CHAPTER IV

Financial Resources of Urban Local Bodies

CHAPTER IV

Financial Resources of Urban Local Bodies

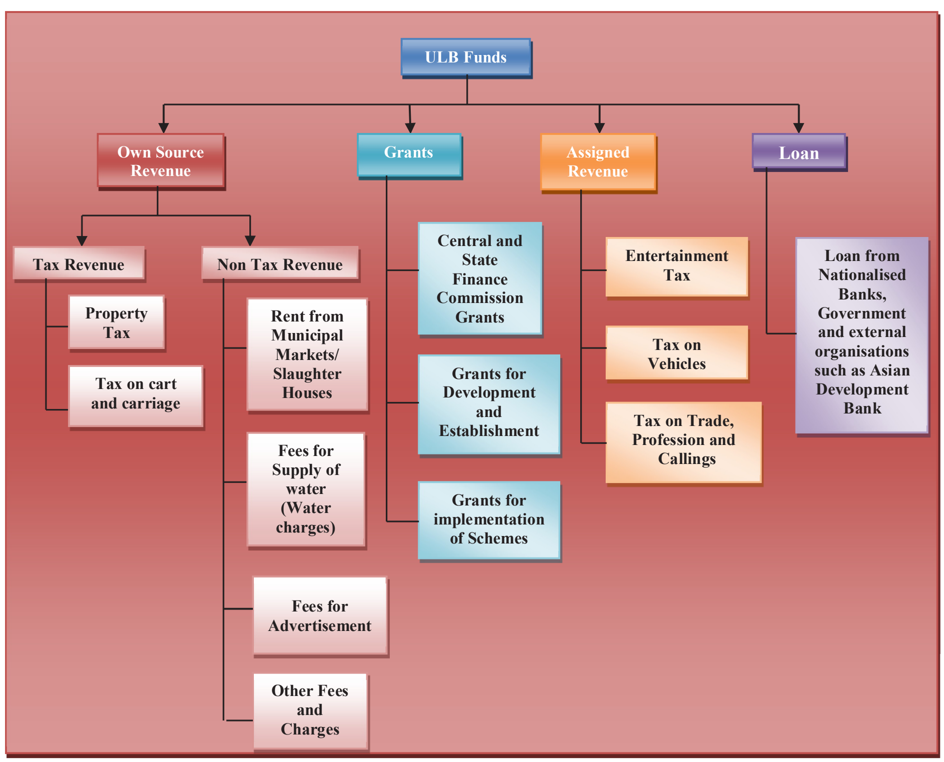
The devolved functions can be carried out effectively by the ULBs only when they are supported with sufficient financial resources, by means of predictable fiscal transfers, or access to own revenue streams. Predictable fiscal transfers to the ULBs need to be ensured through a robust State Finance Commission mechanism. Access to own sources of revenue would include both the power to levy and collect from specific revenue streams.

The Chapter analyses the financial resources of ULBs, covering receipts from State Finance Commissions, Central Finance Commissions and own source revenue, self-reliance of the ULBs in terms of share of own source revenue in total receipts and empowerment of the ULBs to explore various sources of own fund revenue. Audit observed delays in the transfer of SFC and CFC grants to ULBs, short-release of SFC grants, unsatisfactory performance of ULBs in mobilisation of property tax and other own source revenue, along with deficiencies in budget preparation.

4.1 Sources of Revenue in ULBs

ULB funds comprise receipts from (i) their own sources (ii) grants and assistance from the Central and State Governments (iii) share of taxes, in the form of assigned revenues and (iv) loans obtained from public financial institutions or nationalised banks or such other institutions as the State Government may approve. A flow chart of sources of revenues of a ULB, is given in **Chart 4.1.**

Chart 4.1: Sources of Revenue of ULBs



4.2 Funds Flow to ULBs

Central Government grants are allocated and released to the UD&MA Department, through the Finance Department. The UD&MA Department, in turn, sanctions the grants (Non-plan), to the State Urban Development Agency (SUDA), for onward transmission to the ULBs. SUDA releases the funds through the individual bank accounts of Urban Local Bodies (ULBs). In addition, State Government grants are also released to ULBs, by the UD&MA Department, through treasuries (Local Fund Account)[41]. Establishment grants, such as Salary, Dearness Allowance, Pension Contribution *etc*., are released to the Directorate of Local Bodies, which, in turn, releases the grants to the ULBs through treasuries (Local Fund Account).

Details of grants released to ULBs were not available from the Directorate of Local Bodies and State Urban Development Agencies. Hence, details of grants released to the 125 ULBs in the State, as worked out by Audit, during the period from FYs 2015-16 to 2020-21, are indicated in **Table 4.1.**

Table 4.1: Grants to 125 ULBs, during the period from FYs 2015-16 to 2020-21

(₹ in crore)

Years	Grants[42]	Assigned Revenue	Total Release
2015-16	3,796.88	87.33	3,884.21
2016-17	5,349.38	133.47	5,482.85
2017-18	6,771.46	178.96	6,950.42
2018-19	8,049.88	164.63	8,214.51
2019-20	5,541.52	152.06	5,693.58
2020-21	6,023.48	129.69	6,153.17

(Source: data furnished by the UD&MAD and SUDA, Budget documents of the UD&MAD and Appropriation Accounts of West Bengal)

Assigned Revenue comprises of Entertainment Tax, Taxes on Vehicles and Tax on Trade, Profession and Callings. Data relating to revenue of ULBs from own sources, is not maintained at UD&MAD.

4.3 State Finance Commission (SFC) Grants

4.3.1 Short release of SFC Grants

The 4th SFC Report mentioned about short release of 3rd SFC grants, during the period 2010-11 to 2014-15. The actual release of grants, *vis-a-vis* the grants recommended by the 3rd SFC, is shown in **Table 4.2.**

41 *'Local Fund Account' refers to the Municipal Fund maintained in the treasuries. In terms of Rule 20 of the West Bengal Municipal (Finance & Accounting) Rules, 1999, 'Municipal Fund' shall be treated as Local Fund and kept in the concerned Treasury, under the major head of account "8448-Local Fund Account-00-102-Municipal Fund", in the Public Account, as a part of the Government Account.*

42 *Contains capital as well as revenue grants, of the Central and State Governments, released to ULBs, from UD&MAD, DLB and SUDA. The grants, inter alia, contain grants released under Central Finance Commissions (FC-XIII and XIV), State Finance Commissions (3rd SFC and 4th SFC), AMRUT, NULM, NUHM, PMAY/HFA-Urban, Green City Mission, West Bengal Urban Employment Scheme (WBUES), Fixed grants, Development grants, Salary and other allowances to municipal employees etc.*

Table 4.2: Actual release *vis-a-vis* recommendations of the 3rd SFC in 125 ULBs

(₹ in crore)

Year	Proposed total Release by the 3rd SFC	Actual Release	Percentage of release
2010-11	192.00	137.24	71.48
2011-12	215.04	117.34	54.57
2012-13	240.84	172.86	71.77
2013-14	269.74	137.59	51.01
2014-15	302.11	143.01	47.35

(Source: 4th SFC Report)

The 4th SFC, in its report submitted in February 2016, recommended devolution of ₹ 442.49 crore, as grant to ULBs, in 2015-16. It also recommended that this amount should grow at 15 *per cent per annum,* for each of the next five years, with the general caveat that, if, in a particular year, the own tax revenue of the State grows by less than 15 *per cent,* this devolution would be proportionately reduced.

