

## CHAPTER IV

### URBAN DEVELOPMENT DEPARTMENT

#### AN OVERVIEW OF URBAN LOCAL BODIES

##### 4.1 Introduction

**4.1.1** The 74<sup>th</sup> Constitutional amendment enacted in 1992 had envisaged creation of local self-governments for the urban area population and the municipalities had been accorded constitutional status for governance. The amendment had empowered Urban Local Bodies (ULBs) to function efficiently and effectively as autonomous entities to deliver services for the economic development and social justice with regard to 18 subjects listed in the XII Schedule of the Constitution.

The category-wise ULBs in the State as of March 2015 have been shown in **Table 4.1** below:

**Table 4.1: Category-wise ULBs in Karnataka State**

Urban Local Bodies	Number of ULBs
City Corporations (CCs)	11
City Municipal Councils (CMCs)	42
Town Municipal Councils (TMCs)	93
Town Panchayats (TPs)	68
Notified Area Committees (NACs)	5

Source: Administrative Report of Urban Development Department for the year 2014-15

The CCs are governed by Karnataka Municipal Corporations Act, 1976 (KMC Act) and other ULBs are governed by Karnataka Municipalities Act, 1964 (KM Act). Each Corporation/Municipal area has been divided into a number of wards, which are determined and notified by the State Government considering the population, geographical features, economic status, *etc.*, of the respective area.

##### 4.2 Organisational Structure

**4.2.1** The Urban Development Department (UDD) is headed by the Additional Chief Secretary to Government of Karnataka and is the nodal department.

The Directorate of Municipal Administration (DMA), established in December 1984, is the nodal agency to control and monitor the administrative, developmental and financial activities of the ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP), which functions directly under the UDD.

##### 4.2.2 Composition of ULBs

All the ULBs have a body comprising Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected by the Corporators/Councillors presides over the meetings of the Council and is

responsible for governance of the body. While the ULBs other than BBMP have four Standing Committees, BBMP has 12 Standing Committees to deal with their respective functions. The Commissioner/Chief Officer is the executive head of ULBs. The officers of ULBs exercise such powers and perform such functions as notified by the State Government from time to time. The Municipal Administration, Town Planning and Urban Land Transport are the subordinate wings of UDD.

Out of 214 ULBs in the State, Audit test-checked the records of BBMP and eight<sup>26</sup> other ULBs to review the financial reporting system in ULBs.

### 4.3 Financial profile

#### 4.3.1 Resources of ULBs

The finances of ULBs include receipts from own sources, grants and assistance from Government of India (GoI)/State Government and loans from financial institutions or nationalised banks as the State Government may approve. The ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstay of ULB's own revenue. While the authority to collect certain taxes is vested with the ULBs, authority pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemptions, concessions, *etc.*, is vested with the State Government. The own non-tax revenue of ULBs comprise fee for sanction of plans/mutations, water charges, *etc.*

#### 4.3.2 Release of grants to ULBs

The details of grants released by the State Government to ULBs during the period 2010-15 have been shown in **Table 4.2** below:

**Table 4.2: Statement showing release of grants**

ULBs	2010-11		2011-12		2012-13		2013-14		2014-15	
	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	617	616	2,800	2,864	3,544	2,669	4,348	3,632	4,956	4,372
CMCs/TMCs	1,789	1,936	1,252	1,126	1,513	1,126	1,629	1,139	1,589	1,365
TPs/NACs	474	423	285	258	290	214	344	248	312	273
<b>Total</b>	<b>2,880</b>	<b>2,975</b>	<b>4,337</b>	<b>4,248</b>	<b>5,347</b>	<b>4,009</b>	<b>6,321</b>	<b>5,019</b>	<b>6,857</b>	<b>6,010</b>

Source: State Budget Estimates and Finance Accounts

#### 4.3.2.1 Short release of funds to the ULBs

As per the recommendations (December 2008) of the Third State Finance Commission, the State Government was to release 10 *per cent* (₹7,487 crore) of Non Loan Net Own Revenue Receipts (NLNORR) to ULBs during 2014-15. As against this, the State Government had released 8.03 *per cent* (₹6,010 crore) of NLNORR, resulting in short release of ₹1,477 crore during 2014-15.

