

CHAPTER-III

AN OVERVIEW OF

FINANCES AND ACCOUNTS OF

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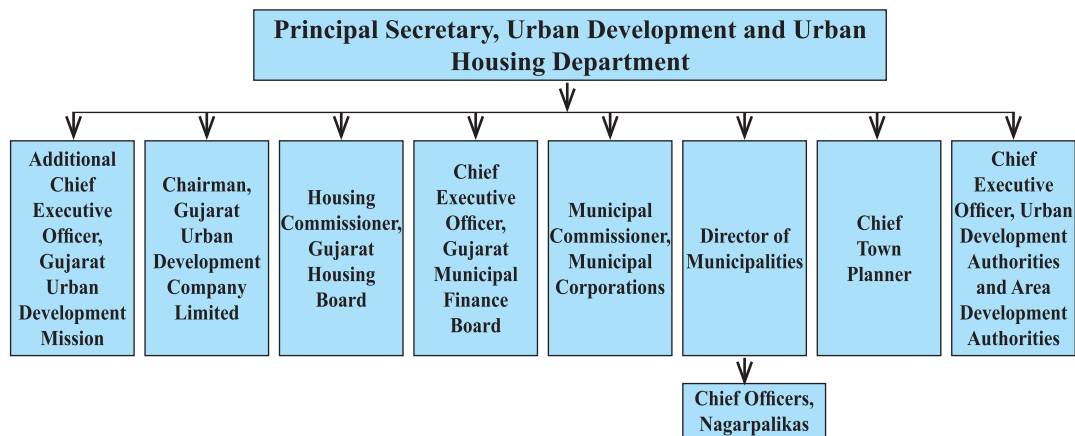
3.1 Introduction

Consequent upon the 74th Constitutional Amendment in 1993, 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 State 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 (121.06 crore) of India. In Gujarat, there were 198 ULBs *i.e.* eight Municipal Corporations (MCs), 159 Nagarpalikas (NPs) and 31 Notified Areas² (NAs) as of July 2014. 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:



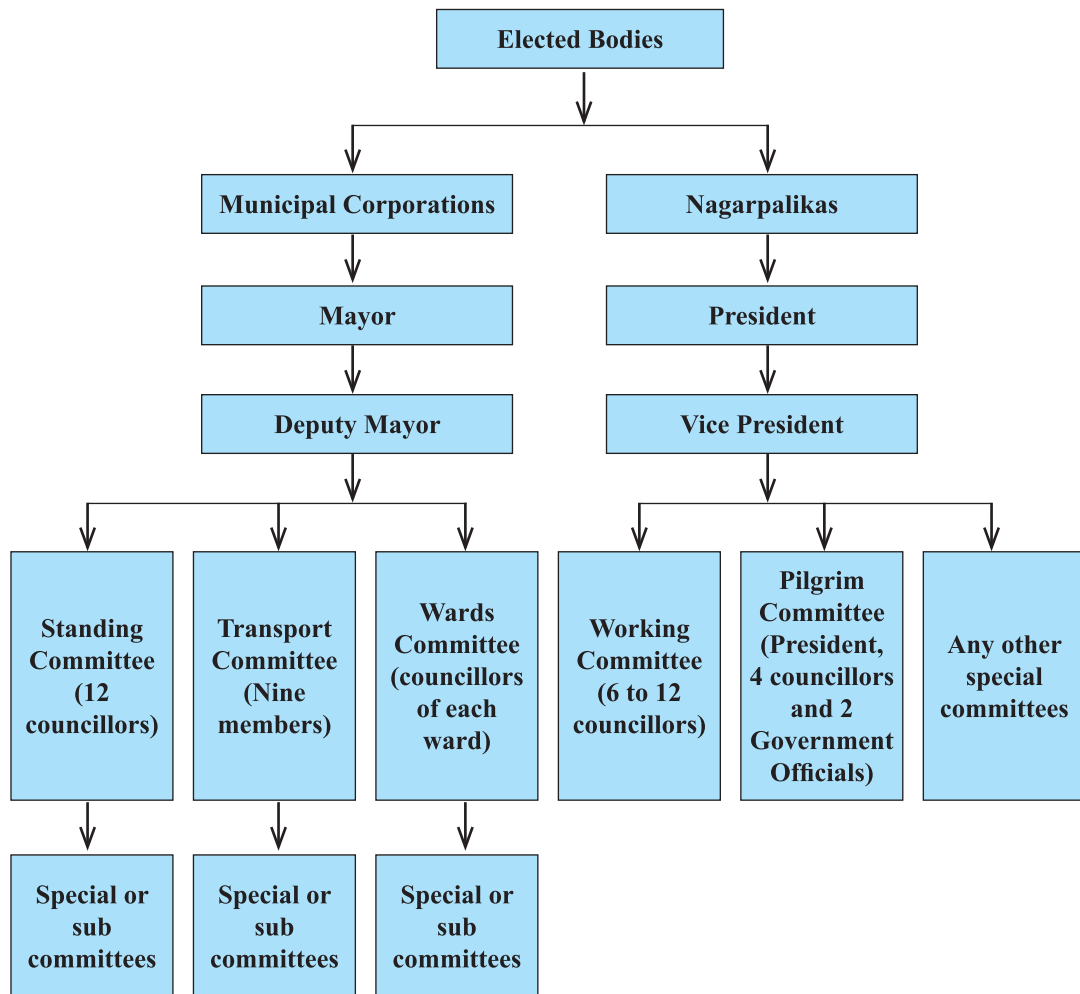
¹ Regarding constitution and composition of municipalities and ward committees, reservation of seats for SCs/STs, powers, authority and responsibilities of municipalities, power to impose taxes, audit of accounts, elections to the municipalities, constitution of district planning committee, *etc.*