Scrutiny of records revealed that the State Government, started releasing the 4th SFC grants from the FY 2019-20, *i.e.*, three years after the submission of the SFC report to the State Government. Although allotment orders for release of 4th SFC grants were published in FY 2018-19, the grants were actually disbursed only in FY 2019-20.

The year-wise allocation, as recommended by the 4th SFC and the actual allocation made by the State Government, to the 125 ULBs, is given in **Table 4.3**.

Table 4.3: Recommended devolution by the 4th SFC and the actual allocation made by the State Government, to the ULBs

(₹ in crore)

Year	Allocation, as recommended in the 4th SFC Report	Actual allocation by the State Government
2015-16	442.49	-
2016-17	508.86	-
2017-18	585.19	-
2018-19	672.97	-
2019-20	773.92	193.06
2020-21	0	79.87
Total	**2,983.43**	**272.93**

(Source: data regarding release of grants furnished by the UD&MAD and Table 14.15.1 of the 4th SFC Report, Part-I, February 2016)

As per the recommendations of the 4th SFC, the allocation of grants to ULBs, for the award period, from the FYs 2015-16 to 2019-20, worked out to be ₹ 2,983.43 crore. It is evident from **Table 4.3** that, as on 31 March 2021, only ₹ 272.93 crore was released to the ULBs, against the required allocation of ₹ 2,983.43 crore, which was merely 9.15 *per cent* of the total recommended allocation.

4.3.2 Delay in the release of SFC Grants

Although the reference period of the 3rd SFC was from the FYs 2008-09 to 2012-13, the grants actually started to be devolved from FY 2010-11. Delayed receipt of SFC grants, by local bodies, was also observed by the 4th SFC. For example, the first quarter allocation of FY 2011-12 was actually transferred at the end of FY 2012-13[43].

Considerable delay was noticed in the release of 4th SFC grants, to the ULBs, during the period from FYs 2015-16 to 2020-21, as discussed in **Table 4.4**. Further, as discussed in the previous paragraph, while the State Government had published allotment orders for the release of 4th SFC grants in FY 2018-19, the grants were actually disbursed only in FY 2019-20.

Table 4.4: Delay in release of 4th SFC grants, for the period from FYs 2015-16 to 2020-21

(₹ in crore)

Year of releasing Funds (As per Allotment Orders)	Grant for the period	Amount of grants	Delay in years
2018-19	2015-16	21.44	3 years
	2016-17	88.91	2 years
	2017-18	19.40	1 year
2019-20	2016-17	105.31	3 years
	2017-18	66.64	2 years
	2018-19	20.42	1 year
2020-21	2016-17	4.25	4 years
	2017-18	2.36	3 years
	2018-19	6.95	2 years
	2019-20	6.99	1 year
2021-22	2016-17	1.63	5 years
	2017-18	2.34	4 years
	2018-19	0.21	3 years
	2019-20	0.54	2 years
	2020-21	1.39	1 year
Total		**348.78**	

(Source: data regarding release of grants furnished by the UD&MAD and allotment orders of the 4th SFC)

The UD&MAD had released grants of ₹ 348.78 crore, with delays ranging between one and five years.

It has been discussed in Para 4.5.1 that the financial resources of test-checked ULBs were largely dependent on grants. In this backdrop, short and/or delayed release of SFC grants to ULBs, affected the financial position of ULBs and timely implementation of plans.

4.4 Central Finance Commission (CFC)

Article 280 (3) (c) of the Constitution mandates the Central Finance Commission (CFC) to recommend measures to augment the Consolidated Fund of a State,

[43] *Paragraph 4.21, 4th SFC Report, Part-I.*

to supplement the resource of Municipalities based on the recommendations of the respective SFCs. The 13th and 14th Finance Commissions had recommended Basic Grants and Performance Grants to ULBs, as a percentage of the divisible pool account.

In the recommendations of the 15th FC, ULBs have been categorised into two groups, based on population – 'Million Plus' Cities (cities or urban agglomerations with population more than a million) and 'Non-Million Plus' Cities. For 'Million Plus' Cities, the 15th FC recommended 'Million Plus' Cities Challenge Fund (MCF), where the amount of grants is linked to the performance of these cities in improving their air quality and meeting service level benchmarks for urban drinking water supply, sanitation and solid waste management (SWM). The grants for Non-Million Plus Cities are divided into untied grants (40 *per cent* of the total grants) and tied grants for SWM, sanitation, water supply *etc.* (60 *per cent* of the total grants).

In case of delay in release of grants to ULBs, by the State Government, after having received them from the Union Government, both the 14th and 15th FC recommended payment of interest to ULBs on the amount of grants released with delays.

Tables 4.5 and 4.6 depict the allocation and release of 14th FC and 15th FC grants, during the period from FYs 2015-16 to 2019-20 and FYs 2020-21 to 2021-22, respectively.

Table 4.5: Release of 14th FC Grants to 125 ULBs

(₹ in crore)

Year	Grants recommended by the FC			Grants released to ULBs, by the UD&MAD			Delay in release of grants
	Basic Grants	Performance Grants	Total	Basic Grants	Performance Grants	Total	
2015-16	637.21	0.00	637.21	558.19	0.00	558.20	-
2016-17	882.33	260.41	1,142.74	441.17	0.00	441.17	2nd instalment of Basic Grants of ₹ 441.17 crore and Performance Grants of ₹ 260.41 crore, pertaining to FY 2016-17, were released in FY 2017-18.
2017-18	1,019.45	294.69	1,314.14	1,460.62	260.41	1,721.03	-
2018-19	1,179.32	334.66	1,513.98	1,179.32	0.00	1,179.32	-
2019-20	1,593.51	438.20	2,031.71	688.39	294.69	983.09	2nd instalment of ₹ 688.40 crore pertaining to 2019-20 was released in 2020-21.
2020-21*	-	-	-	688.40	0.00	688.40	-
Total	**5,311.82**	**1,327.96**	**6,639.78**	**5,016.09**	**555.10**	**5,571.21**	

(Source: data from allotment orders of FC grants)

***The award period of 14th FC grants was FYs 2015-16 to 2019-20.**

It is evident from **Table 4.5** that there were delays in the release of Basic Grants and Performance Grants, during FYs 2016-17 and 2019-20. Further, there was short receipt of 14th FC grants, amounting to ₹ 1,068.59 crore (Basic Grants of ₹ 295.73 crore and Performance Grants of ₹ 772.86 crore), during FYs 2015-16 to 2019-20.

