order to avoid property tax from escaping tax net, various Indian cities (Bangalore, Hyderabad, Kanpur, etc.) have opted for Geographical Information System (GIS) mapping for listing properties. In Gujarat, GIS mapping for listing properties was implemented only in Rajkot Municipal Corporation out of four⁵ biggest Municipal Corporations (MCs) in the State. It is essential that earnest efforts are made to introduce GIS based database for property tax in other major municipalities also for identifying properties and for streamlining the assessment procedure that could lead to greater revenue mobilisation.

⁴ Opening Balance and Closing Balance has been arrived at by Audit.

⁵ Ahmedabad, Rajkot, Surat and Vadodara

3.4 Thirteenth Finance Commission

As per recommendations of Thirteenth Finance Commission (ThFC), Gujarat is eligible to get Central grant of ₹ 1,301.81 crore for ULBs (2010-15) comprising of ₹ 851.16 crore as General Basic Grant (GBG) and ₹ 450.65 crore as General Performance Grant (GPG). Against this, GoI released ₹ 120.96 crore⁶ (2010-11), ₹ 163.95 crore⁷ (2011-12) and ₹ 191.39 crore⁸ (2012-13). Grants of ₹ 120.96 crore⁹ (2010-11), ₹ 163.95 crore¹⁰ (2011-12) and ₹ 190.19 crore¹¹ (2012-13) were released to ULBs. The details of grants lying unspent as against the grants received during 2010-13 is as shown in **Table 2** below -

Table 2 : Unspent grants lying with the ULBs as of March 2013

(₹ in crore)

ULBs	Number of ULBs	2010-11		2011-12		2012-13		Total	
		Grant released	Unspent balance	Grant released	Unspent balance	Grant released	Unspent balance	Grant released	Unspent balance
NPs	159	90.05	22.90	121.39	61.80	143.68	102.31	355.12	187.01
MCs	8	30.91	12.24	42.56	9.47	46.51	43.13	119.98	64.84
Total	167	120.96	35.14	163.95	71.27	190.19	145.44	475.10	251.85

(Source : Information furnished by UD&UHD)

The above table shows that an amount of ₹ 251.85 crore (53 per cent) was lying unutilised with the ULBs against the grants released during 2010-13. It was also observed that no expenditure was incurred by 17 Nagarpalikas though grant of ₹ 35.74 crore were released to them during 2010-11 to 2012-13. The purpose of release of funds under ThFC was, thus, defeated. The details of expenditure incurred by other MCs were not made available to audit.

3.5 Devolution of Functions

3.5.1 Transfer of Functions

Twelfth Schedule (Article-243 W) of the Constitution of India envisages that the State Government may, by law, endow the ULBs with such powers and authority as may be necessary to enable them to function as institutions of self-government.

As per Section 87 to 92 of the Gujarat Municipality Act 1963 and Section 63 of Gujarat Provincial Municipal Corporations Act, 1949, State Government devolved all the 18 functions envisaged in the Twelfth Schedule to the NPs and MCs to enable them to function as institutions of self-governance.

6 GBG ₹ 119.75 crore and ₹ 1.21 crore for Special Area Grant

7 GBG ₹ 153.40 crore, ₹ 1.21 crore for Special Area Grant and ₹ 9.34 crore for Performance Grant

8 GBG ₹ 172.60 crore, ₹ 1.21 crore for Special Area Grant and ₹ 17.58 crore for Performance Grant

9 ₹ 30.91 crore to seven Municipal Corporations and ₹ 90.05 crore to 159 Nagarpalikas

10 ₹ 42.56 crore to eight Municipal Corporations and ₹ 121.39 crore to 159 Nagarpalikas

11 ₹ 46.51 crore to eight Municipal Corporations and ₹ 143.68 crore to 159 Nagarpalikas

3.6 Accountability framework

3.6.1 Accounting arrangements

As per ThFC's recommendations, an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual (NMAM) was to be adopted by 2011-12. All ULBs were to thus introduce accrual based double entry accounting system as per the NMAM.