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.

3.2.2 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-X**.

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 -

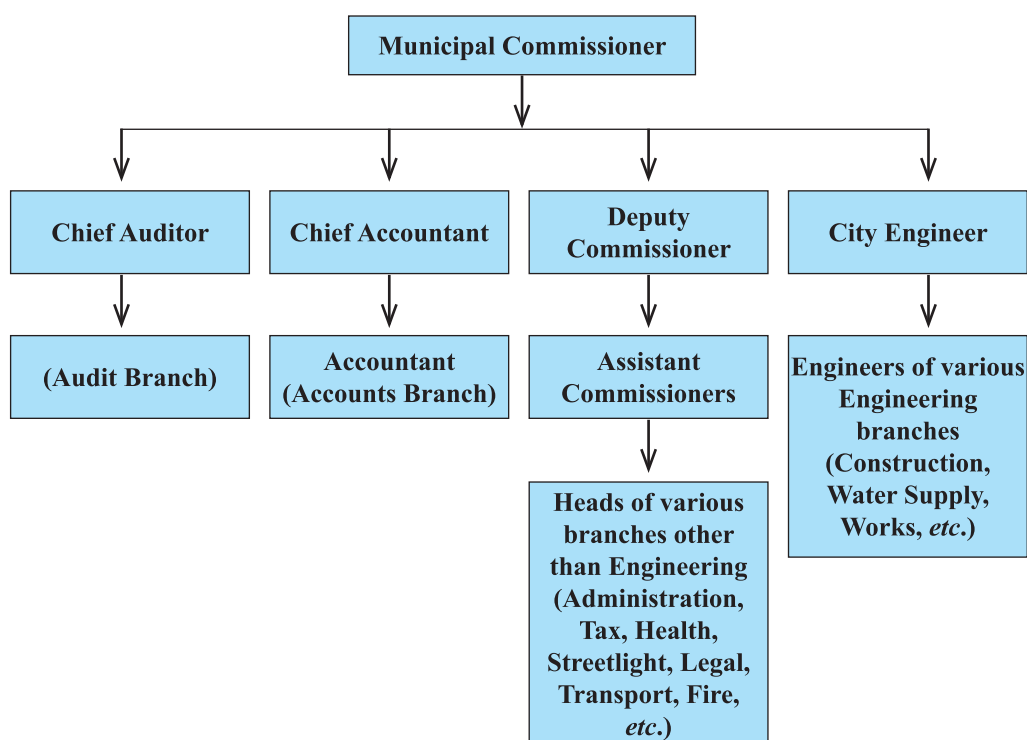


The Mayor, Deputy Mayor, President and Vice President are elected from amongst the elected councillors. The members of committees/sub-committees are elected from the elected councillors and the Chairperson of the committee is appointed from the members of the committee. The members of Transport Committee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