Table 4.6: Release of 15th FC Grants to 125 ULBs

(₹ in crore)

	Grants Allocated by the FC			Grants Released to ULBs by the UD&MAD			
For Million Plus Cities							
Year	Tied-Air Quality	Tied-SWM/ Sanitation	Total	Tied-Air Quality	Tied-SWM/ Sanitation	Total	Delay in release of grants
2020-21	419.00	419.00	838.00	209.50	209.50	419.00	Balance allocation of ₹ 419.00 crore pertaining to air quality and SWM/ sanitation for 2020-21 was released in 2021-22.
For Non-Million Plus Cities							
Year	Untied	Tied	Total	Untied	Tied	Total	Delay in release of grants
2020-21			1,286.00	321.50	321.50	643.00	Balance allocation of ₹ 643.00 crore pertaining to 2020-21 (tied and untied) was released in 2021-22.

(Source: data from the allotment orders of FC grants)

It is evident from **Table 4.6** that there was delay in the release of 15th FC grants to the ULBs.

The State Government had to bear interest, amounting to ₹ 25.09 crore, for delayed release of 14th FC grants, as on 31 March 2021 and ₹ 17.82 crore, for delayed release of 15th FC grants, as on September 2021. However, reasons for delayed release of 14th and 15th FC grants were not furnished by the department.

The CFC grants are the major sources of finance for delivery of basic services such as solid waste management, sanitation, water supply *etc.* Thus, delayed release of CFC grants affected the financial position of the ULBs as well as the delivery of citizen centric services.

The matter was reported to the UD&MA Department in September 2022 and Finance Department in November 2022. In reply, the Departments agreed (January 2023) with the audit observation on delayed release of SFC and CFC grants and subsequent payment of interest on delayed release. Finance Department stated that the SFC grants are released after obtaining requisitions from the UD&MA Department and Utilisation Certificates of previously released grants. With regard to delayed release of CFC grants, the Finance Department stated that interest payment for delayed release is utilised by the ULBs for their requirement. The UD&MA Department stated that the payment of interest was within the purview of the grant release guidelines and, such interest amount augments the fund available for development work.

Recommendation:

10. **The SFC and CFC grants may be released in a timely manner.**
11. **The recommendations of SFCs, relating to devolution, may be implemented, to the maximum extent possible.**

4.5 Own Sources of Revenue for the ULBs

Own sources of revenue for the ULBs comprise of tax revenue and non-tax revenue. Provisions contained in the KMC Act, the WBMC Act and the WBM Act, empower ULBs to levy taxes on property, carts, carriages and tolls on ferries, bridges and heavy trucks. Non-tax revenue comprises fee for advertisement, stallage/rent from markets, fee for trade, profession and callings, fee for supply of water, building plan permission fee, mutation fee *etc.* ULBs also earn revenue from parking fees, renting of community halls and guest houses *etc.*

The position, in regard to own sources of revenue, in the test-checked ULBs, is discussed in the succeeding paragraphs:

4.5.1 Insufficiency of own sources of revenue of the ULBs, in comparison to their total receipts

Own sources of revenue are pivotal for discharging functions devolved to the ULBs and achieving self-reliance. Audit observed that, during the period from FYs 2015-16 to 2020-21, the collection of own sources of revenue was very poor in comparison to the total receipts of ULBs, rendering them dependent on grants, for their functioning.

A comparison of own sources of revenue, to total receipts, in 26 out of 27 test-checked ULBs, is given in **Table 4.7**.

Table 4.7: Own sources of revenue *vis-à-vis* total receipts

(₹ in crore)

Financial Year	Receipt from Grants during the year (Capital+Revenue)	Receipts from Assigned Revenue during the financial year	Own Sources of Receipts / Collections during the financial year	Total Receipts during the financial year	Percentage of Own receipts to total receipts
2015-16	1,711.04	785.08	1,473.62	3,969.73	37.12
2016-17	2,444.02	519.45	1,483.01	4,446.49	33.35
2017-18	2,829.79	315.63	1,643.97	4,789.39	34.33
2018-19	3,263.05	823.50	1,634.13	5,720.68	28.57
2019-20	3,066.88	671.34	1,596.59	5,334.81	29.93
2020-21#	935.13	20.76	260.68	1,216.58	21.43
Total	**14,249.91**	**3,135.76**	**8,092.00**	**25,477.68**	**31.76**

(Source: data furnished by 26 ULBs)

***Kolkata* MC furnished figures up to FY 2019-20, since figures for FY 2020-21 had not been finalised. Thus figures for 2015-16 to 2019-20 are inclusive of figures of *Kolkata* MC. The *Kalna* Municipality did not furnish reply.**

It is evident from **Table 4.7** that the percentage of receipts of ULBs from 'own sources', to the total receipts, ranged between 21.43 *per cent* and 37.12 *per cent,* indicating that ULBs were dependent on grants, which diluted the objective of financial empowerment of the ULBs.

Tax Revenues of ULBs

4.5.2 Property Tax

ULBs are empowered to levy property tax on lands and buildings, as per provisions contained in Section 170 of the KMC Act, 102 of the WBMC Act and 93 of the WBM Act. It is one of the major contributors of revenue from own sources. The rates of the property tax are determined as per the formula prescribed in respective municipal acts, based on the annual valuation of all the holdings determined by the West Bengal Valuation Board (WBVB), in consultation with ULBs, except for *Kolkata* MC. The Final Valuation List published by the WBVB, becomes the Assessment List of the ULBs; based on the Assessment List, property tax is approved and levied by the ULBs. The annual valuation, assessment and determination of property tax in *Kolkata* MC is done by *Kolkata* MC itself.

Audit observations relating to Property tax, in the test-checked ULBs, are discussed in the succeeding paragraphs.

4.5.2.1 Collection of Property Tax

Section 216 of the KMC Act, Section 158 of the WBMC Act and Section 149 of the WBM Act, stipulate that, when property tax becomes due on any land or building, the Chairman (in case of Municipality/NAA)/Commissioner (in case of Corporation) shall cause to be presented to the owner or the occupier thereof, a bill for the amount due. Such property tax shall be payable in quarterly instalments and every such instalment shall be deemed to be due on the first day of the quarter, in respect of which it is payable.

If any amount due is paid within 30 days from the date of presentation of the bill, a rebate, up to 10 *per cent* of the amount of tax, as may be determined by the Board of Councillors, is allowed. A notice of demand is served to the person liable to pay tax, if such tax is not paid within 30 days from the presentation of bill and, if within 30 days of the service of the notice of demand, the sum due is not paid, the person shall be deemed to be in default.

Audit observed the following in this regard:

(i) Outstanding property tax and low tax collection efficiency

The status regarding collection of property tax from households, as well as non-residential/commercial/industrial properties, during the period from FYs 2015-16 to 2020-21, is shown in **Table 4.8**.

