CHAPTER-IV

URBAN DEVELOPMENT AND URBAN HOUSING DEPARTMENT

AUDIT FINDINGS

CHAPTER IV

This Chapter contains Audit findings of two Compliance Audit paragraphs on the themes "Implementation of recommendations of State Finance Commissions in Urban Local Bodies" and "Working of Gujarat Municipal Finance Board", and three individual paragraphs.

COMPLIANCE AUDITS

URBAN DEVELOPMENT AND URBAN HOUSING DEPARTMENT

4.1 Implementation of recommendations of State Finance Commissions in Urban Local Bodies

4.1.1 Introduction

Articles 243 I and 243 Y of the Constitution made it mandatory for a State Government to constitute State Finance Commission (SFC) by the Governor of the State within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992 and thereafter, on expiry of every five years. As per these Articles, the SFC shall recommend principles governing the distribution of finances between the State and Local Bodies (LBs) comprising the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) and measures needed to improve the financial position of the LBs. Further, every recommendation made by the SFC together with Action Taken Reports (ATRs) of the State Government thereon shall be laid before the State Legislature.

In Gujarat, the Panchayats, Rural Housing and Rural Development Department (PRH&RDD) is the nodal Department for constitution of SFCs and placement of ATRs in the State Legislature. The Urban Development and Urban Housing Department (UD&UHD) in coordination with other Administrative Departments is responsible for implementation of the recommendations made by the SFCs in respect of ULBs. Three SFCs had been constituted in Gujarat till February 2018. The award period of first, second and third SFCs were 1996-2001, 2005-10 and 2010-15 respectively. ATRs on the recommendations of the first and second SFCs have been laid before the State Legislature in December 1998 and March 2011 respectively while the ATR on the recommendations of third SFC was yet to be laid (February 2018).

The ULBs in Gujarat comprise eight Municipal Corporations (MCs) and 162 Nagarpalikas (NPs). The NPs are classified into four categories[1] on the basis of population. The MCs and NPs are constituted and governed as per the Gujarat Provincial Municipal Corporation (GPMC) Act, 1960 (May 2011) and the Gujarat Municipalities Act, 1963 respectively.

1 'A' category: population more than one lakh; 'B' category: population between 50,000 and one lakh; 'C' category: population between 25,000 and 50,000; and 'D' category: population between 15,000 and 25,000. Out of 162 NPs, 22 NPs are 'A' category, 34 are 'B' category, 62 are 'C' category and 44 are 'D' category

In order to seek an assurance whether the recommendations of the first and second SFCs have been implemented effectively and efficiently by the State Government in the ULBs, audit test-checked (April to September 2017) the records of PRH&RDD, UD&UHD, Gujarat Municipal Finance Board (GMFB)[2], Directorate of Municipalities (DoM)[3], two of the eight MCs[4] and 16 of the 162 NPs[5] (total 18 ULBs) covering a period of five years from 2012-13 to 2016-17. Four NPs from each of the four categories and two MCs were selected by adopting simple random sampling without replacement method.

The findings of Audit were forwarded to the Principal Secretary, UD&UHD and the Principal Secretary, PRH&RDD in October 2017 for appropriate response. However, replies from both the Departments were awaited as of February 2018.

Audit findings

The State Government accepted 53 of the 64 recommendations of the first SFC and 20 of the 42 recommendations of the second SFC. Of the accepted recommendations, 19 recommendations (36 *per cent*) of first SFC and six recommendations (30 *per cent*) of second SFC had not been implemented (February 2018) by the State Government, despite lapse of over 19 years and seven years since tabling of ATRs on recommendations of first and second SFCs in the State Legislature in December 1998 and March 2011.

The audit findings were confined to test-check of the quality of implementation of the accepted recommendations of SFCs, as well as those recommendations on which an assurance was given to the Legislature that efforts would be made to remedy the areas of concern highlighted by the SFCs.

4.1.2 Delay in constitution of State Finance Commissions

The first, second and third SFCs were to be constituted by the State Government in April 1994, April 1999 and April 2004 respectively. However, the SFCs were constituted[6] after a delay of five, 55 and 81 months with award period 1996-2001, 2005-10 and 2010-15 respectively. SFCs were not constituted for the period 2001-05 and after 2015. As a result, the State Government remained deprived of valuable suggestions/recommendations of SFCs on the measures required to improve the financial position of the ULBs and rationalization of overall State-local fiscal relations for a period 2001-05 and from 2015-16 onwards. The fourth and fifth SFCs have not been constituted (February 2018) though they were due to be constituted in April 2009 and April 2014 respectively.

The Principal Secretary PRH&RDD accepted the audit observations and attributed (July 2017) the reasons for delay in constitution of SFCs to delayed appointment of members of SFCs and delay in placement of ATRs of preceding SFCs before

2 GMFB is the nodal agency responsible for distribution of major portion of Government grants (both Central and State) to the ULBs.

3 DoM exercises administrative control over NPs and is headed by a Director. He is assisted by two Deputy Directors, five Class II officers and 18 other officials.

4 Bhavnagar and Gandhinagar

5 Anand, Palanpur, Porbandar and Valsad (Category ‘A’); Bardoli, Borsad, Himatnagar and Keshod (Category ‘B’); Dehgam, Dhrol, Idar and Tarsadi (Category ‘C’); Dharampur, Pethapur, Talod and Vanthali (Category ‘D’)

6 First SFC was constituted on 15 September 1994; Second SFC on 19 November 2003; and third SFC on 02 February 2011

the State Legislature. The reasons attributed to delay in constitution of SFCs cannot be treated as dependent reasons as the appointment of SFC members was required to be done by the State Government alongwith constitution of SFC. Further, the State Government failed in its Constitutional duties to constitute the SFC for the award periods 2001-05 and 2015-20.

4.1.3 Delay in placing of Action Taken Reports in State Legislature

The PRH&RDD is the nodal Department for placing the ATRs before the Legislative Assembly. The ATRs on the SFC reports received from various Administrative Departments are forwarded to an Empowered Committee[7] for preparation of consolidated ATR, which in turn, is placed before the Legislature after obtaining approval from the Cabinet Committee[8] and the Governor. The entire process from scrutiny of ATR to its placement in the Legislature was required to be completed within six months[9] from date of submission of report by the SFC.

Audit observed that ATR on first SFC report (October 1998) was placed before the Legislature in time (December 1998). However, ATR on second SFC report (June 2006) was placed in March 2011 after a delay of 51 months and expiry of award period (2005-10). The ATR on third SFC report (December 2013) had not been placed before the Legislature till February 2018 though the award period of SFC had expired in March 2015. Further, there was delay of three years[10] in constitution of Empowered Committee for the second SFC. Similarly, the Empowered Committee for third SFC was constituted in January 2016 *i.e.* two years after receipt of SFC report and completion of award period (2010-15).

As regards delay in placing ATRs, the Principal Secretary attributed (July 2017) the reasons of time taken by the concerned Departments in furnishing their responses to PRH&RDD on the recommendations of the SFCs. Reply is not tenable since the timely constitution of Empowered Committee was the responsibility of the State Government. Had the State Government constituted the Committee in time, the ATRs on the SFC recommendations could have been acted upon well in time.

Thus, due to non-constitution of SFC periodically, inadequacies in implementation of recommendations of SFCs with regard to LBs, the object of constitution of SFC to strengthen the functioning of LBs as envisaged in the Constitution could not be achieved to a desired level. The overview of the functioning of PRIs and ULBs is depicted in Chapter I and Chapter III of this Report. Audit observation on efficient implementation of SFCs' recommendations related to ULBs are discussed as mentioned below-

7 Constituted by the State Government for each SFC with the Chief Secretary as the Chairman and Secretaries of PRH&RDD, UD&UHD, Finance Department, Revenue Department, Legal Department, General Administration Department *etc.* as members.

8 Cabinet Committee consisting of Ministers in-charge of various Departments

9 As per Sixth Report of the Second Administrative Reforms Commission on local governance issued by GoI in October 2007

10 The second SFC submitted its report in June 2006 while the Empowered Committee was constituted in May 2009.

4.1.4 Financial Resources

4.1.4.1 Distribution of State finances

As per Article 270 of the Constitution, as amended from 01 April 1996 by the Constitution (80th Amendment) Act, 2000, a prescribed percentage of net proceeds of all Central taxes was to be assigned to the States on the basis of recommendations of Central Finance Commission (CFC). Considering the recommendations of 12th CFC regarding transfer of 38.79 *per cent* of gross revenue receipts of the Union to the States, the second SFC recommended (2006) that at least 31.15 *per cent* of the gross revenue receipts of the State should be shared with LBs. Further, funds allocated to LBs annually were to be shared among PRIs and ULBs on the basis of their population. However, the State Government did not accept this recommendation and stated in the ATR that financial allocations to LBs were being increased on regular basis.

Audit, however, observed that the percentage of funds allocated by the State Government to the LBs during 2012-17 ranged between 21 and 29 *per cent* only, which were significantly lower than 31.15 *per cent* recommended by the second SFC. Further, the urban population of Gujarat as per census 2011 was 43 *per cent* of the State's total population. Thus, the ULBs were eligible for 43 *per cent* of the gross funds allocated annually to LBs. However, against 43 *per cent*, the ULBs received only 14 to 29 *per cent* from the State Government during 2012-17.