<sup>26</sup> One CC-Vijayapura; Four CMCs-Madikeri, Nippani, Sagar and Sira; and Three TMCs-Gowribidanur, Mudalagi and Nelamangala

### 4.3.3 Property Tax

The State Government had introduced the Self Assessment Scheme (SAS) for payment of property tax applicable to all Municipalities of the State with effect from 1 April 2002. The position of property tax demanded, collected and outstanding at the end of March 2015 in respect of 213 ULBs (except BBMP) has been shown in **Table 4.3** below:

**Table 4.3: Position of demand, collection and balance of Property Tax in 213 ULBs**

(₹ in crore)

Year	Opening balance	Current year demand	Total demand	Collection	Balance	Percentage of collection to total demand
2010-11	96.69	258.65	355.34	290.03	65.31	82
2011-12	65.31	290.97	356.28	288.72	67.56	81
2012-13	67.56	342.20	409.76	295.30	114.46	72
2013-14	114.46	384.03	498.49	362.26	136.23	73
2014-15	136.23	446.56	582.79	416.32	166.47	71

Source: Details furnished by DMA

From the above table, it can be seen that arrears of property tax had increased from ₹65.31 crore in 2010-11 to ₹166.47 crore in 2014-15. The ULBs need to make efforts to collect remaining amounts without further delay.

The targets fixed and collections against targets in respect of BBMP have been shown in **Table 4.4** below:

**Table 4.4: Position of target and collection of Property Tax in BBMP**

(₹ in crore)

Year	Target	Collection	Percentage of collection to total target
2010-11	1,500.00	1,108.00	74
2011-12	1,600.00	1,210.00	76
2012-13	2,000.00	1,358.00	68
2013-14	2,500.00	1,323.18	53
2014-15	2,900.00	1,810.13	62

Source: Furnished by BBMP and UDD report

It can be seen that the BBMP had not achieved the targets during 2010-15. The collection made in 2013-14 was less than the collection made in the year 2012-13 in absolute terms.

### 4.3.4 Realisation of water charges

It is the duty of every municipality to provide supply of wholesome water for the domestic use of inhabitants. The supply of water for domestic and non-domestic users is charged at the prescribed rates.

The details of demand, collection and arrears for the five years ended 31 March 2015 in respect of the test-checked ULBs<sup>27</sup> have been shown in **Table 4.5** below:

**Table 4.5: Details of collection of water charges in selected ULBs for the period 2010-15**

(₹ in crore)						
Name of ULB	Opening balance	Demand	Total demand	Collection	Outstanding balance	Percentage of collection to total demand
CMC, Madikeri	0.25	2.63	2.88	2.14	0.74	74
CMC, Nippani	0.16	5.99	6.15	5.46	0.69	89
CMC, Sagar	0.08	2.84	2.92	2.59	0.33	89
CMC, Sira	0.41	4.13	4.54	3.38	1.16	74
TMC, Gowribidanur	0.10	1.55	1.65	1.01	0.64	61
TMC, Mudalagi	0.00	0.49	0.49	0.49	0.00	100
TMC, Nelamangala	0.37	1.10	1.47	0.98	0.49	67
<b>Total</b>	<b>1.37</b>	<b>18.73</b>	<b>20.10</b>	<b>16.05</b>	<b>4.05</b>	<b>80</b>

Source: Information furnished by ULBs

It can be seen from the above table that in these test-checked ULBs, a sum of ₹16.05 crore (80 per cent) was collected during 2010-15 towards water charges against a total demand of ₹20.10 crore, leaving a balance of ₹4.05 crore.

