

Chapter-IV

Department of Urban Development

An overview of Urban Local Bodies

4.1 Introduction

4.1.1 The 74th Constitutional amendment enacted in 1992 had envisaged creation of local self-governments for the urban 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 economic development and social justice with regard to 18 subjects listed in the Twelfth Schedule of the Constitution.

The category-wise ULBs in the State have been shown in **Table 4.1**.

Table 4.1: Category-wise ULBs in Karnataka State

Urban Local Bodies	Number of ULBs ³³
City Corporations (CCs)	11
City Municipal Councils (CMCs)	57
Town Municipal Councils (TMCs)	114
Town Panchayats (TPs)	89
Notified Area Committees (NACs)	4

Source: Information furnished (March 2017) by the Department

The CCs are governed by the Karnataka Municipal Corporations Act, 1976 (KMC Act) and other ULBs are governed by the 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 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, development and financial activities of the ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP), which functions directly under the UDD.

4.2.2 Composition of Urban Local Bodies

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

³³ Number of ULBs changed from 219 in 2014-15 to 275 (as on date) due to upgradation (2015-16) of 57 Gram Panchayats (GPs) as ULBs and merging of one NAC (Gokak Falls) with Konnuru TMC.

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.

We test-checked the records of BBMP and 20 other ULBs³⁴ to review the financial reporting system in ULBs.

4.3 Financial profile

4.3.1 Resources of Urban Local Bodies

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 comprises of fee for sanction of plans/mutations, water charges, etc.

4.3.2 Release of grants to Urban Local Bodies

The details of grants released by the State Government to ULBs during the period 2011-12 to 2015-16 have been shown in **Table 4.2**.

Table 4.2: Statement showing release of grants

(₹ in crore)

ULBs	2011-12		2012-13		2013-14		2014-15		2015-16	
	Budget	Grant released	Budget	Grants released	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	2,800	2,864	3,544	2,669	4,348	3,632	4,956	4,372	4,435	4,307
CMCs/ TMCs	1,252	1,126	1,513	1,126	1,629	1,139	1,589	1,365	1,644	1,555
TPs/NACs	285	258	290	214	344	248	312	273	233	214
Total	4,337	4,248	5,347	4,009	6,321	5,019	6,857	6,010	6,312	6,076

Source: State Budget Estimates and Finance Accounts

It can be observed from the table above that the grants released by the State Government to CMCs/TMCs increased by 14 per cent while the grants released to TPs/NACs decreased by 22 per cent in 2015-16 when compared to the releases of the year 2014-15.

³⁴ CCs - Davanagere, Hubballi-Dharwad Municipal Corporation (HDMC) and Shivamogga; CMCs - Chintamani, Kanakapura, Kolar, Nanjangud, Sindhanur and Siruguppa; TMCs - Athani, Bailahongal, Mahalingapura, Malur, Savadatti and Vijayapura; and TPs - Hosadurga, Mudigere, Sullia, Yelandur and Yellapura

4.3.2.1 Short release of funds to the Urban Local Bodies

As per recommendations (December 2008) of the Third State Finance Commission and decision of the State Government (October 2011), 10 per cent (₹8,090 crore) of Non-Loan Net Own Revenue Receipts (NLNORR) was to be released to ULBs during 2015-16. As against this, the State Government had released 7.51 per cent (₹6,076 crore) of NLNORR (₹80,905 crore), resulting in short release of ₹2,014 crore to ULBs during 2015-16.

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 2016 in respect of all ULBs (except BBMP) has been shown in **Table 4.3**.

Table 4.3: Position of demand, collection and balance of Property Tax in ULBs
(₹ in crore)

Year	Opening balance	Current year demand	Total demand	Collection	Balance	Percentage of collection to total demand
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
2015-16	166.47	499.94	666.41	430.83	235.58	65

Source: Details furnished by DMA

From the above table, it can be seen that arrears of property tax had increased from ₹67.56 crore in 2011-12 to ₹235.58 crore in 2015-16. 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**.

Table 4.4: Position of target and collection of Property Tax in BBMP
(₹ in crore)

Year	Target	Collection	Percentage of collection to total target
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
2015-16	2,900.00	1,960.19	68

Source: Furnished by BBMP and UDD Report

The BBMP had not achieved the targets during the period 2011-12 to 2015-16 and the collection ranged from 53 to 76 per cent of the target.