4.1.4.2 Finances of Urban Local Bodies

The resource base of ULBs mainly consists of own revenue comprising tax and non-tax revenue, grants-in-aid (GIA) from the State and Central Governments and loans from financial institutions. GIA (revenue and capital) are provided to ULBs for implementation of various developmental Schemes formulated by the State Government.

Audit analysis of annual accounts (2012-16)[11] of 16 test-checked NPs and two MCs revealed that average contribution of Government grant to gross income of ULBs was 77 *per cent* and 68 *per cent* respectively. In all the 16 test-checked NPs, except Himatnagar NP, revenue expenditure was higher than the revenue income for the period 2012-16. The percentage of revenue deficit ranged between 0.84 *per cent* (Dharampur NP) and 62.18 *per cent* (Tarsadi NP). Himatnagar NP had revenue surplus of 7.78 *per cent*. The percentage of revenue deficit in Bhavnagar MC was 6.48 *per cent* while Gandhinagar MC had a revenue surplus of 43.57 *per cent* during 2012-16.

It was further observed that average percentage of expenditure incurred on pay and allowances by NPs and MCs were 100 *per cent* and 44 *per cent* of their own revenue respectively. The own revenue of seven of these 16 NPs were not sufficient even to meet the expenditure of pay and allowances. To overcome this situation, the State Government had been providing pay and allowances grant to the NPs upto 50 *per cent* of expenditure incurred for pay and allowances by the NPs. However, Analysis indicated that after incurring expenditure of pay

11 The accounts of test-checked ULBs for the year 2016-17 were not finalised till January 2018

and allowances and other committed expenditures, these ULBs were not having sufficient own revenue to carry out the developmental works. Thus, these ULBs were mainly dependent on the Government grants for executing developmental works to provide basic civic services/amenities to the public. While, on the one hand the State Government did not allocate the entitled share to ULBs, on the other hand adequate efforts were not made by the State Government or by ULBs to increase the own revenue of ULBs as discussed in **Paragraph 4.1.5.**

4.1.5 Non-setup of uniform structure for municipal taxation

Tax revenue forms the most important source of income for the ULBs and contributes the highest share in own revenue of ULBs. The first SFC recommended (October 1998) that the State Government should constitute a tax/tariff Commission to set-up a structure of minimum and maximum rates for each and every type of municipal tax being levied by MCs and NPs, after factoring in direct and indirect expenditure incurred for providing civic services. This Commission was to be appointed every five years for revision of the rates.

The State Government neither constituted the tax/tariff Commission (February 2018) nor did it fix the minimum and maximum rates for each tax, except for property tax (April 2008) and special water charges (April 2010). In 18 test-checked ULBs, the rates of various taxes, fees and user-charges had been fixed by the ULBs themselves, without considering the direct and indirect expenditure incurred for providing the related civic services. In 13 of 16 test-checked NPs, the rates of various taxes and other charges have not been revised since seven to 15 years of initial fixation. In remaining three test-checked NPs[12], the rates have been revised recently during 2015-17.

The above facts indicate that neither the State Government nor the test-checked ULBs had explored the possibilities of increasing their income by revision of various taxes periodically. The rates of various taxes were also not fixed considering the direct and indirect expenditure being incurred for providing municipal services as audit analysis revealed that average revenue expenditure incurred on street lights by 16 test-checked NPs during 2012-16 was five times of revenue income earned from light tax. Similarly, the average revenue expenditure on water supply was four times the revenue income earned from water tax during 2012-16.

The Principal Secretary, UD&UHD stated (October 2017) that efforts would be made to constitute tax/tariff Commission. The reply is not convincing as despite acceptance (December 1998) of SFC recommendation, the State Government had not taken any action to constitute the Commission till February 2018. Had the State Government taken timely action, the financial resources of the ULBs could have been improved.

4.1.6 Inadequacies in implementation of accepted recommendations

4.1.6.1 Short-release of grants-in-aid

In 18 test-checked ULBs, Audit observed that against the eligible GIA of ₹ 96.34 crore during 2012-17, the ULBs received only ₹ 62.04 crore

12 Palanpur, Talod and Valsad

(64 *per cent*) due to inadequate/non-implementation of recommendations, which resulted in short-receipt of ₹ 34.30 crore (36 *per cent*) to these ULBs as discussed in the succeeding paragraphs -

- ***Professional tax grant***

As professional tax was of the nature of local tax, the first SFC recommended (October 1998) that the ULBs should be paid 50 *per cent* of the amount of tax so recovered from the jurisdictional areas of the respective ULBs. In this connection, Gujarat Municipal Finance Board was responsible for obtaining information from the Commissioner of Commercial Tax (CCT) regarding professional tax credited into Government account from the jurisdictional area of each ULB (MC and NP) in a financial year. Based on the information so collected by GMFB, UD&UHD was to make adequate budgetary provisions for professional tax grant to be distributed among ULBs.

As per information furnished by the CCT to GMFB, all the ULBs in the State were eligible for professional tax grant of ₹ 401.40 crore during 2012-17. Audit observed that UD&UHD had made a lump sum provision for professional tax grant in its budget estimates during 2012-17, based on the information available for previous year. However, UD&UHD did not submit revised estimates to the Finance Department even after the exact quantum of professional tax to be distributed to the ULBs were made available by CCT. Consequently, against the entitlement of ₹ 401.40 crore of professional tax grant payable to the ULBs during 2012-17, the ULBs actually received only ₹ 333.65 crore (83 *per cent*), leading to short-release of ₹ 67.75 crore (16.9 *per cent)*. In 18 test-checked ULBs, against the eligible grant of ₹ 44.91 crore during 2012-17, the ULBs received only ₹ 37.73 crore (84 *per cent*) resulting in short-release of professional tax grant of ₹ 7.18 crore (16 *per cent*).

The Principal Secretary, UD&UHD accepted (October 2017) that the revised estimates had not been submitted to the Finance Department in time and hence, the eligible share could not be released to the ULBs. The Principal Secretary, however, assured that efforts would be made to streamline the process of distribution of funds to ULBs.

The reply is not convincing as the required information of quantum of professional tax to be distributed among the ULBs was made available to GMFB by CCT during May to October of each year during 2012-17 and as per Budget Manual, the revised budget estimates were required to be submitted to the Finance Department by December. Thus, the UD&UHD could have submitted the revised budget estimates in time.

- ***Education cess grant***

The Gujarat Education Cess Act, 1962, as amended in 2006 and 2007, provides for levy of education cess on property tax by the ULBs at the rate varying from five to 30 *per cent* in case of MCs and three to 20 *per cent* in case of NPs. The cess so collected by the ULBs is credited into Government account.

The first SFC recommended (October 1998) that ULBs which undertake the work of primary education would be entitled to receive 100 *per cent* education cess recovered by them. Further, ULBs not managing primary education and which recovered more than 50 *per cent* of the total demand of education cess in a particular year would be eligible for 10 *per cent* education cess actually recovered by them. The recommendation was accepted by the State Government in December 1998.

Audit observed that during 2012-17 seven of eight MCs and 13 of 162 NPs managing primary education received only 75 to 85 *per cent* and 90 to 100 *per cent* respectively against the entitlement of 100 *per cent* of education cess recovered and credited by them into Government account. Audit further observed that the ULBs not managing primary education received only five *per cent* of the cess actually recovered by them during 2012-17, instead of 10 *per cent* recommended by the first SFC. In 16 test-checked NPs, only Anand NP was managing primary education and collected ₹ 4.76 crore of education cess during 2012-17. However, it received only ₹ 4.28 crore (90 *per cent*). Similarly, Bhavnagar MC received ₹ 17.57 crore (75 *per cent*) against the admissible grant of ₹ 23.43 crore during 2012-17 for managing primary education. The remaining 15 NPs and Gandhinagar MC not managing primary education received only ₹ 0.59 crore (50 *per cent*) during 2012-17 against the admissible grant of ₹ 1.18 crore. Thus, the 18 test-checked ULBs had been deprived of additional grant of ₹ 6.93 crore due to non-implementation of the accepted recommendation of SFC by the State Government.

The Principal Secretary, UD&UHD stated (October 2017) that efforts would be made to allocate the requisite percentage of education cess grant to ULBs managing primary education and those not managing primary education.

The reply is not reasonable as the State Government had not made adequate efforts to provide the entitled share to the ULBs though the recommendations of SFC had been accepted in December 1998. Not taking any action for such a long time indicated the laxity of the State Government in implementing the recommendation of SFC.

- ***Non-agricultural assessment grant***

The Bombay Land Revenue Code, 1879 and the Rules made thereunder provide for levy of non-agricultural assessment (NAA) on the lands used for non-agricultural purpose at the rates prescribed in the notifications issued by the State Government from time to time. The district collectors are the designated authority for levy and collection of NAA.

The first SFC recommended (October 1998) that the State Government should pay to the ULBs grant-in-aid (GIA) at an enhanced rate of 85 *per cent* of NAA (from the existing 75 *per cent*). The State Government accepted (December 1998) the recommendation and decided (July 2000) to disburse 100 *per cent* of NAA, instead of 85 *per cent.*

Audit observed that during 2012-17, NAA amounting to ₹ 279.03 crore was collected in the State. However, the State Government made a budgetary provision of only ₹ 5.00 crore every year during 2012-17 under NAA and

GMFB disbursed the same to the ULBs on the basis of their population and area. In essence, the 170 ULBs in the State got only ₹ 25 crore (nine *per cent*) against ₹ 279.03 crore during the last five years (2012-17). Similarly, in 18 test-checked ULBs, ₹ 22.06 crore was collected of which, only ₹ 1.87 crore (eight *per cent*) was disbursed to them during 2012-17.