#### 4.3.5 Realisation of rent from commercial properties

The details of demand, collection and arrears for the five years ended 31 March 2015 in respect of the test-checked ULBs (except BBMP) have been shown in **Table 4.6** below:

**Table 4.6: Position of demand, collection and balance of rent in selected ULBs for the period 2010-15**

(₹ in crore)						
Name of ULB	Opening balance	Demand	Total demand	Collection	Outstanding balance	Percentage of collection to total demand
CC, Vijayapura	0.66	7.33	7.99	7.85	0.14	98
CMC, Madikeri	0.14	2.17	2.31	1.65	0.66	71
CMC, Nippani	0.04	0.97	1.01	0.98	0.03	97
CMC, Sagar	0.13	1.27	1.40	1.02	0.38	73
CMC, Sira	0.20	0.82	1.02	0.89	0.13	87
TMC, Gowribidanur	0.08	0.93	1.01	0.60	0.41	59
TMC, Mudalagi	0.01	0.57	0.58	0.48	0.10	83
TMC, Nelamangala	0.09	1.05	1.14	1.07	0.07	94
<b>Total</b>	<b>1.35</b>	<b>15.11</b>	<b>16.46</b>	<b>14.54</b>	<b>1.92</b>	<b>88</b>

Source: Information furnished by ULBs

It may be seen from the above table that in test-checked ULBs, a sum of ₹14.54 crore (88 per cent) was collected during 2010-15 towards rent against a total demand of ₹16.46 crore, leaving a balance of ₹1.92 crore. The realisation of rent was less than 75 per cent in case of TMC, Gowribidanur (59 per cent), CMCs, Madikeri (71 per cent) and Sagar (73 per cent).

<sup>27</sup> Except BBMP and CC, Vijayapura, where water supply functions are entrusted to Bengaluru Water Supply and Sewerage Board and Karnataka Urban Water Supply and Drainage Board respectively.

### 4.3.6 Remittance of Cess amount

The ULBs were required to collect various Cesses such as Health, Education, Library and Beggary at 15 per cent, 10 per cent, 6 per cent and 3 per cent respectively, on the amount of tax collected on land and buildings and were to remit the same to the authorities<sup>28</sup> concerned within the time frame prescribed by the State Government after retaining 10 per cent of the Cess collected as collection charges.

#### 4.3.6.1 Non-remittance of Cess amount by ULBs

As of March 2015, eight test-checked ULBs had not remitted Cess amount of ₹7.06 crore, out of ₹12.58 crore collected towards Health, Library and Beggary Cesses (excluding opening balance of ₹2.75 crore), to the State Government as detailed in **Appendix 4.1**.

#### 4.3.6.2 Non-remittance of Cess amount by BBMP

As of March 2015, BBMP had not remitted an amount of ₹177.96 crore out of ₹403.29 crore collected towards Library and Beggary Cesses to the State Government.

The BBMP had collected ₹674.07 crore towards Health Cess during 2010-15 but it had not remitted the entire Cess amount to the Government.

The BBMP replied that Health Cess was not remitted as BBMP was providing healthcare to the people through its own hospitals. The reply was not acceptable as the Karnataka Health Cess Act, 1962 does not provide for utilisation of Cess by the ULBs.

## 4.4 Devolution of Functions and Funds

The 74<sup>th</sup> Constitutional amendment had envisaged devolution of 18 functions listed in the XII Schedule of the Constitution to ULBs. As of March 2015, the State Government had transferred 14 functions to ULBs. Two<sup>29</sup> functions were being implemented by both ULBs and the State Government. The other two functions, namely, Urban Planning and Fire Services had not been transferred to the ULBs.

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly to the ULBs to implement the devolved functions. In addition, grants are released to implement State and Centrally Sponsored Schemes.

<sup>28</sup> Education Cess - Education Department, Health Cess - Health Department, Beggary Cess - Directorate of Beggary, and Library Cess - Department of Libraries

<sup>29</sup> (1) Urban forestry, protection of environment and ecology (ULBs and Forest Department)  
(2) Slum improvement and up-gradation (ULBs and Slum Development Board)

## **4.5 Accountability framework**

### **4.5.1 Powers of the State Government**

As per the Acts governing ULBs, the State Government has the following powers for monitoring the proper functioning of the ULBs:

- to frame rules to carry out the purposes of KMC and KM Acts;
- to dissolve those ULBs which fail to perform or default in the performance of any of the duties imposed on them;
- to cancel a resolution or decision taken by the ULBs if the State Government is of the opinion that it has not been legally passed or is in excess of the powers conferred by provisions of the Acts;
- to regulate classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of the staff and officers of ULBs.