4.3.4 Realisation of water charges

It is the duty of every municipality to supply wholesome water for domestic use. 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 year ended 31st March 2016 in respect of 11 test-checked ULBs have been shown in **Table 4.5**.

Table 4.5: Details of collection of water charges in test-checked ULBs during the year 2015-16

(₹ in crore)

Name of ULB	Opening balance as on 1.4.2015	Demand during 2015-16	Total demand	Collection	Outstanding balance as on 31.3.2016	Percentage of collection to total demand
CC, Davanagere	7.53	6.73	14.26	6.44	7.82	45
HDMC	65.33	39.57	104.90	28.42	76.48	27
CMC, Nanjangud	1.23	0.61	1.84	0.50	1.34	27
CMC, Sindhanur	0.36	1.05	1.41	0.62	0.79	44
TMC, Athani	0.43	0.62	1.05	0.48	0.57	46
TMC, Bailahongal	0.23	0.56	0.79	0.51	0.28	65
TMC, Malur	1.11	0.49	1.60	0.31	1.29	19
TP, Hosadurga	0.19	0.22	0.41	0.17	0.24	41
TP, Mudigere	0.26	0.18	0.44	0.14	0.30	32
TP, Sullia	0.79	1.12	1.91	1.09	0.82	57
TP, Yelandur	0.19	0.14	0.33	0.08	0.25	24
Total	77.65	51.29	128.94	38.76	90.18	30

Source: Information furnished by ULBs

It can be seen from the above table that in these test-checked ULBs, a sum of ₹38.76 crore (30 per cent) was collected during the year 2015-16 towards water charges against a total demand of ₹128.94 crore, leaving a balance of ₹90.18 crore uncollected.

4.3.5 Realisation of rent from commercial properties

The details of demand, collection and arrears for the year ended 31 March 2016 in respect of the 11 test-checked ULBs (except BBMP) have been shown in **Table 4.6**.

Table 4.6: Position of demand, collection and balance of rent in test-checked ULBs during the year 2015-16

(₹ in crore)

Name of ULB	Opening Balance	Demand during 2015-16	Total demand	Collection	Outstanding balance	Percentage of collection to total demand
CC, Davanagere	1.94	1.02	2.96	1.29	1.67	44
HDMC	6.58	3.69	10.27	3.11	7.16	30
CMC, Kolar	0.28	0.48	0.76	0.20	0.56	26
CMC, Nanjangud	0.09	0.04	0.13	0.04	0.09	31
CMC, Sindhanur	0.01	0.06	0.07	0.06	0.01	86
TMC, Athani	0.04	0.07	0.11	0.07	0.04	64
TMC, Bailahongal	0.04	0.08	0.12	0.07	0.05	58
TMC, Vijayapura	0.46	0.18	0.64	0.12	0.52	19
TP, Hosadurga	0.07	0.15	0.22	0.15	0.07	68
TP, Mudigere	0.04	0.10	0.14	0	0.14	0
TP, Sullia	0.13	0.27	0.40	0.26	0.14	65
Total	9.68	6.14	15.82	5.37	10.45	34

Source: Information furnished by ULBs

It is seen from the above table that in test-checked ULBs, a sum of ₹5.37 crore (34 per cent) was collected during the year 2015-16 towards rent against a

total demand of ₹15.82 crore, leaving a balance of ₹10.45 crore. The realisation of rent was zero in TP, Mudigere and less than 50 *per cent* in five ULBs.

4.3.6 Remittance of Cess amount

The ULBs were required to collect various Cesses such as Health, Library, Beggary and Urban Transport Cess (UTC) at 15 *per cent*, 6 *per cent*, 3 *per cent* and 2 *per cent* respectively, on the amount of tax collected on land and buildings. They were to remit the same to the authorities³⁵ concerned within the time frame prescribed by the State Government after retaining 10 *per cent* of the Cess collected (except UTC) as collection charges.

4.3.6.1 Non-remittance of Cess amount

As at the end of March 2016, 18 test-checked ULBs had not remitted Cess amount of ₹84.85 crore to the authorities concerned as detailed in **Appendix 4.1**.