The Principal Secretary, UD&UHD stated (October 2017) that the reasons for under-budgeting and short-allotment of GIA to ULBs would be analysed. It was further stated that efforts would be made in coordination with the Revenue and the Finance Departments to develop a mechanism for streamlining the process of disbursement of NAA to ULBs.

The reply is not tenable as Audit observed that the State Government had issued (July 2000) instructions to distribute 100 *per cent* of NAA collected to the respective ULBs in one instalment through the District Collectors. However, the adherence of the same was not ensured by UD&UHD till February 2018.

4.1.6.2 Non-revision of per capita rate of pay and allowances grant to NPs

For meeting the establishment expenses, the State Government provides pay and allowances grant to the NPs. The first SFC recommended (October 1998) a rate of ₹ 30 per capita for arriving at the quantum of grants payable to NPs (on the basis of their population) towards expenditure incurred by them on pay and allowances in a year. The rate per capita was to be increased gradually with the increase in consumer price index (CPI). The State Government revised the rate to ₹ 35 in March 2002 and to ₹ 60 in June 2012 after lapse of 10 years and no revision was made thereafter.

While revising the rate to ₹ 60 in June 2012, the State Government devised a new formula to arrive at the quantum of grants to be allocated to the NPs towards expenditure incurred by them on pay and allowances. The new formula was based on the recovery of the property tax by the concerned NPs. Accordingly, the NPs having recovered more than 80 *per cent*, 60-80 *per cent* and less than 60 *per cent* of demand of property tax was eligible for 50, 40 and 30 *per cent* of the total expenditure incurred on pay and allowances of sanctioned staff respectively. The NPs were to be allocated pay and allowances grants by GMFB either at the rate of ₹ 60 per capita or as per the new formula, whichever was higher.

During 2016-17, GMFB released pay and allowances grant of ₹ 143.25 crore to 107 of 162 NPs. The recovery against the demand of property tax was less than 60 *per cent* in 50 of these 107 NPs during 2015-16. The GMFB paid (2016-17) this grant at 30 *per cent* of actual pay and allowances expenditure to 48 of 50 NPs, as the quantum of grant was higher compared to quantum if paid at ₹ 60 per capita. Remaining two NPs were paid at ₹ 60 per capita as the quantum was higher as compared to 30 *per cent* of actual pay and allowances expenditure incurred by these two NPs

The CPI increased from 94 in March 2012 to 127 in April 2016 and therefore, the per capita rate was to be revised from ₹ 60 in June 2012 to ₹ 81 in April 2016 (on *pro rata* basis).

Comparison of grants paid to 48 NPs at the rate of 30 *per cent* of actual pay and allowances expenditure incurred to rate per capita grant revealed that the grant received by seven[13] of 48 NPs ranged[14] between ₹ 63 and ₹ 78 per capita. Had the State Government revised per capita rate from ₹ 60 to ₹ 81 in April 2016, these seven NPs could have received pay and allowances grant at ₹ 81 per capita instead of between ₹ 63 and ₹ 78 during 2016-17. Similarly, the remaining two NPs[15] could also have received pay and allowances grant at ₹ 81 instead of ₹ 60 during 2016-17. Due to non-revision of per capita rate, the seven NPs and the remaining two NPs short-received ₹ 0.42 crore and ₹ 0.15 crore respectively during 2016-17. Thus, the State Government did not implement the recommendations of the first SFC effectively.

Test-check of records in 12 of 16 NPs confirmed that the NPs did not have sufficient own resources (tax and non-tax revenue) to meet their committed expenditure on pay and allowances and other administrative expenses, without State Government's financial assistance. Therefore, non-release of full complement of pay and allowances by the State Government to the NPs would hamper the capabilities of the NPs to meet their committed expenditure toward pay and allowances and also other developmental expenditure.

The Principal Secretary, UD&UHD accepted the audit observation and stated (October 2017) that efforts would be made to increase the per capita rate of basic capital and pay allowances grant. The reply is not tenable as Audit is of the view that the State Government may fix a timeframe for revision of per capita rate on regular basis as well as make efforts to strengthen the efficiency in collection of property tax by the ULBs. Thus, the purpose of compensating the ULBs towards pay and allowances expenditure as recommended by the SFC has not been fully implemented.

4.1.6.3 Municipal services not outsourced

The GPMC Act, 1960 and the Gujarat Municipalities Act, 1963 envisages mandatory core services[16] to be provided by the ULBs. The second SFC advocated (June 2006) outsourcing of municipal services to achieve cost efficiency. The State Government stated (March 2011) in the ATR that most of the ULBs had outsourced the municipal services such as door-to-door garbage collection, sanitation services, operation and maintenance of streetlights, water works *etc.* and therefore, no action was required to be taken on the recommendation of SFC.

Audit, however, observed in 10 of 16 test-checked NPs that basic municipal services such as door-to-door garbage collection, sanitation services, operation and maintenance of streetlights and water works, as claimed by the State Government in the ATR had not been outsourced. In the remaining six test-checked NPs, only one or two services mentioned above had been outsourced. The Gandhinagar MC did not outsource any service while Bhavnagar MC had adopted outsourcing of various services such as, drainage, water supply and maintenance of street lights in selected wards.

13 Anklav, Ballabhipur, Bareja, Chhaya, Kalol, Mehsana and Sutrapada
14 Grant paid at 30% of the total expenditure incurred on pay and allowances by the NP during the year ÷ population of the NP
15 Bopal-ghuma and Sehra
16 Drinking water, sewerage, solid waste management, street lighting, public health, primary education, registration of births, marriages and deaths, *etc.*

Audit further observed that above six test-checked NPs which outsourced their limited municipal services had not assessed the cost efficiency likely to be accrued by its outsourcing. The Bhavnagar MC assessed a savings of 73 *per cent* on operation and maintenance of drainage system on account of outsourcing in one of 13 wards. Thus, while the claim of the State Government that most of the ULBs had outsourced the municipal services was incorrect, high revenue expenditure being incurred on essential municipal services underscored the need for considering outsourcing of such services for financial sustainability of the ULBs.

The Principal Secretary, UD&UHD stated (October 2017) that efforts would be made to develop a uniform policy/guidelines for outsourcing of various municipal services. This indicated that the State Government had not monitored the implementation of recommendation. Audit observed that UD&UHD had neither obtained any feed back in this regard from the ULBs nor assessed the cost efficiency by outsourcing of services.

4.1.6.4 Non-augmentation of source of own revenue

The source of own revenue of ULBs includes tax and non-tax revenue. Tax revenue consists of income from various taxes *viz.* property tax, water tax, sanitation tax *etc.* while non-tax revenue comprises rents from municipal properties, service charges/fees *etc.* Tax revenue forms the most important source of income for the ULBs and also contributes a larger share towards own revenue. The average contribution of tax revenue in own revenue was 66 *per cent* and 59 *per cent* in 16 test-checked NPs and two MCs respectively during 2012-16. Idar NP had the least contribution of 44 *per cent* while Valsad NP had the highest contribution of 88 *per cent* of tax revenue to own revenue during the same period. The contribution of tax revenue to own revenue was 55 and 63 *per cent* in Bhavnagar and Gandhinagar MCs respectively.

Audit scrutiny revealed the following:

- According to Section 127 of the GPMC Act, 1960, it is obligatory for MCs to levy two types of taxes namely, property tax and tax on vehicles, boats and animals whereas levying of other taxes is voluntary for them. On the other hand, as per the provision of Section 99 of the Gujarat Municipalities Act, 1963, the taxes to be levied by the NPs are voluntary that is to say, under the law, the NPs are not bound to levy any obligatory tax.

  The first SFC recommended (October 1998) that statutory provisions should be made in both the Acts mentioned above to make it obligatory for the MCs and NPs to levy property tax, water tax and scavenging tax, in addition to levy of special water tax and special sanitation tax or drainage tax where the facilities of water supply and drainage are provided to the citizens.

  However, the State Government had not amended the GPMC Act, 1960 and the Gujarat Municipalities Acts, 1963, as recommended by the SFC, to enforce levy of obligatory taxes by ULBs. As a result, taxes were being levied inconsistently by the ULBs.

- The first SFC recommended (October 1998) recovery of license fee by ULBs for drawing water from underground water resources through an amendment to the GPMC Act, 1960 and the Gujarat Municipalities Act, 1963. However, the State Government neither amended these Acts nor did the ULBs make any efforts to introduce the said fee as of February 2018.

- Fire service is an essential service being provided by ULBs. Since no tax or fee was being recovered by the ULBs for providing the fire services, the first SFC recommended (October 1998) introduction of a fire service tax and a schedule for recovery of fire service tax, keeping in view the type of building *i.e.* residential or commercial. However, the State Government or ULBs did not make any efforts to introduce the fire service tax.

  In Gandhinagar MC, procurement of fire-fighting equipment[17] valuing ₹ 14.30 crore initiated as early as December 2012 did not materialise (February 2018), due to limited financial resources. Similarly, Anand NP could not procure (February 2018) hydraulic platform valuing ₹ 3.40 crore proposed in April 2017 due to paucity of funds. A fire service tax could have augmented the resource base of these two ULBs to some extent thus, facilitating procurement of vital fire-fighting equipment.