Table 4.8: Outstanding property tax in the test-checked ULBs

(₹ in lakh)

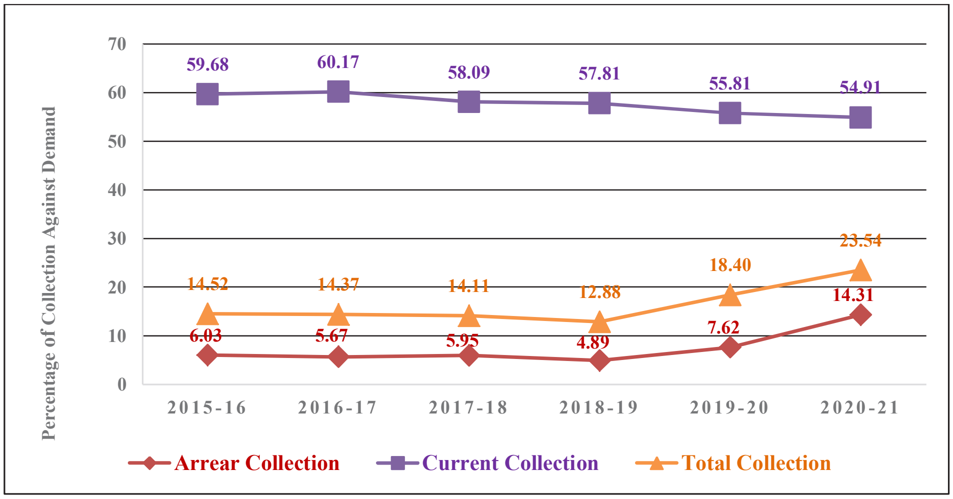
Year	Demand			Collection			Outstanding			Percentage of collection		
	Arrear	Current	Total	Arrear	Current	Total	Arrear	Current	Total	Arrear	Current	Total
2015-16	3,74,367.12	70,318.79	4,44,685.91	22,581.03	41,965.69	64,546.72	3,51,786.09	28,353.10	3,80,139.19	6.03	59.68	14.52
2016-17	4,06,833.72	77,255.27	4,84,088.99	23,076.01	46,482.00	69,558.01	3,83,757.71	30,773.27	4,14,530.98	5.67	60.17	14.37
2017-18	4,47,054.25	82,956.88	5,30,011.13	26,598.06	48,190.03	74,788.09	4,20,456.19	34,766.85	4,55,223.04	5.95	58.09	14.11
2018-19	4,88,259.89	86,811.21	5,75,071.10	23,892.57	50,187.28	74,079.85	4,64,367.32	36,623.93	5,00,991.25	4.89	57.81	12.88
2019-20	3,14,051.13	90,462.97	4,04,514.10	23,945.12	50,490.72	74,435.84	2,90,106.01	39,972.25	3,30,078.26	7.62	55.81	18.40
2020-21	3,24,948.72	95,623.46	4,20,572.18	46,499.55	52,506.63	99,006.18	2,78,449.17	43,116.83	3,21,566.00	14.31	54.91	23.54

(Source: data furnished by 27 ULBs)

From **Table 4.8**, it is evident that, as on 31 March 2021, the total outstanding property tax of 27 test-checked ULBs stood at ₹ 3,215.66 crore.

The trends of arrear collection, current collection and overall collection, are shown in **Chart 4.2** below-

Chart 4.2: Trends of Arrear Collection, Current Collection and Total Collection, during FYs 2015-16 to 2020-21



Audit also observed huge differences between the Closing Balances and the Opening Balances of demand and collection of property tax of successive years, in case of 11 ULBs, *viz*., *Bansberia, Bongaon, Kaliyaganj, Kalna, Katwa, Kolkata* MC*, Konnagar, Panihati, Pujali, Ramjibonpur* and *Uttarpara-Kotrung*, which indicated poor record-keeping (details shown in ***Appendix-5***).

The ULBs did not furnish specific reply in regard to the differences and the steps taken by them to reconcile these differences.

(ii) Non-presentation of bills and non-serving of demand notices

Section 216 of the KMC Act, Section 158 of the WBMC Act and Section 149 of the WBM Act, mandate ULBs to present bills to persons liable to pay property tax, when property tax becomes due. In terms of Section 217 of the KMC Act, Section 159 of the WBMC Act and Section 151 of the WBM Act, a notice of demand is to be served to a defaulter who has not paid property tax within 30 days after the presentation of the bill.

Audit observed that, out of 27 test-checked ULBs, only 18 ULBs had presented bills to taxpayers and only 11 ULBs had served demand notices to defaulters, for not paying property tax. A summary is given in the **Table 4.9**.

Table 4.9: ULBs which presented bills of property tax to taxpayers and served demand notices to defaulters

	Bills of property tax	Demand Notices to defaulters
Served	**18 ULBs:** Bansberia, Barasat, Barrackpore, Bongaon, Contai, Gobardanga, Habra, Kaliyaganj, Kalna, Katwa, Kharagpur, Kolkata MC, Mal, Midnapoe, Panihati, Pujali, Siliguri MC, Tufanganj	**11 ULBs:** Bansberia, Barasat, Barrackpore, Bongaon, Gobardanga, Habra, Kalna, Katwa, Kolkata MC, Mal,Tufanganj
Not served	**7 ULBs:** Asansol MC, Coochbehar, Jhalda, Jiaganj-Azimganj, Konnagar, Raiganj, Ramjibonpur	**14 ULBs:** Asansol MC, Contai, Coochbehar, Jhalda, Jiaganj-Azimganj, Kaliyaganj, Kharagpur, Konnagar, Midnapore, Panihati, Pujali, Raiganj, Siliguri, Ramjibonpur

(Source: data furnished by ULBs)

Two ULBs did not furnish definite information.

Presentation of bills is pivotal to making aware the person liable to pay property tax, about the incidence of tax. Further, any taxpayer, who fails to pay property taxes in a timely manner, may not be termed as a defaulter and steps to recover of taxes cannot be initiated, as per law, unless he/she is served with bills of property tax and/or notice of demand.

(iii) Non-imposition of penalty and interest

Sections 217(3) and (4) of the KMC Act, Sections 160(2) and (3) of the WBMC Act and Section 151(4) of the WBM Act, provide for imposition of penalty upto 15 *per cent* and simple interest up to 10 *per cent*[44] on and in addition to the amount of property tax due.

Audit found that, except for *Kolkata* MC, the rest of the 26 test-checked ULBs had not imposed penalties and seven ULBs (*Asansol* MC*, Siliguri* MC*, Gobardanga, Kaliayganj, Mal, Pujali* and *Ramjibonpur*) had not imposed interest on arrear collections of property tax. The penalty collected by *Kolkata* MC, during the period 2015-16 to 2020-21, was ₹ 40.07 lakh. The interest collected by 17 ULBs, during the period 2015-16 to 2020-21, was ₹ 6.02 crore (details given in ***Appendix-6***). Three ULBs *viz*., *Bongaon, Contai* and *Kolkata* MC*,* collected interest on arrear property tax, during 2015-16 to 2020-21, but did not furnish the amount collected as interest.