4.3.6.2 Non-remittance of Cess amount by Bruhat Bengaluru Mahanagara Palike

BBMP had collected ₹154.20 crore towards Beggary Cess during the period 2011-12 to 2015-16, out of which an amount of ₹70.88 crore only was remitted (2011-12 to 2015-16) to Central Relief Committee, Social Welfare Department, Bengaluru.

BBMP had collected ₹770.95 crore towards Health Cess and ₹308.38 crore towards Library Cess during the period 2011-12 to 2015-16 but it had not remitted the entire Health Cess amount to the Government. The details of remittance of Library Cess to the Government account were not made available to audit (January 2017).

BBMP replied (February 2017) that Health Cess collected was being utilised for its own expenses with respect to Health Wing of BBMP. The reply was not acceptable as the Karnataka Health Cess Act, 1962 does not provide for utilisation of Cess by the ULBs.

4.3.6.3 Non-remittance of Urban Transport Cess amount

As per the Government Order (August 2013), all the ULBs have to collect UTC @ two *per cent* on property tax from 1 October 2013 and remit it to the authority concerned within the time frame prescribed by the State Government. As at the end of March 2016, 10 test-checked ULBs³⁶ had not remitted the UTC amount of ₹1.17 crore to the authority concerned.

³⁵ Health Cess to Health Department, Beggary Cess to Directorate of Beggary, Library Cess to Department of Libraries and UTC to Urban Transport Fund being administered by Director of Urban Land Transport

³⁶ HDMC (₹0.90 crore), CMCs – Chintamani (₹0.08 crore), Kanakapura (₹0.01 crore), Kolar (₹0.06 crore) and Sindhanur (₹0.04 crore); TMCs – Hosadurga (₹0.02 crore), Mahalingapura (₹0.02 crore), Savadatti (₹0.02 crore) and Vijayapura (₹0.01 crore); TP Sullia (₹0.01 crore)

4.4 Devolution of Functions

The 74th Constitutional amendment had envisaged devolution of 18 functions listed in the Twelfth Schedule of the Constitution to ULBs. As of March 2016, the State Government had transferred 17 functions to ULBs. Fire Services function had not been transferred to the ULBs.

4.5 Accountability framework

4.5.1 Powers of the State Government

As per the Acts governing the 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 Principal Director, Karnataka State Audit and Accounts Department³⁷ (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 170 ULBs (including NACs) for the year 2014-15 was conducted by the KSAD and audit of rest of the 44 ULBs accounts is yet to be conducted. The accounts of 85 ULBs have been audited for the year 2015-16 (as of September 2016).

³⁷ erstwhile Controller, Karnataka State Accounts Department

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 to be submitted 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 of 31 March 2016 has been detailed in **Table 4.7**.

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	541.80	39.04
CMCs	940.80	169.80
TMCs	531.42	66.37
TPs	319.91	29.71
Total	2,333.93	304.92

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 15 ULBs as on 31 March 2016 is detailed in **Table 4.8**.

Table 4.8: Outstanding amount kept under objection as on 31 March 2016 in respect of test-checked ULBs

(₹ in crore)

Name of the ULBs	Amount kept under objection for want of details	Amount kept under objection involving recovery
CC, Davanagere	49.81	4.75
HDMC	320.34	197.91
CC, Shivamogga	CMC Shivamogga was converted as CC during December 2014 and the audit is pending for the years 2014-15 to 2015-16.	
CMC, Chintamani	22.04	6.99
CMC, Nanjangud	5.03	0.87
CMC, Sindhanur	14.32	0.88
CMC, Siruguppa	12.75	1.07
TMC, Athani	3.98	1.42
TMC, Bailahongal	1.66	0.28
TMC, Malur	5.80	0.77
TMC, Vijayapura	33.06	18.25
TP, Hosadurga	6.69	0.73
TP, Mudigere	0.50	0.01
TP, Sullia	5.62	0.26
TP, Yelandur	4.44	0.32
Total	486.04	234.51

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 adequate 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 17 functions. There was a shortfall in remittance of Health Cess, Library Cess, Beggary Cess and UTC by the ULBs to the authorities concerned. BBMP had not remitted the Health Cess and short remitted the Beggary Cess collected on behalf of the State Government. There was poor response to audit (KSAD) observations by ULBs.