  The Principal Secretary, UD&UHD stated (October 2017) that the NPs are not empowered to levy fire service tax, as no such provision existed in the Gujarat Municipalities Act, 1963. However, fire service tax would be introduced by making necessary amendment in the Act. This indicated that despite accepting the recommendations of SFC way back in 1998, the State Government had not made any efforts to amend the Act for implementing the recommendation.

4.1.6.5 Administrative reforms not implemented

The second SFC recommended (June 2006) a number of administrative reforms at the apex level (DoM) and at NP level for supervision, monitoring and internal control to strengthen the functioning of NPs. Test-check of some of the reforms recommended by the second SFC and the status of their implementation by the State Government revealed the following inadequacies:

- The second SFC recommended creation of two regional offices, one each in South and Central Gujarat, for regular inspection and monitoring of development works. The State Government gave an assurance (March 2011) in the ATR to establish one regional Office and sanctioned (March 2012) nine administrative posts. However, the regional Office had not been established as none of the sanctioned posts had been filled by the State Government till February 2018.

- The second SFC recommended a time bound inspection of NPs to be conducted by the DoM and the regional offices by providing them adequate number of efficient staff. The State Government did not accept the recommendation stating that a separate uniform policy for providing

17 Advance rescue tanker, turntable ladder, rapid intervention vehicle *etc.*

adequate staff would be formulated. However, while no regional offices had been established as mentioned above, the State Government also did not take any action to provide adequate number of staff at DoM level till February 2018. Resultantly, all the 162 NPs in the State remained uninspected during 2012-17 and therefore, audit could not seek a reasonable assurance on the adequacy of internal control mechanism at the apex level.

- The second SFC recommended creation of a technical cell at DoM to deal with complaint cases and vigilance inquiries connected with poor quality of works being executed by the NPs, and also help NPs in legal disputes arising in the municipal areas. The State Vigilance Commissioner also recommended (February 2011) creation of a independent technical vigilance cell to enquire into the complaints regarding irregularities in execution of works, and also check the quality of work-in-progress on a random basis under different NPs. The State Government accorded its in-principle approval to the recommendation of SFC and stated that technical cell would be created by engaging personnel on contract basis. However, no technical cell had been created at DoM level on outsourcing basis as of February 2018, and the complaint cases/vigilance inquiries received by DoM were being forwarded to the district collectors in a routine manner. The complaint cases/vigilance inquiries received by the district collectors were then redirected to the concerned NPs or the concerned Departments, as the case may be, for further follow-up. The process being highly time consuming, there was significant time lag of five to six months between receipt of complaints/vigilance inquiries and the first follow-up report received by DoM from the district collectors.

  The Principal Secretary, UD&UHD stated (October 2017) that a proposal (November 2016) for establishment of technical cell together with sanction of posts of executive engineer (one) and deputy engineers (two) was turned down by the Finance Department in January 2017 on the ground that UD&UHD may utilize the services of technical personnel from other State level nodal agencies *viz.* Gujarat Urban Development Mission, Gujarat Urban Development Corporation.

  Submission of proposal after more than five years indicates the delayed approach of UD&UHD in implementation of the SFC recommendation. Moreover, after refusal of proposal for sanctioning of posts by the Finance Department in January 2017, the UD&UHD did not take any decision to utilise the services of technical personnel from its own State level nodal agencies.

- The State Government has created a common cadre for Chief Officers for NPs. The second SFC impressed on the need for creation of common cadres also for Municipal Engineers, Accounts Officers, Accountants, Sanitary Inspectors *etc.* for better administration and work efficiency. Audit observed that the State Government created common cadres for Municipal Accounts Officer (Class II and III) and Municipal Engineers (Class II and III) in September 2007 and for Sanitary Inspectors in October 2013. However, as of October 2017, there remained a significant gap between the sanctioned strength and the manpower actually available in these cadres as indicated in **Table 1**.

Table 1: Cadre-wise details of availability of manpower *vis-a-vis* sanctioned strength

Cadre	Sanctioned strength	Available manpower	Vacancy (percentage)
Municipal Engineers (Class II and III)	161	17	144 (89)
Municipal Accounts Officers (Class II and III)	161	67	94 (58)
Municipal Sanitary Inspectors	63	Nil	63 (100)

(Source: Information provided by DoM and UD&UHD)

In view of huge vacancies, the very objective of creating common cadres for the NPs had been defeated. In 16 test-checked NPs, the common cadre posts of Municipal Engineers/ Accounts Officers/ Sanitary Inspectors were either filled-up on contractual basis or the work was being entrusted to junior ranked personnel of the NPs.

The Principal Secretary, UD&UHD stated (October 2017) that the vacancies were due to delay in finalisation of recruitment rules for common cadres. However, efforts were being made to fill-up the vacancies.

The reply is not acceptable because, there was delay[18] in finalisation of recruitment rules only in respect of Municipal Sanitary Inspectors while the rules for recruitment of Municipal Engineers (Class III) and Municipal Accounts Officers (Class II and Class III) had been finalised in September 2011 and July 2012 respectively.

4.1.7 Monitoring of implementation of recommendations of SFCs

Audit observed that the State Government has not carried out effective monitoring of the implementation of recommendations made by SFCs. As a result, there were significant shortfalls in implementation of the recommendations of first and second SFCs, as discussed in the preceding paragraphs.

The Principal Secretary PRH&RDD accepted the audit observation and stated (July 2017) that efforts would be made for developing a mechanism to monitor and review the implementation of the recommendations of the SFCs. The reply itself indicates that despite GoI suggestions, the State Government took no action for monitoring proper implementation of SFC recommendations which resulted in shortfalls as discussed in the preceding paragraphs.

4.1.8 Conclusion and recommendations

The State Finance Commissions (SFCs) were constituted in the State to review the financial position of the LBs and to make recommendations as to principles which should govern (i) the distribution of finances between the State and LBs, (ii) determination of the taxes, duties, tolls and fees which may be assigned to,

18 The rules for Municipal Sanitary Inspectors were finalised in April 2016.

or appropriated by, the LBs, (iii) grants-in-aid to the LBs from the Consolidated Fund of the State, and the measures needed to improve the financial position of the LBs. SFC was not constituted for the period 2001-05 and after 2015. There were significant delays in constitution of first, second and third SFCs and implementation of the accepted recommendations by the State Government.

Of the total 73 accepted recommendations, 19 recommendations of first SFC despite lapse of over 19 years and six recommendations of second SFC despite lapse of over seven years had not been implemented till February 2018 by the State Government since tabling of the Action Taken Reports in the State Legislature in December 1998 and March 2011 respectively. The Action Taken Report (ATR) on second SFC report was placed in the State Legislature in March 2011 after expiry of award period (2005-10). The ATR on third SFC report had not been placed till February 2018 though the award period of SFC had expired in March 2015.

The State Government had not constituted the tax/tariff Commission nor did it fix the minimum and maximum rates of municipal taxes to be collected by the ULBs for strengthening their resource base. In absence of any guiding principles, the test-checked NPs collected the taxes at different rates, without considering the cost of collection being incurred by them for providing various civic services. The State Government did not implement the recommendations of SFCs effectively leading to short-release of funds by 36 *per cent* to 18 test-checked ULBs for various types of grants-in-aid such as professional tax grant, education cess grant and non-agricultural assessment grant. Essential municipal services were not outsourced to achieve cost efficiency.

The administrative reforms recommended by the second SFC to strengthen the functioning of Nagarpalikas (NPs) had not been implemented to strengthen the institutional arrangements and for optimal resource management. The State Government did not establish additional regional offices or take any action to provide adequate number of staff at the Directorate level for ensuring periodical time bound inspection of NPs. A technical cell to deal with complaint cases and vigilance inquiries was not created. Further, though common cadres for various posts had been created for better administration and work efficiency in NPs, these were not filled up leading to significant vacancies in these posts. There was no effective monitoring of the implementation of recommendations made by SFCs.

The State Government may ensure that there are no delays in constitution of State Finance Commissions and the Constitutional provisions in this regard are followed scrupulously.

The State Government may also ensure that Action Taken Reports on the recommendations of State Finance Commissions are placed in the State Legislature within a reasonable time period so that the recommendations do not lose their relevance with passage of time.

The State Government may set-up a robust monitoring mechanism for timely and effective implementation of the recommendations of State Finance Commissions.

4.2 Working of Gujarat Municipal Finance Board

4.2.1 Introduction

The Gujarat Municipal Finance Board (GMFB) was established under Urban Development and Urban Housing Department (UD&UHD) by enacting the Gujarat Municipal Finance Board Act, 1979. The Board comprises a Chairman, a Chief Executive Officer (CEO), a Secretary and six members. The CEO and the members are all appointed by the State Government from the organised civil services. The CEO is the administrative and functional head of GMFB and is assisted by the Secretary, three Deputy Directors and other staff to manage the day-to-day functions of the Board. The GMFB has the powers to appoint officers and staff to discharge its duties and functions effectively and efficiently.