Imposition of penalty and interest not only allows ULBs to earn additional revenue, but also act as a deterrent against default in payment of property tax. Thus, during the FYs 2015-16 to 2020-21, non-imposition of penalty and

[44] *For Kolkata MC, the rate of simple interest is three per cent above the prime lending rate of the State Bank of India, as prevalent on the 1st day of January of the particular calendar year, where the annual valuation is less than ₹ one lakh, and at the rate of six per cent above such prime lending rate, where the annual valuation is ₹ one lakh and above. Such interest shall be payable for the period commencing on the 1st day of quarter following that in which the bill is presented and ending with the month in which the payment is made.*

interest resulted in loss of revenue, amounting to atleast ₹ 8.27 crore[45] (₹ 5.37 crore as penalty and ₹ 2.90 crore as interest).

(iv) Non-collection of surcharge for non-residential and commercial use of properties

For use of land or buildings or other properties or portion thereof, for commercial or non-residential purposes, ULBs are empowered to levy and collect surcharge on and in addition to property tax, from such holdings, as per provisions contained in Section 109 of the WBMC Act and Section 97 of the WBM Act. The rate of surcharge is fixed by the ULBs, and it could be up to 50 *per cent* of the property tax. In case of Municipalities, the minimum rate of surcharge has been stipulated to be 20 *per cent* of property tax.

Twelve ULBs had imposed surcharge during FYs 2015-16 to 2020-21, in addition to property tax, for use of properties for non-residential purposes. Out of these 12 ULBs, six (*Bongaon, Jiaganj-Azimganj, Katwa, Kolkata* MC*, Konnagar* and *Panihati*) had maintained the details of demand of surcharge and, as on 31 March 2021, the outstanding surcharge, in these six ULBs, stood at ₹ 76.66 crore. Three ULBs (*Barasat, Contai* and *Siliguri* MC) had not maintained the details of demand of surcharge and the remaining three ULBs (*Gobardanga, Habra* and *Pujali*) did not furnish specific information.

The remaining 15 ULBs did not implement surcharge on non-residential/ commercial use of properties. The ULBs did not furnish reason for the same.

4.5.2.2 Property Tax Board

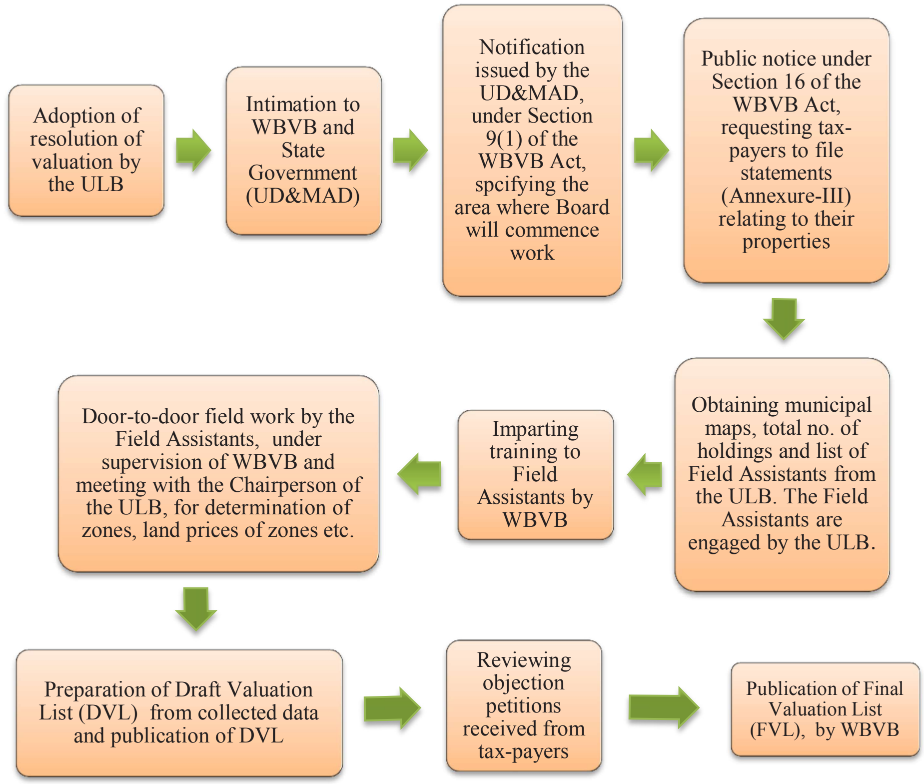
The Thirteenth Finance Commission (13th FC) had recommended that State Governments set up state level Property Tax Boards, to assist all ULBs in the States, in putting in place, an independent and transparent procedure for assessing property tax.

The West Bengal Valuation Board (WBVB) (erstwhile West Bengal Central Valuation Board), under the UD&MA Department, established under the West Bengal Valuation Board Act, 1978, functions as the Property Tax Board of the State. The Board consists of a Chairman and four other members appointed by the State Government. The Director of Local Bodies (DLB), West Bengal, is an *ex-officio* member of the Board. One of the members of the Board is to be its Member-Secretary and is expected to function as the Chief Executive Officer of the Board.

In terms of Section 123 of the WBMC Act and Section 110 of the WBM Act, the general valuation holdings of all ULBs (except KMC and HMC) are conducted by the West Bengal Valuation Board. For KMC and HMC, the general valuations of holdings is done by the ULBs themselves. The process of valuation by the WBVB is depicted in **Chart 4.3**.

[45] *Calculated considering penalty and simple interest at the rate of five percent on arrear collection of tax.*

Chart 4.3: The process of valuation by WBVB



The Final Valuation List, published by the WBVB, becomes the Assessment List of the ULB, in terms of Section 123 of the WBMC Act and Section 110 of the WBM Act. Thus, ULBs themselves are primarily responsible for initiating the process of revision of annual valuation. In terms of Section 19 of the WBVB Act, ULBs are required to make payment to the Board, for conducting general valuation. The valuation for *Kolkata* MC was carried out by the ULB itself.

Audit observed that, while fixing the value of land for each zone, in consultation with the ULB, WBVB wholly depended on the figures supplied by the ULBs and the value of land, as fixed by the Inspector General of Registration[46], was not considered. This may result in undervaluation of properties and resultant determination of property tax.

WBVB stated (September 2021) that the matter of considering the value of land, fixed by the Inspector General of Registration, while determining the value of land under each zone, for general valuation, is under active consideration.