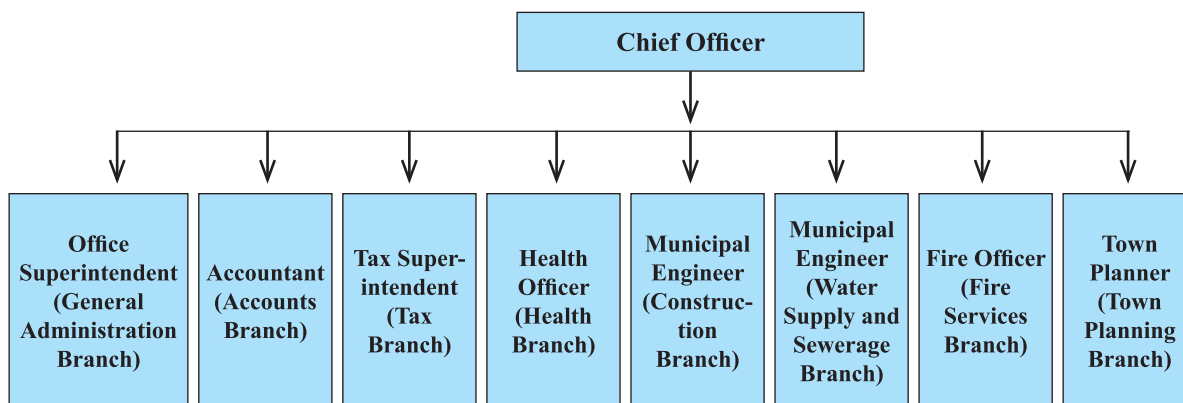
The Municipal Commissioner is the executive head of Municipal Corporation and Chief Officer is the executive head of Nagarpalika. The officers of ULBs exercise such powers and perform such functions as notified by the State

Government from time to time. The executive set-up of MCs and NPs is shown below -