As per GMFB Act, 1979, the main duties, functions and powers of GMFB were to (i) grant loans and disburse grants-in-aid (GIA) on behalf of the State Government to Urban Local Bodies (ULBs), (ii) assess the income and expenditure incurred by ULBs during a financial year in carrying out the obligatory and discretionary duties or functions, and also tender advice to ULBs for increasing their income and for preparation of budget estimates, (iii) recommend to the ULBs measures to be taken for improving collection of taxes and fees, (iv) make recommendations to the State Government or any ULB in the interest of sound municipal finance and the principles which should govern the GIA of the revenue of ULBs out of the Consolidated Fund of the State, and (v) inspect developmental works executed by the ULBs from GIA.

GMFB managed funds in respect of 41 Schemes being implemented by ULBs and Urban Development Authorities. Of these, GMFB disbursed 87 *per cent* grants for implementation of eight major schemes[19] during 2012-17.

In order to seek an assurance whether GMFB discharged its duties and functions effectively and efficiently, audit test-checked the records of GMFB for the period 2012-17. Audit selected[20] seven major schemes out of 41 schemes being implemented by the ULBs from the grants released by GMFB to ascertain the impact over the ULBs. For this purpose, audit also test-checked (between March and September 2017) records of two[21] of eight Municipal Corporations (MCs) and 12[22] of 162 Nagarpalikas (NPs) for the period 2012-17.

The audit findings have been issued to UD&UHD in November 2017; their reply was awaited as of February 2018.

19 (i) Professional Tax Grant to MCs, (ii) Professional Tax Grant to NPs, (iii) Entertainment Tax Grant to MCs and NPs, (iv) Assistance to local bodies for primary education from Education Cess grant, (v) GIA to NPs in lieu of abolition of Octroi, (vi) GIA to MCs in lieu of abolition of Octroi, (vii) Thirteenth Finance Commission Grant and (viii) Swarnim Jayanti Mukhya Mantri Shaheri Vikas Yojana (SJMMSVY)

20 As the audit findings in respect of SJMMSVY have been reported in the Audit Report of the CAG (Local bodies) for the year ended March 2015, audit findings of remaining seven schemes have been covered in the present audit.

21 Surat and Vadodara

22 Bharuch, Dahod, Dhrangadhra, Dholka, Himatnagar, Kadi, Nadiad, Navsari, Patan, Surendranagar, Vapi and Veraval-Patan

Audit Findings

4.2.2 Financial Management of GMFB

4.2.2.1 Disbursement of Grants to ULBs

GMFB received grants from UD&UHD for implementation of 41 Schemes during 2012-17 being implemented between 1992-93 and 2016-17. The grants received are in turn released to the ULBs for implementation of these Schemes. The establishment expenses of GMFB are to be met from the interest earned on seed money provided by the State Government.

The details of grants received and disbursements to ULBs by GMFB[23] for all 41 Schemes during the period 2012-17 are shown in **Table 1** below.

Table 1: Receipts and disbursements of GMFB during 2012-17

(₹ in crore)

Year	Opening Balance	Grants received from UD&UHD	Interest earned on grants	Total receipts	Grant disbursed to ULBs	Closing Balance
1	2	3	4	5	6	7
2012-13	385.16	5,164.94	52.26	5,602.36	5,055.77	546.59
2013-14	546.59	5,753.26	41.25	6,341.10	5,542.25	798.85
2014-15	857.57	6,630.60	69.93	7,558.10	6,599.32	958.78
2015-16	841.96	6,200.32	69.26	7,111.54	6,793.66	317.88
2016-17	790.47	7,031.41	68.87	7,890.75	7,450.69	440.06
Total		**30,780.53**	**301.57**		**31,441.69**	

(Source: Information provided by GMFB)

The above table shows that against the total available grants of ₹ 31,467.26 crore[24] received during 2012-17, GMFB disbursed ₹ 31,441.69 crore to ULBs. Of ₹ 31,441.69 crore disbursed to ULBs, ₹ 13,907.74 crore (44 *per cent*) had been disbursed for implementation of seven Schemes selected in audit and ₹ 13,551.15 crore (43 *per cent*) had been disbursed for implementation of *Swarnim Jayanti Mukhya Mantri Shaheri Vikas Yojana* (SJMMSVY). The remaining ₹ 3,982.80 crore was disbursed for implementation of 33 Schemes. On scrutiny of records, Audit observed that:

- Instead of releasing the grants to ULBs, GMFB irregularly parked all the grants temporarily in Gujarat State Financial Services Limited[25] (GSFS) in the form of interest bearing liquid deposits and earned interest of ₹ 301.57 crore during 2012-17.

- Out of ₹ 13,907.74 crore grants received in seven test-checked Schemes during 2012-17, GMFB had temporarily parked ₹ 2,221.00 crore[26] (16 *per*

23 The overall funds of GMFB and its own fund are shown separately in **Appendix-IVA and IVB**

24 ₹ 385.16 crore (OB) + ₹ 30,780.53 crore (grants received) + ₹ 301.57 crore (interest received)

25 GSFS is a wholly subsidiary of Government of Gujarat in which it has 100 *per cent* holding and is registered with RBI as non-banking finance company

26 (1) ₹ 1,164.70 crore parked for 10 days to 138 days (Octroi grants to NPs), (2 &3) ₹ 95.09 crore parked for 51 days to 494 days (PT grants to NPs and PT grants to MCs), (4) ₹ 62.82 crore parked for 102 days to 994 days (ET grants), (5) ₹ 230.99 crore parked for 12 days to 640 days (EC grants) and (6) ₹ 667.40 crore parked for 17 days to 879 days (13th FC grants)

cent) in respect of six Schemes in GSFS for a period ranging from 10 days to 994 days during 2012-17 and earned interest of ₹ 71.97 crore. The table above shows that the interest income had increased over the period in 2012-17 though GSFS reduced the rate of interest by two *per cent* and the receipt of grants from UD&UHD had increased. Thus, it indicates that the grants were being parked by GMFB for earning interest.

- This action of GMFB to hold the funds and invest them in GSFS was not in order as it violated the directives (July 1995) of Finance Department (FD) which stipulated parking of only surplus funds in GSFS.

- The disbursement of grants to ULBs had been delayed during 2012-17 by GMFB in respect of two Schemes selected in audit *i.e.* Entertainment tax (ET) and Professional tax (PT) grants meant for developmental works by 36 to 348 days and 47 to 348 days respectively from the date of receipt of grants from UD&UHD. Similarly, Octroi grants to NPs meant for payment of pay and allowances were delayed by 15 to 97 days from the date of receipt of grants from UD&UHD.

- Instances of disbursement of grants on the last day of the financial year were noticed in respect of ET and PT grants. ET grant of ₹ 6.66 crore received in April 2014, ₹ 24.91 crore received in July 2015 and ₹ 50.35 crore received between June 2016 and October 2016 had been disbursed by GMFB to the ULBs on 31 March 2015, 31 March 2016 and 31 March 2017 respectively. Similarly, PT grant of ₹ 5.83 crore received in April 2014 and ₹ 28 crore received during May 2015 to October 2015 had been disbursed by GMFB to the ULBs on 31 March 2015 and 31 March 2016 respectively. As a result, ULBs did not get the time to plan for a meaningful utilisation of the grants.

- GMFB had short-released ET and PT grants of ₹ 20.07 crore and ₹ 67.75 crore respectively to the ULBs during 2012-17 due to non-submission of revised budget estimates to UD&UHD.

- GMFB had irregularly diverted (December 2016) interest income of ₹ 25 crore earned on grants to its own fund (seed money capital fund) to meet its establishment expenditure **(Appendix-IVB)**. Audit observed that the average establishment and contingent expenditure of GMFB was ₹ 4.46 crore whereas the average interest income was ₹ 4.52 crore during 2012-17.

GMFB stated (May 2017) that the grant short-budgeted would be claimed from the State Government and would be allocated to the ULBs. GMFB further attributed (May 2017) the reason of delay in disbursement of grants to late receipt of grants from UD&UHD. The reply is not tenable as the delay pointed out above was the delay in disbursement on the part of GMFB after receipt of grant from UD&UHD. Audit observed that three test-checked NPs had diverted ₹ 3.65 crore[27] from other Schemes between July 2016 and February 2017 for payment of salary and wages to its staff due to delay in release of Octroi grants

27 Navsari NP diverted ₹ two crore from PT/ET/Nirmal Gujarat/14th FC grants; Nadiad NP diverted ₹ 1.50 crore from 14th FC grants; Dholka NP diverted ₹ 0.15 crore from Swarnim Jayanti Mukhya Mantri Shaheri Vikas Yojana grants

to NPs by GMFB. In Patan NP, pay and allowances of NP staff including *Safai Karamcharis* totalling ₹ 1.31 crore for the months of March 2016 and March 2017 could be paid only in June 2016 and May 2017 respectively due to delay in disbursement of Octroi grants by GMFB. As regards diversion of funds, GMFB accepted (March 2018) that ₹ 25 crore had been transferred for administrative and other necessary expenses as per the decision taken in the Board meeting (22 November 2016). Audit is of the view that had the GMFB released the grants to ULBs immediately instead of investing in GSFS, the grants could have been utilised by the resource starved ULBs.

4.2.3 Assessment of income and expenditure of ULBs

The GMFB Act, 1979 enables the GMFB to assess the income and expenditure incurred by ULBs during a financial year in carrying out the obligatory and discretionary duties or functions, and also tender advice to ULBs for increasing their income and/or reducing their expenditure.