4.5.2.3 Valuation and Assessment of Property Tax

Section 122 of the WBMC Act and Section 109 of the WBM Act, mandate conducting of general valuation, to ensure revision of annual valuation of all the holdings of a municipal area, at the termination of a successive period

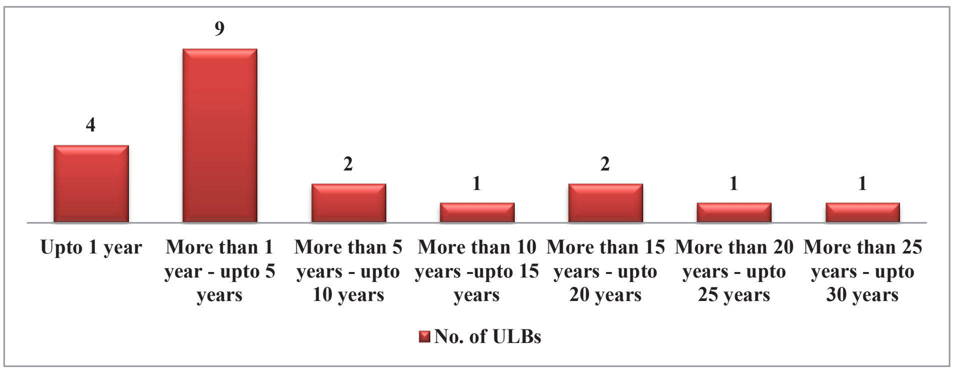
[46] *The Inspector General of Registration and Commissioner of Stamp Revenue, West Bengal, is the Head of Directorate of Stamp Revenue and Registration, Finance Department (Revenue), Government of West Bengal. The Registering Officers of the district establishments, under the Directorate, are entrusted with the duty of transparent determination of the market value of land, under the West Bengal Stamp (Prevention of Under-Valuation of Instruments) Rules, 2001.*

of five years, by the Chairman-in-Council/Corporation. As discussed in the previous paragraph, after the valuation procedure has been completed, the Final Valuation List, prepared by the WBVB, is notified by the State Government, as the Assessment List of the ULB and this list remains valid for a period of five years. If the general valuation could not be completed before the expiration of last valuation, or the new assessment list could not be given effect, the last assessment list should continue to be in force.

In case of *Kolkata* MC, as per KMC Act, the valuation may be conducted either by the KMC or by the WBVB. However, *Kolkata* MC itself conducted the valuation on an yearly basis.

Out of the remaining 26 test-checked ULBs, Audit observed that, in case of 20 ULBs, there had been delays in conducting general valuation of the holdings of the municipal areas, ranging from three months (*Bongaon*) to more than twenty-five years (*Kaliyaganj*) (details given in ***Appendix-7***). A summary of the range of delays is given in **Chart 4.4**.

Chart 4.4: Range of delays in general valuation, in 20 ULBs



(<u>Source</u>: data furnished by WBVB)

Apart from the 20 ULBs, in *Contai* Municipality, general valuation of properties had not been done since the inception of the WBVB. In the remaining five ULBs, there were no delays in general valuation.

4.5.2.4 Service Charges from Central Government properties

Under Clause (1) of Article 285 of the Constitution of India, Central Government properties are exempted from paying all taxes imposed by a State or by any authority within a State. Ministry of Finance, Government of India, decided (May 1954) that Central Government properties would pay service charges to local bodies, for specific services rendered, with effect from 1 April 1954. The Central Government also fixed (March 1967) the rates of service charges, as a percentage of the realisable property tax.

Article 285 of the Constitution, Section 171(6) of the KMC Act, Section 111 of the WBMC Act and Section 100 of the WBM Act, also exempt Central Government properties from payment of property tax and mandate levying and collecting service charges, based on annual values, at rates determined by the Central Government.

Further directive issued (December 2009) by the Ministry of Urban Development (MoUD), Government of India, on the basis of the order of Hon'ble Supreme Court of India, also mentioned collection of service charges as a percentage of the property tax. As per the directive, State Governments were requested to take note of the order and advise ULBs to regulate payment of service charges, in the light of the judgement.

Audit observed that there was an anomaly regarding the determination of service charges, since the calculation of service charges, as per the Central Government, was based on the realisable property tax, whereas, as per the State Acts, the determination was to be done on the basis of annual value of the property. It was noticed that, as of March 2021, necessary steps had not been initiated by the State Government, to dispose of the anomaly between the directive and the State Acts, regarding the basis of determination of service charges.

Out of the 27 test-checked ULBs, Audit, observed that 19 ULBs[47] had not imposed service charges on Central Government properties within their jurisdiction. Only seven ULBs, *viz*. *Bongaon, Coochbehar, Katwa, Kharagpur, Kolkata* MC*, Siliguri* MC and *Suri,* had implemented levy/collection of service charges, while specific information for one ULB (*Panihati*) was not available.

Recommendation:

12. **ULBs may take all possible measures to increase revenue from property tax.**
13. **Government may ensure that valuation of properties in the ULBs is conducted in a timely manner and, while determining the value of land, the guidance values fixed by the State Government are taken into consideration, to avoid undervaluation of properties.**
14. **ULBs may be advised to initiate discussion with the Departments of the Central Government, to decide the quantum of services which would be delivered to them and the resultant service charges to be levied and collected.**

4.5.3 Tax on Cart, Carriage and Animal

Sections 170, 209A, 209B and 209F of the KMC Act, Sections 102 and 148 to 150 of the WBMC Act and Section 93, 127 and 128 of the WBM Act, provide for levy and collection of tax on registration of cart, carriage and animals.

As per provisions, every cart and carriage[48], kept or used within the municipal area, is required to be registered, on payment of tax for registration. The tax is leviable on the owner or on the persons having possession or control of the carriages and animals and may be paid for half-year or a complete year.

[47] *Asansol MC, Bansberia, Barasat, Barrackpore, Contai, Gobardanga, Habra, Jhalda, Jiaganj-Azimganj, Kaliyaganj, Kalna, Konnagar, Mal, Midnapore, Pujali, Raiganj, Ramjibonpur, Tufanganj and Uttarpara-Kotrung.*

[48] *'Carriage' means any wheeled vehicle used for conveyance of human beings and goods and includes van-rickshaw or cycle-rickshaw but does not include a motor vehicle, bicycle or tricycle. 'Cart' means any cart, hackery or wheeled vehicle, with or without springs.*

Audit observed that only four ULBs (*Kolkata* MC*, Siliguri* MC*, Barrackpore* and *Konnagar*) had levied and collected tax on cart, carriage and animals, while 20 ULBs[49] had not levied tax on cart, carriage and animals within the municipal area. Three ULBs (*Asansol* MC, *Barasat* and *Raiganj*) did not furnish the requested information.

Non-tax Revenue

4.5.4 License Fee for Advertisement

Previously, fees for advertisements, was levied and collected in the form of tax on advertisements, other than advertisements published in the newspapers, as per provisions of Section 170 of the KMC Act, 102 of the WBMC Act and 93 of the WBM Act. Following amendments made to the respective acts in 2019-20[50], the entry regarding tax on advertisement was removed from the list of taxes leviable by the ULBs and was classified as fees for advertisement.

Audit observed the following, with regard to levy and collection of fees for advertisement:

4.5.4.1 Collection of license fees for advertisement

a) Section 204 of the KMC Act, Sections 142 and 144 of the WBMC Act and Section 123 of the WBM Act, empower ULBs to collect fees for display of advertisements.