The MCs and NPs have adopted the accrual based double entry accounting system since 2006-07. NMAM envisages all States to develop State specific Municipal Accounts Manual. However, Audit observed that the draft Municipal Accounts Manual was pending for approval with the Government (September 2013). Thus, the adoption of consistent accounting system by all ULBs in the State has been delayed. Further, the annual accounts for the year 2012-13 in respect of all 159 NPs have not been finalised (April 2014).

3.6.2 Audit mandate

The Examiner Local Fund Audit (ELFA) is the primary Auditor of ULBs in terms of Section 7 of the Gujarat Local Fund Audit (GLFA) Act, 1963. The Commissioner/Chief Officer is responsible for rectification of defects or compliance to the irregularities pointed out in the report of the ELFA.

The State Government entrusted (May 2005) the audit of accounts of all NPs to the Comptroller and Auditor General of India under Section 20(1) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 with Technical Guidance and Supervision (TGS). The State Government further entrusted (April 2011) the audit of accounts of all MCs to CAG under section 20(1) of CAG's (DPC) Act, 1971 with TGS. The provision of laying of Audit Report of ELFA alongwith the Report of CAG before the State Legislature was made by amending (May 2011) the relevant Acts.

3.6.3 Arrears in Primary Audit of ULBs

Out of total 159 NPs, Audit of accounts of 158 NPs (except Maliya Miyana NP) for the period up to 2010-11 has been completed by ELFA (December 2013). The Audit of all NPs was in arrears for the financial years 2011-12 and 2012-13. Audit of accounts of only four MCs¹² upto the period 2010-11 has been completed by ELFA (December 2013) out of total eight MCs.

3.6.4 Response to Audit observations

The Commissioners/Chief Officers are required to comply with the observations contained in the Inspection Reports (IRs) issued by ELFA and rectify the defects or omissions and report their compliance to ELFA within four months from the date of issue of IRs. The ELFA informed (February 2014) that there were 1,52,203 audit paragraphs¹³ outstanding as at the end of December 2013 relating to the period up to 2010-11. This showed that compliance to the audit observations of ELFA was poor.

¹² Bhavnagar, Gandhinagar, Jamnagar and Junagadh

¹³ Upto 2002-03 – 1,14,217 paras, 2003-04 – 4,583 paras, 2004-05 – 5,374 paras, 2005-06 – 5,684 paras, 2006-07 – 4,586 paras, 2007-08 – 4,513 paras, 2008-09 – 2,757 paras, 2009-10 – 5,799 paras and 2010-11- 4,690 paras.

3.7 Lack of responsiveness by Government to Audit

3.7.1 Inspection Reports outstanding

The Hand Book of Instructions for prompt Settlement of Audit Objections/ Inspection Report issued by the Finance Department in 1992 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, omissions, *etc.*, noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the Accountant General within four weeks of receipt of the IRs. Periodical reminders are issued to the Heads of the Department requesting them to furnish the replies expeditiously on the outstanding paragraphs in the IRs.

As on 31 March 2014, 156 IRs (2,123 paragraphs) were outstanding in respect of Nagarpalikas. Year-wise details of IRs and paragraphs outstanding are given in **Table 3** below:

Table 3: Outstanding IRs and Audit paragraphs

Year	Number of Inspection Reports	Number of Paragraphs	Money Value (₹ in crore)
Upto 2007-08	20	289	25.74
2008-09	32	417	2.88
2009-10	21	245	0.52
2010-11	26	332	4.74
2011-12	23	359	0.19
2012-13	26	319	0.41
2013-14	08	162	3.83
TOTAL	156	2,123	38.31

3.8 Conclusion

A review of finances of ULBs revealed that increase in total expenditure (57 *per cent*) during 2010-13 did not keep pace with increase in total available funds (65 *per cent*). As of March 2013, unspent grant of ₹ 251.85 crore of ThFC was lying with the NPs and MCs. Though ThFC grants of ₹ 35.74 crore was released to 17 NPs during 2010-11 to 2012-13, no expenditure had been incurred by these NPs till date. State's municipal accounts manual has also not been finalised. The Audit of ELFA was found to be in arrears. The Department failed to ensure prompt and timely action by executives of ULBs to the audit objections raised by ELFA and CAG.