Audit observed that all the ULBs in the State had furnished annually the requisite information of income and expenditure to GMFB for the period 2012-17. However, the information so furnished by the ULBs during 2012-17 on income and expenditure had not been assessed/analysed by GMFB nor did it tender any advice to ULBs for increasing the income and/or reducing the expenditure.

Audit analysis revealed that revenue income of five[28] of 12 test-checked NPs had reduced during 2016-17 as compared to revenue income registered in 2012-13. In three[29] of 12 test-checked NPs, the establishment expenditure was 80 *per cent* to 100 *per cent* of the total revenue income during 2012-17. Thus, 18 works estimated at ₹ 1.13 crore approved by the General Body of Navsari NP (between January 2014 and January 2017) remained unexecuted as of February 2018, due to shortage of surplus funds. The situation could have been avoided had GMFB analysed the income and expenditure of the ULBs regularly.

The GMFB accepted the audit observation and stated (June 2017) that with the constitution of State Finance Commissions (SFCs), the responsibility for assessment of income and expenditure of ULBs was that of the SFCs. The reply is not tenable as the SFC as per its terms of reference is supposed to make recommendations to the Government *after assessing the financial requirements of the ULBs as well as the ways and means to augment their resources to make them minimum dependent on additional financial support from the State Government in order to achieve swift and impartial fiscal escalation with rather sustainable financial base as to improve the Civic services*. SFC was further required to find whether the ULBs were sustainable units as envisaged in the 74th Constitutional Amendment. The SFC had not made any ULB-wise specific recommendation on augmenting the financial base of the ULBs. Whereas GMFB Act, 1979 envisages that GMFB shall assess the income and expenditure incurred by individual ULB during a financial year in carrying out

28 Bharuch (14%), Himatnagar (33%), Nadiad (39%), Surendranagar (7%) and Veraval-Patan (38%)
29 Dahod, Navsari and Veraval-Patan

the obligatory and discretionary duties or functions, and also tender advice to specific ULB for increasing their income. The GMFB Act, 1979 also envisages that GMFB shall make recommendations to the State Government or any ULB in the interest of sound municipal finance and the principles which should govern the grants-in-aid of the revenue of ULBs out of the Consolidated Fund of the State. The GMFB Act, 1979 has not been amended in the light of the 74th Constitutional Amendment of the third tier of local self-governance. Thus, the function of assessment of income and expenditure of ULBs and to tender advice to ULBs for increasing their income lied with the GMFB. In the process, GMFB acted only as Governments disbursing agent without assessing the capacity of the individual MCs/NPs to carry out their basic obligatory and discretionary functions.

4.2.4 Disbursement of loans to ULBs

The GMFB Act, 1979 provides for disbursement of loans to ULBs by GMFB as per the terms and conditions fixed by the State Government. To achieve the targets of urban development and to avoid additional financial burden over the ULBs by availing of loans under different Schemes, the State Government introduced (October 2006) *Nagar Vikas Shreenidhi Yojana* (NVSY) to provide loans to ULBs at five *per cent* simple interest. The loans availed of under NVSY were to be utilised for improvement of public amenities, creation of assets for revenue generation, enabling ULBs to contribute their share under any Scheme and for bridge loans[30].

GMFB sanctioned loans of ₹ 13.87 crore to 11 NPs under NVSY during 2012-17 and disbursed ₹ 12.75 crore as of March 2017. Scrutiny of records at GMFB and five[31] of the 11 NPs revealed the following:

- The NVSY guidelines provide for disbursement of loans to only those ULBs whose total tax collection[32]was more than 60 *per cent* of its demand in the preceding year. However, three of five NPs (Boriyavi, Kalol and Vijapur) had been sanctioned loans aggregating ₹ 6.14 crore though their tax collection was 53.81 *per cent* (Boriyavi), 29.43 *per cent* (Kalol) and 17.99 *per cent* (Vijapur) of the total demand.

- The NVSY guidelines provide for recovery of loan in 10 equal annual instalments after one year of the release of last instalment. Further, the recovery of loan instalment along with interest was not to exceed 25 *per cent* of the total revenue income of the ULB during the year. Thus, GMFB was required to consider the repaying capacity of the ULBs while sanctioning the loan. However, in case of Boriyavi NP, though the annual revenue income of the NP was only ₹ 0.30 crore during 2012-13, GMFB sanctioned (2013-14) and disbursed loan of ₹ 4.14 crore for completion of a housing project under Integrated Housing and Slum Development Programme and fixed an annual instalment of ₹ 0.41 crore (principal) plus interest. Thus, the loan instalment (₹ 0.41 crore

30 A short-term loan against delay in release of grant or loan
31 Valsad, Padra, Kalol, Boriyavi and Vijapur
32 Property tax, drainage tax, water tax, street light tax, sanitation tax, education cess *etc.*

excluding interest) was more than five times of ₹ 7.50 lakh (25 *per cent* of total revenue income of the NP). This indicated that GMFB sanctioned the loan without assessing the repayment capacity of the NP. Consequently, the NP failed to repay the last four loan instalments (2014-15 to 2017-18) and the liability in the form of interest and penal interest as of December 2017 was pegged at ₹ 0.97 crore.

- Boriyavi NP diverted (August 2016) the loan funds of ₹ 0.64 crore to SJMMSVY though the loan (₹ 4.14 crore) was sanctioned for completion of a housing project under Integrated Housing and Slum Development Programme.

- As per NVSY guidelines of October 2006, the ULBs were to utilise the loan within two years from the date of release of first instalment. However, none of the three NPs (Boriyavi, Padra and Vijapur) completed the projects within the stipulated period of two years. The housing project and the pond beautification project taken up by Boriyavi and Padra NPs respectively were still in progress and they have already registered a delay of 48 and 62 months as of November 2017. Whereas, the shopping complex project taken up by Vijapur NP had been delayed by 12 months.

The GMFB stated (June 2017) that these NPs were not financially sound and the loans had been sanctioned and disbursed to these NPs so that they could generate more revenue income. It was further stated that the instalments due would be recovered from the grants payable and instructions would be issued to all NPs to complete the projects so that the purpose of availing loan could be achieved. However, Audit observed that GMFB had sanctioned the loan without proper assessment of repaying capacity of the NPs though was envisaged in the NSVY guidelines and failure of GMFB to monitor the execution of works by NPs resulted in diversion of loan funds and works remaining incomplete as of February 2018.

4.2.5 Monitoring and internal control mechanism

As of February 2018, against the sanctioned posts of 25 Class I, II and III officials, the available manpower was 20[33]. The average establishment and contingent expenditure incurred by GMFB during 2012-17 was ₹ 4.46 crore.

4.2.5.1 Monitoring of developmental works

As per the GMFB Act, 1979, GMFB shall have the power to enter on and inspect or cause to be entered on and inspected any work carried on by a ULB. Further, UD&UHD empowered (December 2009) GMFB to monitor the physical and financial progress of developmental works executed by ULBs from GIA received by them under various Schemes. Grants released under PT, ET, Education Cess and Octroi to Municipal Corporations are required to be utilised for developmental works. Audit observed that:

- GMFB neither maintained any database nor reviewed the physical and financial progress of works being executed by ULBs from these grants.

33 Includes two Class II and 12 Class III officials appointed through outsourcing

- Developmental works under PT and ET grants were required to be completed within one year from the date of disbursement of grants. In two MCs (Surat and Vadodara) and five NPs[34], 73 works (estimated cost ₹ 38.72 crore) had been delayed by 12 to 1,393 days beyond one year from the date of disbursement of grants.

- In two test-checked MCs (Surat and Vadodara), the entire Octroi grants of ₹ 4,473.91 crore[35] received during 2012-17 had been irregularly utilised for payment of salaries, pension and contingent expenses.

- Education Cess grants was to be utilised by the ULBs only for capital expenditure on school buildings. Only five[36] out of 14 test-checked ULBs had been managing primary education. During 2012-17, these five ULBs received EC grant of ₹ 201.01 crore of which, ₹ 139.77 crore (70 *per cent*) was utilised. Of the ₹ 139.77 crore, only ₹ 85.32 crore (61 *per cent*) was utilised for capital works while ₹ 54.45 crore (39 *per cent*) was utilised for meeting pay and allowances expenses by four[37] of these five ULBs instead of augmenting the school building infrastructure and providing other basic facilities such as, safe drinking water, classrooms, clean toilets separately for boys and girls *etc.*

The above deficiencies indicated that GMFB neither monitored the proper utilisation of grants nor inspected the work done as mandated in GMFB Act, 1979.

The GMFB stated (February 2018) that necessary instructions would be issued to all ULBs to follow the rules and regulations issued by the State Government for utilisation of each grant and would also develop a mechanism for reviewing the expenditures on monthly basis. The reply is not tenable as GMFB could not produce any record to audit to indicate that GMFB monitored the developmental works[38] executed by the ULBs which resulted in delay in completion of works and irregular utilisation of grants by the ULBs.

4.2.5.2 Preparation of Budget estimates

The GMFB Act, 1979 enables the GMFB to tender advice to ULBs for preparation of budget estimates. Audit observed that GMFB had not submitted revised budget estimates to the UD&UHD as discussed in **Paragraph 4.2.2.1** and also did not render any advice to NPs for preparation of budget estimates in a realistic manner. As a result, all the 12 test-checked NPs had prepared budget estimates in an ad-hoc manner, increasing the estimates of previous year by certain percentage, instead of reckoning the actual income and expenditure incurred during the previous year. Consequently, the percentage variations in income and expenditure between the budget estimates[39] and the actuals in these test-checked NPs ranged from (-) 60 to 89 and (-) 144 to 91 respectively during 2012-17.