Audit noticed that 23 ULBs had collected license fee for advertisements, in their respective municipal areas and the total amount collected during 2015-16 to 2020-21 stood at ₹ 36.60 crore (details given in ***Appendix-8***). Two ULBs (*Pujali* and *Gobardanga*) had not collected license fee for display of advertisements. Two ULBs (*Jhalda* and *Jiaganj-Azimganj*) did not furnish the requested information.

b) Audit observed that, out of the 23 ULBs which had collected fees for advertisement, 14 ULBs had not maintained demand details for fee for advertisement; five ULBs (*Asansol* MC*, Bansberia, Kalna, Katwa and Ramjibonpur*) had maintained details of current demand only; and four ULBs (*Contai, Kolkata* MC*, Siliguri* MC *and Suri*) had maintained arrear and current demand for fee for advertisement. *Contai* Municipality had maintained arrear and current demand for the period 2015-16 to 2018-19 and *Kolkata* MC*,* had maintained it for the period 2015-16 to 2019-20. *Kolkata* MC did not furnish data for 2020-21.

Absence of demand details indicates that the ULBs had not maintained data regarding the number of advertisements displayed in their municipal jurisdictions, number of unauthorised advertisements being displayed after expiry of the stipulated period (*i.e.* the period for which permissions had been granted) and fee paid for advertisement, as well as loss of revenue due to non-renewal of licence fee.

---

[49] *Bansberia, Bongaon, Contai, Coochbehar, Gobardanga, Habra, Jhalda, Jiaganj-Azimganj, Kaliyaganj, Kalna, Katwa, Kharagpur, Mal, Midnapore, Panihati, Pujali, Ramjibonpur, Suri, Tufanganj, Uttarpara-Kotrung.*

[50] *The West Bengal Municipal Corporation (Amendment) Act, 2019; the West Bengal Municipal (Amendment) Act, 2019 and the Kolkata Municipal Corporation (Amendment) Act, 2019.*

c) Audit also observed that, as on 31 March 2021, the outstanding fees for advertisement, stood at ₹ 25.22 crore, in case of seven ULBs[51].

4.5.4.2 Collection of license fee for site

In terms of Section 203 of the KMC Act, Section 143 of the WBMC Act and Section 122 of the WBM Act, the owner, occupier, lessee or an advertising agent, should obtain license for use of site for display of advertisement, after making payment for license fee. The license is to be issued for a period of one year.

Audit observed that, out of the 23 ULBs which had collected fee for advertisements, 21 ULBs had not collected licence fee, for use of sites for display of advertisements. Only two ULBs (*Asansol* MC and *Kolkata* MC) had collected license fee for use of sites for display of advertisements and, as on 31 March 2021, the outstanding license fee, for these two ULBs, stood at ₹ 29.92 crore.

4.5.5 Rent from markets

a) As per provisions of Section 430 of the KMC Act, Section 310 of the WBMC Act and Section 276 of the WBM Act, ULBs may levy premium, stallage, rent or fee, for the occupation or use of any stall, shop, stand, shed or pen in a municipal market or put up to public auction, or dispose of by private sale, the privilege of occupying stall, shop *etc.*

During scrutiny of records for the FYs 2015-16 to 2020-21, Audit observed that collection efficiency of stallage/rent, by the ULBs, from municipal markets, was poor and, as on 31 March 2021, the outstanding amount of stallage/rent, from municipal markets, in case of 22 ULBs, stood at ₹ 18.49 crore, with an overall collection efficiency[52] of 55.63 *per cent*. Four ULBs (*Asansol* MC, *Barrackpore, Gobardanga* and *Siliguri* MC) did not furnish the requested information to Audit.

Pujali Municipality had no municipal market under its jurisdiction.

b) Out of the 22 ULBs, only nine ULBs *viz*., *Contai, Habra, Katwa, Kharagpur, Kolkata* MC*, Konnagar, Panihati, Ramjibonpur* and *Uttarpara-Kotrung* had presented bills to owners/occupiers of shops in municipal markets, while five ULBs *viz*., *Coochbehar, Kalna, Mal, Raiganj* and *Tufanganj* had not presented such bills. The remaining eight ULBs *viz*., *Bansberia, Barasat, Bongaon, Jhalda, Jiaganj-Azimganj, Kaliyaganj, Midnapore* and *Suri* did not furnish the requested information.

4.5.6 Fee for Certificates for enlistment of profession, trade and callings

In terms of Section 199 of the KMC Act, Section 141 of the WBMC Act and Section 118 of the WBM Act, every person engaged or intending to be engaged in any profession, trade or calling, as specified in the Schedules appended to the Acts, either by himself or by an agent or representative, is required to obtain a

[51] *Arrear and current demand in case of four ULBs (Contai, Kolkata MC, Siliguri MC and Suri), current demand in case of two ULBs (Asansol MC and Bansberia) and data furnished by one ULB (Panihati Municipality) during audit.*

[52] *Percentage of collection against demand.*

Permanent Certificate of Enlistment or Provisional Certificate of Enlistment, or get the Permanent Certificate of Enlistment renewed, on or before the expiry of the validity period, by payment of fee for enlistment.

The Provisional Certificate of Enlistment is issued for a period of one year and is not renewable; it has to be converted into a Permanent Certificate of Enlistment, on or before completion of the validity period. A Permanent Certificate of Enlistment may be obtained for a maximum period of three years together and be renewed for a maximum period of three years.

Accordingly, as mandated in the respective Acts/guidelines issued by State Government, ULBs are required to maintain registers or databases for Permanent and Provisional Certificates of Enlistment, to check over non-renewal of Permanent or Provisional Certificates of Enlistment.

Audit, observed that two ULBs (*Jhalda* and *Tufanganj*), were not maintaining records of issued Permanent Certificates of Enlistment, while the remaining 25 ULBs were maintaining the same.

Audit also observed that the ULBs had not been empowered by the Acts, to conduct mandatory inspections, to keep check on trades or professions being carried out, without obtaining Certificates of Enlistment or without renewal of Provisional or Permanent Certificates of Enlistment. In the absence of mandatory provision, Audit observed that only four ULBs were conducting such inspections.

Audit also noticed that the *Konnagar* Municipality, in contravention of the provisions contained in the Act, had renewed Provisional Certificates of Enlistment, instead of converting them to Permanent Certificates of Enlistment, during FYs 2015-16 to 2020-21.

In the absence of maintenance of database/registers and regular inspections, ULBs were not able to monitor the trades, profession and callings being carried out in their jurisdiction, without obtaining Certificates of Enlistment, or without their renewal. Thus, ULBs lost the opportunity to augment their own source revenue.

4.5.7 Other revenue sources of ULBs

- **License fee for private markets**

Section 436 of the KMC Act, Section 308 of the WBMC Act and Section 278 of the WBM Act, provide that, to establish and keep open a private market, license has to be obtained from the ULB, after payment of license fee.

Audit observed that only three of the test-checked ULBs (*Barrackpore, Katwa* and *Uttarpara-Kotrung*) had maintained records of the private markets in their municipal areas and two of these ULBs (*Katwa* and *Uttarpara-Kotrung*) had issued licenses for opening private markets but did not collect license fees. 18 ULBs had not granted licenses and prescribed license fee for private markets. Five ULBs did not furnish the requested information (details given in ***Appendix-9***), while one ULB (*Contai*) did not have private market under its jurisdiction.