### **4.5.2 Vigilance mechanism**

The Lokayukta appointed by the State Government has the power to investigate and report on allegations or grievances relating to the work and conduct of officers and employees of ULBs.

### **4.5.3 Audit mandate**

The Controller, Karnataka State Accounts Department (KSAD) is the primary Auditor of ULBs in terms of KMC and KM Acts. The State Government entrusted (May 2010) the audit of accounts of all ULBs except NACs to the Comptroller and Auditor General of India (CAG) under Section 14 (2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 with effect from 2008-09 and under Technical Guidance and Supervision with effect from 2011-12 onwards, by amending the statutes (October 2011).

### **4.5.4 Arrears in Primary Audit**

As against 214 ULBs and five NACs under the purview of audit, the audit of accounts of 200 ULBs for the period up to 2013-14 was conducted by Controller, KSAD as of 31 March 2014.

The audit of accounts in the test-checked ULBs (except TMC, Mudalagi) was in arrears. In CMCs, Sagar and Madikeri, audit had been done up to 2012-13. In respect of BBMP, CC, Vijayapura, CMCs, Sira and Nippani, TMCs, Gowribidanur and Nelamangala, the audit had been done up to 2013-14.

### **4.5.5 Response to audit observations**

The Commissioners/Chief Officers are required to rectify the defects and omissions contained in the Inspection Reports (IRs) and report their compliance to KSAD within three months from the date of issue of IRs. The amount kept under objection for want of details and the amount kept under

objection involving recovery in respect of CCs and other ULBs as on 31 March 2015 has been detailed in the **Table 4.7** below:

**Table 4.7: Details of amounts kept under objection in ULBs**

(₹ in crore)

ULBs	Amount kept under objection for want of details	Amount kept under objection involving recovery
CCs	6,039.95	1,551.55
CMCs/TMCs/TPs	1,836.29	279.33
<b>Total</b>	<b>7,876.24</b>	<b>1,830.88</b>

Source: Information furnished by KSAD

The status of outstanding amount proposed for recovery and kept under objection by the KSAD in their reports in respect of the test-checked ULBs as on 31 March 2015 has been detailed in **Table 4.8** below:

**Table 4.8: Outstanding amount as on 31 March 2015 in respect of test-checked ULBs**

(₹ in crore)

Name of the ULBs	Report for the year	Amount kept under objection for want of details	Amount kept under objection involving recovery	Period
BBMP	2013-14	4,769.18	1,291.51	1964-65 to 2013-14
CC, Vijayapura	2013-14	33.06	18.25	1947-48 to 2013-14
CMC, Madikeri	2012-13	10.76	0.57	1965-66 to 2012-13
CMC, Nippani	2013-14	7.04	7.35	1964-66 to 2012-13
CMC, Sagar	2012-13	7.02	0.50	1946-49 to 2012-13
CMC, Sira	2013-14	14.94	0.68	1972-73 to 2013-14
TMC, Gowribidanur	2013-14	9.09	3.01	1943-44 to 2013-14
TMC, Mudalagi	2014-15	0.27	0.11	1973-74 to 2014-15
TMC, Nelamangala	2013-14	9.03	0.48	1996-97 to 2013-14
<b>Total</b>		<b>4,860.39</b>	<b>1,322.46</b>	

Source: Local Audit (KSAD) Report

It is evident from **Table 4.7** and **Table 4.8** that neither the State Government nor the ULBs had taken steps to clear the audit objections.

## 4.6 Conclusion

There was short collection of property tax and water charges. There were cases of shortfall in realisation of rent from commercial properties. Out of 18 functions to be devolved to the ULBs, the State Government had devolved only 14 functions. There was shortfall in remittance of Cess amount by the ULBs and the BBMP had not remitted the Health Cess collected on behalf of the State Government. There was poor response to audit observations by ULBs.