34 Dhrangadhra, Navsari, Patan, Surendranagar and Vapi
35 Vadodara MC: ₹ 1,361.17 crore and Surat MC: ₹ 3,112.74 crore
36 Surat MC, Vadodara MC, Bharuch NP, Nadiad NP and Navsari NP
37 Vadodara MC: ₹ 48.63 crore; Bharuch NP: ₹ 3.45 crore; Nadiad NP: ₹ 0.87 crore; and Navsari NP: ₹ 1.50 crore
38 Works related to water supply, drainage, public health, roads, street lights, school infrastructures, *etc.*
39 The NPs did not prepare any revised estimates during the period 2012-17.

The GMFB attributed (February 2018) the reason of not tendering advice to ULBs to not submitting the budget estimates by the ULBs and stated that instructions would be issued to all ULBs to prepare their budget estimates as per the Budget Manual and submit their budget estimates for guidance so that the budget can be prepared in realistic manner. Non-submission of revised budget estimates by GMFB shows poor planning and management at GMFB. Thus, GMFB failed in preparation of its own budget estimates and also failed to tender advice to ULBs in this respect though envisaged in the GMFB Act.

4.2.5.3 Receipt of utilisation certificates

As per UD&UHD directives of December 2009, ULBs were entitled for PT and ET grants in the subsequent year only after submission of utilisation certificates (UCs) to GMFB for the grants received during the previous year. However, GMFB neither maintained any records to monitor the receipt of UCs from ULBs nor was there any mechanism with GMFB to ensure that the ULBs had utilised the grants within the given timeframe (as indicated in grant release orders). In 14 test-checked ULBs, except for three NPs (Kadi, Patan and Vapi), none of the 11 ULBs had furnished UCs to GMFB during 2012-17. High pendency of UCs was fraught with the risk of misappropriation and fraud.

4.2.5.4 Submission of Annual Accounts

The GMFB Act, 1979 provides that the Board shall cause its accounts to be audited annually and send the accounts with a copy of the auditor's report to the State Government. The audited accounts shall be laid before the State legislature as soon as possible. The details of submission of accounts for auditing and submission of audited accounts to State legislature during 2012-17 are shown in **Table 2** below.

Table 2: Details of submission of annual accounts

Year	Due date of submission of accounts	Date of submission of accounts for audit (delay in days)	Date of issue of audited accounts	Date of submission of audited accounts to UD&UHD	Date of placement in State legislature (delay in days)
2012-13	30-06-2013	06-12-2013 (159)	04-06-2014	13-11-2014	02-03-2015 (271)
2013-14	30-06-2014	04-07-2014 (04)	27-03-2015	27-08-2015	04-03-2016 (343)
2014-15	30-06-2015	22-09-2015 (84)	23-03-2016	21-10-2016	01-03-2017 (343)
2015-16	30-06-2016	05-12-2016 (158)	22-05-2017	17-07-2017	01-03-2018 (283)
2016-17	30-06-2017	25-07-2017 (25)	18-12-2017	12-03-2018	Yet to be placed

(Source: Information provided by GMFB)

The above table shows delay on the part of GMFB in finalisation of accounts which resulted in further delay in auditing of accounts and its placement in the State legislature. The delay in submission of accounts for auditing ranged from four days to 159 days. Though the audited accounts were received, GMFB further delayed in submission of audited accounts to UD&UHD for its placement in the State Legislature. The delays in placement in the State legislature from date of receipt of audited accounts ranged from 271 days to 343 days.

4.2.5.5 Meetings held by GMFB

The GMFB Regulations, 1983 provide that the Board shall meet at least once in every two months on such date and time as may be fixed by the Chairman to discuss matters of receipts and expenditures, progress reports, budget, passing of resolutions, *etc.* Audit observed that the Board had held only nine meetings as against 30 meetings to be held during 2012-17. GMFB attributed (March 2017) the reason for not holding regular meeting to not having regular Chairman and CEO.

4.2.6 Conclusion and recommendations

GMFB Act, 1979 has not been amended in the light of the 74th Constitutional Amendment to effectively manage the ULBs for rendering civic services to the citizens. GMFB mainly functioned to disburse grants to ULBs. In the process, there was short-release of ₹ 87.82 crore (12 *per cent*) and delays in release of funds to Municipal Corporations/Nagarpalikas ranging from 36 to 348 days. Such delays and short-releases earned GMFB ₹ 301.57crore in the form of interest. There was diversion of ₹ 25 crore from ULB funds to GMFB's own funds and ₹ 4,528.36 crore by two MCs and three NPs test-checked. Loans were sanctioned to NPs without assessing their repaying capacity. Monitoring, evaluation and mid-course correction of the functioning of GMFB was not done. GMFB also failed to monitor the working of the MCs/NPs as per its statutory provisions resulting in poor financial health and service delivery system of the MCs/NPs.

The State Government may amend the GMFB Act in light of the 74th Constitutional Amendment to assist in implementation of the recommendations of the State Finance Commissions.

The GMFB may assess the income and expenditure of ULBs on a regular basis and render timely advice to them for strengthening their own sources of income.

The State Government may fix a definitive timeframe for disbursement of grants to ULBs in order to enable them plan and execute the developmental works in a timely manner.

The GMFB may also strengthen its internal control mechanism to minimise the risk of errors and irregularities associated with disbursement and utilisation of grants.

4.3 Unfruitful expenditure

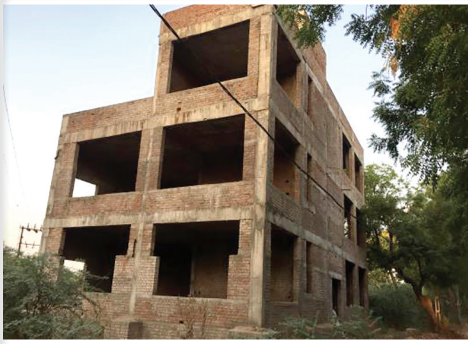
Due to a wrong administrative approval by District Urban Development Agency, Godhra, Kalol Nagarpalika made an unfruitful expenditure of ₹ 51.68 lakh on construction of a Science Centre on a piece of land not owned by it.

Kalol Nagarpalika (NP) received (July 2013) ₹ 1.50 crore from Gujarat Municipal Finance Board (GMFB) under the "*Swarnim Jayanti Mukhya Mantri Shaheri Vikas Yojana*" (SJMMSVY) that envisages creation of infrastructure facilities such as urban mobility, basic civic amenities, affordable housing, social infrastructure facilities, e-Governance and skill development. The NP decided to establish a Mini Science Centre at Kalol, Panchmahal district at an estimated cost of ₹ 1.36 crore from the funds made available to it by GMFB.

The District Urban Development Agency (DUDA), Godhra accorded administrative approval in November 2014 and accordingly the NP awarded (December 2014) the work to an agency[40] at a negotiated cost of ₹ 96.74 lakh. The agency was required to complete the work within nine months (September 2015).

Audit observed that the agency was paid ₹ 51.68 lakh up to May 2015 and thereafter, the work was stopped by the NP, based on the complaints received from local residents regarding the ownership of the site. Joint investigation conducted by the Chief Officer of NP and the Revenue Officer (Mamlatdar) at the behest of the Collector, Panchmahal subsequently revealed (June 2016) that the land in question was of alluvial nature situated on the banks of river Goma and therefore, could not be transferred to the NP. The NP requested (October 2016) the Collector to allot the said land, as a special case, for establishment of Science Centre, which was pending (February 2018) in the Revenue Department. The Science Centre was still incomplete as of February 2018.

DUDA failed to ascertain legal ownership of the land before according administrative approval to the project. Therefore, NP Kalol, which is starved of funds, further got embroiled in a non-performing developmental work that resulted in unfruitful expenditure of ₹ 51.68 lakh.



Picture of incomplete Science Centre at NP, Kalol

The Chief Officer verified the facts (May 2017) of the case. There was no response from DUDA, Godhra.

The matter was reported to the Government in September 2017; their reply was awaited as of February 2018.

40 Royal Infra Engineering Private Limited, Surat

4.4 Unit cost escalation of 90 *per cent* in a housing Scheme for slum dwellers

Nagarpalika, Boriyavi embarked on an unviable housing project for the slum dwellers at a cost escalation of ₹ 4.74 crore and time escalation of 60 months due to inadequate pre contract and contract management.

The Central Sanctioning Committee of Ministry of Housing and Urban Poverty Alleviation, Government of India (GoI) sanctioned (August 2007) a project for construction of 611 dwelling units (DUs) for slum dwellers under Integrated Housing and Slum Development Programme (IHSDP[41]) for Boriyavi Nagarpalika (NP), Anand district. Under the project, GoI provided 80 *per cent* of the cost of DU, subject to ceiling cost of ₹ 80,000 per DU and 80 *per cent* of basic infrastructure cost. State Government was to bear 20 *per cent* of the remaining infrastructure cost and 10 *per cent* of DU. Beneficiary was only supposed to meet 10 *per cent* of the DU. However, any escalation in the unit cost over the sanctioned cost was to be borne by the beneficiary according to the GoI sanction.