- **Surcharge on transfer of immovable properties (Additional Stamp Duty)**

Section 210A of the KMC Act, Section 133 of the WBMC Act and Section 117 of the WBM Act, empower the Corporation/BoC to levy surcharge on the transfer of immovable property situated within the municipal area concerned, in the form of additional stamp duty.

Audit noticed that 16 ULBs were not levying surcharge, in the form of additional stamp duty. Only two ULBs were collecting additional stamp duty, while nine ULBs did not furnish reply (details given in ***Appendix-9***).

- **Stacking fee**

In terms of Rule 44 of the KMC Building Rules, 2009 and Rule 24 of the West Bengal Municipal Building Rules 2007, the Corporation or the BoC, may levy stacking fee, for depositing any building material, including building rubbish, in any street, for which they shall be charged. Further, different rates may be specified for different categories of streets.

Audit found that only eight ULBs, including *Kolkata* MC, had imposed stacking fees, fifteen ULBs had not imposed it, while information was not provided by the remaining four ULBs (details given in ***Appendix-9***).

Further, out of 27 test-checked ULBs only 15 ULBs, provided information regarding latest revision in fees/charges (details given in ***Appendix-10)***. Non-revision of fees/charges, resulted in a substantial dependence on grants from the Central and State Governments, rather than generating own source of revenue.

In the Exit Conference (October 2022), the Department acknowledged the audit observation relating to unsatisfactory performance of ULBs in mobilizing the sources of own revenue, particularly property tax. The Department agreed that the ULBs were unaware of many possible sources of revenue, such as Additional Stamp duty, Stacking fee *etc.* The Department agreed to take up the matters relating to non-collection of surcharges from commercial/semi-commercial/industrial holdings, non-maintenance of demand surcharge and non-imposition of Service Charges from the properties of Central Government. In regard to non-collection of taxes on cart, carriage and animals, the Department opined that such provisions relating to archaic sources of tax revenue, require reconsideration.

In regard to non-consideration of rates of Inspector General of Rates by WBVB, while determining the valuation in ULBs, the Department agreed to take up the issue with Member Secretary, WBVB.

Recommendation :

15. **ULBs are to ensure that Rates/Fees levied by them may be revised, time to time.**

4.6 Budget Estimates

4.6.1 Budget Preparation

In terms of Section 131 of the KMC Act, Section 69 of the WBMC Act and Section 82 of the WBM Act, ULBs are required to prepare and adopt budget estimates of the income likely to be received by them and the expenditure likely to be incurred by them, on account of the municipal government of the area under their jurisdiction.

The Sections *ibid* further stipulate that these budget estimates are to be adopted by 10th March (in case of Municipalities), 22nd March (in case of *Kolkata* MC) and 31st March (in case of other Corporations). Section 69 of the WBMC Act and Section 82 of the WBM Act, also provide for preparation of revised budgets, for the Corporations and Municipalities, respectively.

In this regard, Audit observed that –

(i) Two ULBs, *viz*. the *Mal* and *Panihati* municipalities, did not place the budget estimates before their Board of Councillors, for adoption, for the periods from the FYs 2015-16 to 2016-17 and 2015-16 to 2017-18, respectively.

(ii) During FYs 2015-16 to 2020-21, 19 ULBs had presented their budgets, to their Board of Councillors, for adoption, with delays ranging from ten days (*Mal*: 2018-19) to eight months (*Ramjibonpur*: 2020-21).

(iii) Two ULBs, *viz*. *Contai* and *Jiaganj-Azimganj,* had not prepared budget estimates during FYs 2015-16 to 2020-21.

4.6.2 Creation of Basic Services for Urban Poor Fund

In terms of Section 123B of the KMC Act, Section 62A of the WBMC Act and Section 70A of the WBM Act, ULBs are required to create a separate fund, called 'Basic Services for Urban Poor' (BSUP), within their respective jurisdictions, including the slum areas. A minimum of 25 *per cent* of the funds within the budget of the ULB from own sources, assigned revenues, allocation from SFC and CFC, grants from externally aided projects, contributions from various sources *etc.*, are to be earmarked and used for providing basic services to the urban poor, including inhabitants of the slum areas, on a yearly basis.

The fund is a non-lapsable fund. In the event of the annual allocations not being fully utilised, the balance funds should not be transferred to the municipal fund but carried forward for utilisation in the subsequent years. The fund allocation in subsequent years shall be considered in addition and shall not be reduced by the unspent funds of the previous years.

Audit, however, observed that only the *Katwa* Municipality had created the BSUP fund, as mandated, while 17 ULBs[53] had not created the fund; nine ULBs (*Asansol* MC, *Bongaon, Contai, Gobardanga, Jhalda, Kaliyaganj, Kharagpur, Konnagar* and *Suri*) did not furnish reply.

The matter was referred to the State Government in September 2022, no reply was furnished.

Recommendation:

16. ULBs may prepare their budgets within the stipulated timeframe, considering their actual requirements of funds.

17. The BSUP fund should be mandatorily created by all ULBs and regular contributions should be made therein, to ensure delivery of basic services to the urban poor, as well as to the inhabitants of slum areas.

[53] *Bansberia, Barasat, Barrackpore, Coochbehar, Habra, Jiaganj-Azmganj, Kalna, Kolkata MC, Mal, Midnapore, Panihati, Pujali, Raiganj, Ramjibonpur, Siliguri MC, Tufanganj and Uttarpara-Kotrung.*

4.7 Expenditure by the ULBs

Seventeen ULBs[54] had furnished complete data, regarding revenue expenses and own source revenue, while the desired information was not made available by the remaining 10 ULBs.

Audit observed that the own source revenue of the ULBs was not sufficient to meet their revenue expenditure, as evident from **Table 4.10**.

Table 4.10: Comparison of own source revenue with the total revenue expenditure

(₹ in crore)

Year	Total revenue Expenditure	Own source revenue	Percentage of own fund receipt to total revenue expenditure of ULBs
2015-16	395.63	144.19	36.45
2016-17	481.02	155.63	32.35
2017-18	599.38	179.89	30.01
2018-19	672.78	214.38	31.86
2019-20	652.03	200.31	30.72
2020-21	587.29	184.04	31.34
Total	**3,388.13**	**1,078.44**	**31.83**

(Source: data furnished by the ULBs)

From **Table 4.10**, it is evident that the ULBs were dependent on grants to meet their revenue expenditure and were far from achieving budgetary self-reliance, which is essential for carrying out their devolved functions.

Recommendation :

18. ULBs may explore all possible areas to augment their own revenue, strengthen their collection efficiency and arrange special drives, from time to time, to collect arrears, in order to meet their revenue expenses.

While endorsing the observations and recommendation made by audit, The UD&MA Department issued an order (March 2023) directing that henceforth Finance Officers would act as Nodal Officers for revenue mobilization of ULBs.

[54] *Asansol MC, Bansberia, Barasat, Barrackpore, Contai, Habra, Kaliyaganj, Katwa, Kharagpur, Konnagar, Midnapore, Panihati, Pujali, Raiganj, Ramjibonpur, Suri and Uttarpara-Kotrung.*