Executive set-up of Municipal Corporations



Executive set-up of Nagarpalikas

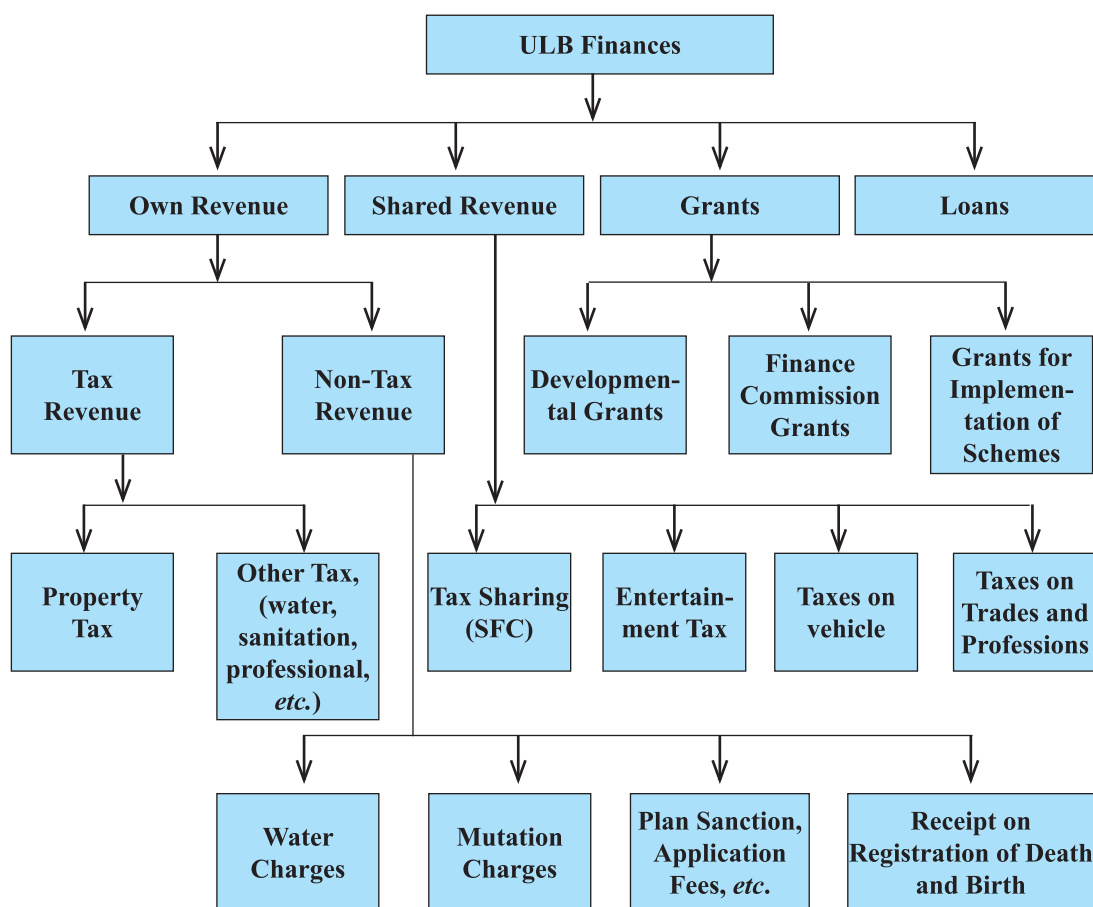


3.3 Financial management

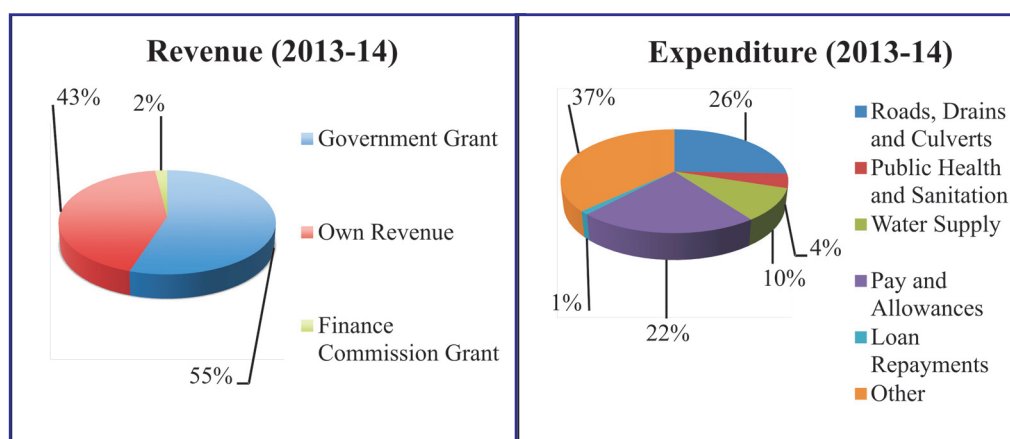
3.3.1 Sources of receipts and items of expenditure

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. 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)		
	2011-12	2012-13	2013-14 ³
Opening Balance⁴	7,919.94	10,631.16	13,451.79
Receipts			
Grants-in-aid	3,530.41	5,287.16	6,110.70
Own Revenue	4,425.41	5,124.98	4,767.16
Finance Commission grants	191.00	191.40	219.12
Total Receipts	8,146.82	10,603.54	11,096.98
Total Funds available	16,066.76	21,234.70	24,548.77
Expenditure			
Roads, Drains, Culverts	783.33	2,317.00	2,893.60
Public Health and sanitation	242.35	430.52	503.60
Water Supply	707.97	1,285.90	1,132.20
Pay and Allowances	2,198.80	2,332.55	2,440.30
Loan repayment	93.34	214.53	121.40
Others	1,409.81	1,202.41	4,195.50
Total Expenditure	5,435.60	7,782.91	11,286.60
Closing Balance	10,631.16	13,451.79	13,262.17

(Source : Information as furnished by the Director of Municipalities and Municipal Corporations)