The project with estimated cost of ₹ 8.33 crore (cost of DUs - ₹ 7.71 crore and cost of infrastructure - ₹ 0.62 crore) was sanctioned by GoI. For this housing project, the NP received total grants of ₹ 7.60 crore[42] from the Gujarat Urban Development Mission. The NP awarded (February 2009) the work of construction of 611 DUs along with provision of basic infrastructure to a contractor[43] at a cost of ₹ 13.56 crore (76 *per cent* above the estimated cost of DU within a period of one year of sanction) for completion on or before February 2010. As a result the sanctioned unit cost of DU shot up from ₹ 1.26 lakh to ₹ 2.22 lakh. Accordingly, NP decided to construct only 416 DUs and abandoned the construction of the remaining 195. The work of 416 DUs was completed at a cost of ₹ 9.99 crore after a delay of 60 months from stipulated date of completion and the work of infrastructure was yet to be taken up. Thus, the cost per DU further increased to ₹ 2.40 lakh making the project unviable for the slum dwellers. This resulted in overall cost escalation of ₹ 4.74 crore[44] against the sanctioned unit cost. It is evident that the NP was negligent of the fact that the entire escalated cost would have to be borne by the poor slum dwellers beneficiaries and therefore it went ahead with awarding the contract at 76 *per cent* higher than the estimated DU cost.

The Chief Officer while accepting the audit observation informed (February 2018) that a notice inviting applications from the beneficiaries for allotment of 611 DUs was published in the notice board of NP during 2011-12, which did not evince any interest. Due to unwillingness of the beneficiaries, the NP subsequently advertised (March 2013) the availability of 416 vacant DUs in the local newspaper. All the 416 DUs were allotted (between July 2015 and June 2017) to the beneficiaries from Boriyavi NP as well as those from the adjoining areas.

41 IHSDP was launched by GoI on 03 December 2005 with the basic objective to provide adequate shelter and basic infrastructure facilities to the slum dwellers of the identified urban areas.

42 GoI: ₹ 4.40 crore and State Government: ₹ 3.20 crore including additional grant of ₹ 2.65 crore

43 Sintex Industries Limited, Kalol

44 ₹ 9.99 crore - ₹ 5.25 crore (₹ 1.26 lakh sanction cost per DU x 416 DUs)

Audit is of the view that the project was made unviable for the poor slum dwellers at the time of awarding the contract at 76 *per cent* higher than the sanctioned cost. Further, cost escalation of 14 *per cent* and time escalation of 60 months made the DU cost 90 *per cent* higher than the sanctioned cost. The project was not monitored by Gujarat Urban Development Mission, Director of Municipalities and NP Boriyavi at any level.

The matter was reported to the Government in September 2017; their reply was awaited as of February 2018.

4.5 Wasteful expenditure

Nagarpalikas, Kathlal and Thasra could not operationalise the critical drinking water services due to negligence and inefficient handling of two important water supply projects in the last nine years, leading to wasteful expenditure of ₹ 4.51 crore.

Water Supply Project at Kathlal Nagarpalika

The distribution network of the old water supply Scheme in Kathlal Nagarpalika (NP) under Kheda district was 30 years old and the source of water was tubewells which contained high content of fluorides and total dissolved solids. With the objective of augmenting the water supply system and to provide 100 lpcd of safe and healthy drinking water to the people of Kathlal town, the NP proposed "Kathlal Water Supply Augmentation Project" under UIDSSMT[45].

The GoI approved (October 2007) the project at an estimated cost of ₹ 3.92 crore. The cost of the project was to be shared by GoI, State Government and NP in the ratio of 80:10:10. The NP divided the scope of work into four parts of which, three parts were completed between December 2010 and September 2011 at a cost of ₹ 3.39 crore as detailed in **Table 1** as follows.

Table 1: Detail of works awarded and completed

(₹ in lakh)

Name of component	Date of award	Tendered cost	Actual date of completion	Expenditure incurred
(Part - I)				
Construction of 4 MLD capacity non-conventional Water Treatment Plant	January 2009	59.35	December 2010	58.85
(Part - II)				
Construction of RCC elevated service reservoir, underground sump and pump house	December 2008	78.00	September 2011	76.29

45 Urban Infrastructure Development Scheme for Small and Medium Towns, one of the components of JNNURM.

(Part - III)				
Construction of transmission and gravity mains, intake arrangement, pump house, pumping machineries and post-completion trial run for one month	February 2009	462.78	September 2011	204.34
(Part - IV)				
Construction of head regulator[46] structure in Shedhi branch canal (source)	October 2015	12.43	Not yet started as of February 2018	Not applicable
Total				**339.48**

(Source: Information compiled from the documents furnished by NP)

As could be seen from **Table 1**, Part - I and II were completed in December 2010 and September 2011 respectively at a cost of ₹ 1.35 crore. However, under Part – III, the scope of work was reduced by using the transmission lines of other Schemes in this project and therefore, the expenditure was restricted to ₹ 2.04 crore against the tendered cost of ₹ 4.63 crore.

Audit observed that water for the project was to be drawn from Shedhi branch canal of Narmada canal situated in Kheda district through head regulator (Part – IV). However, an agreement for reservation of water to be used for the project (3.60 MLD) was signed by the NP with the Shedhi Irrigation Division, Nadiad only in August 2014 (after 68 months from the date of award of Part – I and II) and the work under Part - IV[47] was awarded in October 2015. Even after award in October 2015, no works could be commenced, as the Shedhi Irrigation Branch refused to block/stop the flow of water to facilitate the commencement of head regulator (HR) works in the submergence area, in order to ensure uninterrupted supply of water to Ahmedabad Municipal Corporation.

The Shedhi Irrigation Branch closed the canal (after 16 months) from 19 March 2017 to 23 June 2017 and intimated the NP (03 March 2017 and 17 March 2017) to commence the HR works. But, the NP did not commence any works. As a result, works already completed under Part – I to III at a cost of ₹ 3.39 crore could not be operationalised as of February 2018.

The Chief Officer, NP, Kathlal accepted the facts and stated (March 2018) that whenever the flow of water in Shedhi branch canal is stopped, the work of HR structure would be completed. It is apparent that the NP does not have a firm plan to commence the work of head regulator and operationalise the project at the earliest. Even after successful completion of head regulator works, doubts would remain whether components completed under Part – I to III more than six to seven years back would function efficiently and effectively.

46 A structure at the head of canal to regulate the water supply from the canal.
47 Part IV was to be completed within 45 days of award of work *i.e.* by November 2015

Water Supply Project at Thasra Nagarpalika

The existing water supply infrastructure in Thasra Nagarpalika (NP), Kheda district was very old and facing acute shortage of water from the source in summer season alongwith low storage capacity. The NP decided to establish a new water supply project under "*Amrut Dhara Scheme*" of the State Government that envisaged development of water supply infrastructure in Nagarpalikas for supply of potable water to the people. The technical sanction to the project was accorded (April 2007) by Gujarat Water Supply and Sewerage Board specifying clearly that the NP must ensure supply of sufficient potable water from the source and therefore, all works pertaining to the source be taken up first before executing other components of the project. The Gujarat Municipal Finance Board accorded (October 2007) administrative approval to the project at a cost of ₹ 1.30 crore. The NP divided the scope of work into three parts and invited separate tenders for each part. **Table 2** below shows the dates of award of each part, their tendered costs, actual date of completion and expenditure incurred.

Table 2: Details of works awarded and completed

(₹ in lakh)

Name of component	Date of award	Tendered cost	Actual date of completion	Expenditure incurred
(Part-I)				
Providing, lowering, laying and joining HDPE pipe for pumping and gravity distribution network	October 2008	123.00	Partially completed in February 2013	95.93
(Part-II)				
Drilling tubewell, construction of bore room and supplying, erecting and commissioning of pumping machinery at tubewell and sump	October 2008	16.15	July 2009	15.83
(Part-III)				
Planning, designing and construction of RCC elevated service reservoir (ESR) of five lakh litre capacity and pump house	Not yet awarded as of February 2018	58.25	Not Applicable	Not Applicable
Total				**111.76**

(Source: Information compiled from the documents furnished by NP)

Audit observed that contrary to the condition specified in the technical sanction, the NP awarded the work of source (Part - II) as well as laying of pipelines (Part - I) simultaneously in October 2008. While no source could be established through borewells (water was found to be dirty and not potable) after incurring an expenditure of ₹ 15.83 lakh (Part – II), the contractor after executing 95 *per cent* works valuing ₹ 95.93 lakh (Part-I) stopped the work in 2012-13, due to non-establishment of source. Consequently, the contract for construction of ESR (Part – III) was not awarded (February 2018). In the meanwhile, the NP took up various projects for construction of RCC roads, paving blocks and laying of drainage lines, due to which, pipelines already laid under Part - I at a cost of ₹ 95.93 lakh got damaged at many places. These pipelines, as admitted by the Chief Officer, NP in September 2017, were non-retrievable and non-usable in future for any water supply project.

Thus, Nagarpalikas, Kathlal and Thasra could not operationalise the critical drinking water services due to negligence and inefficient handling of two important water supply projects in the last nine years, leading to wasteful expenditure of ₹ 4.51 crore. The projects were also not monitored by the Director of Municipalities and Gujarat Municipal Finance Board.

Both the cases were reported to the Government in June 2017; their reply was awaited as of February 2018.

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Rajkot
The

Countersigned

(RAJIV MEHRISHI)
Comptroller and Auditor General of India

New Delhi
The