The above position indicates that -

- the total expenditure against the total receipts during the period from 2011-12 to 2013-14 increased from 67 *per cent* (2011-12) to 102 *per cent* (2013-14); mainly in “Others”, which increased from 26 *per cent* to 37 *per cent* and in “Roads, Drains, Culverts”, which increased from 14 *per cent* to 26 *per cent*. From the information provided by six MCs, Audit observed that expenditure under “Others” constituted other capital expenditure, other revenue expenditure, deposit and advance, education, *etc.* Audit could not vouchsafe the details of expenditure under “Others” of two MCs and 159 NPs due to non-submission of information by them.
- Own revenue collection of ULBs increased by one *per cent* and the grants-in-aid was increased by 73 *per cent* during the period 2011-14; own revenue collection of ULBs decreased by seven *per cent* in 2013-14 as compared the own revenue collected in 2012-13; decline in own revenue is quite disconcerting and needs to be arrested;
- the recurring expenditure on Public Health and Sanitation constituted only 4.46 *per cent* of the total expenditure during the year 2013-14;
- the pay and allowances of municipal staff constituted about 22 *per cent* (2013-14) to 40 *per cent* (2011-12) during the period 2011-14; and
- In order to avoid property tax from escaping tax net, various Indian cities (Bangalore, Hyderabad, Kanpur, *etc.*) have opted for Geographical

³ Information of Junagadh Municipal Corporation is awaited

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

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 mobilization.

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 ₹ 677.19 crore during the period 2010-14 to the State Government and the State Government released grants of ₹ 694.22 crore to the ULBs. The details of grants released to ULBs and expenditure incurred during 2010-14 is as shown in Table 2 below—

Table 2: Grants released and expenditure incurred by ULBs during 2010-14

(₹ in crore)

ULBs	Number of ULBs	Grants released	Expenditure incurred	Unspent balance as of March 2014	Percentage of expenditure against grant released
NPs	159	519.40	360.70	158.70	69
MCs	8	174.82	87.38	87.44	50
Total		694.22	448.08	246.14	65

(Source : Information provided by Gujarat Municipal Finance Board)

The above table shows that an amount of ₹ 246.14 crore (35 per cent) was lying unutilised with the ULBs against the grants released during 2010-14. Audit further observed that GPG of ₹ 39.16 crore⁶ (2011-12), ₹ 96.18 crore⁷ (2012-13) and ₹ 133.99 crore⁸ (2013-14) allocated by GoI for the State was forfeited due to non-compliance of conditions stipulated by the ThFC. In accordance with the orders of the ThFC, the State Government received only ₹ 9.51 crore (2011-12), ₹ 17.77 crore (2012-13) and ₹ 0.20 crore (2013-14) as GPG from the forfeited grant. This resulted in loss of central assistance of ₹ 241.85 crore to the State Government.

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.

⁵ Ahmedabad, Rajkot, Surat and Vadodara

⁶ ₹ 38.72 crore as GPG + ₹ 0.44 crore as special area performance grant

⁷ ₹ 95.16 crore as GPG + ₹ 1.02 crore as special area performance grant

⁸ ₹ 132.98 crore as GPG + ₹ 1.01 crore as special area performance grant

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.

3.6 Accountability framework

3.6.1 Accounting arrangements

As per ThFC 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 (November 2014). Further, the annual accounts for the year 2013-14 in respect of all 159 NPs have not been finalised (November 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 157 NPs for the period up to 2010-11 and 72 NPs for the period 2011-12 has been completed by ELFA (October 2014). The Audit of 87 and 159 NPs was in arrears for the financial year 2011-12 and 2012-13 respectively. Audit of accounts of only four MCs for the period 2010-11 has been completed by ELFA (October 2014) 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 (October 2014) that there were

1,53,087 audit paragraphs⁹ outstanding as at the end of September 2014 relating to the period up to 2011-12.

3.7 Responsiveness of 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 December 2014, 166 IRs (2,331 paragraphs) were outstanding in respect of Nagarpalikas and Municipal Corporations. 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
2014-15 (Upto December 2014)	10	208	2.23
TOTAL	166	2,331	40.54

3.8 Conclusion

A review of finances of ULBs revealed that their total expenditure increased against total receipt during the year 2013-14; however, the collection of own revenue of ULBs decreased by seven *per cent* in 2013-14 as compared to the own revenue collected by them in 2012-13. As of March 2014, an unspent grant amount of ₹ 246.14 crore of ThFC was lying with the NPs and MCs. Non-compliance of conditions stipulated by the ThFC resulted in loss of central assistance (General Performance Grant) of ₹ 241.85 crore as against the allocated grant for the period 2010-14. 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 the CAG.

⁹ Upto 2002-03 – 1,08,169 paras, 2003-07 – 25,597 paras and 2007-12 – 19,321 paras