5

Chapter V

Financial resources of Urban local bodies

Sustainable financing is paramount to ensure discharge of any function. The devolved functions can be carried out effectively by ULBs only when they are supported with sufficient financial resources. Such financial resources could take the form of predictable fiscal transfers or access to own revenue streams that are buoyant and commensurate with the expenditure obligations, accompanied by appropriate expenditure powers. Predictable fiscal transfers to ULBs need to be ensured through a robust State Finance Commission mechanism and compliance with State and Central Finance Commission recommendations. Access to own sources of revenue would include both the power to levy and collect from specific revenue streams. Expenditure powers refer to reasonable delegation limits that allow the ULB to utilise their financial resources.

5.1 Sources of revenue

The details of revenues of ULBs in the State during the period 2014-15 to 2018-19 is indicated in **Table 5.1.**

Table 5.1: Details of revenues of ULBs during the period 2014-15 to 2018-19

(₹ in crore)

Year	Grants	Own Revenue	Assigned Revenue	Total Revenue	Percentage of own revenue to total revenue
2014-15	1,640.80	1,022.82	1.30	2,664.92	38
2015-16	2,644.17	1,191.04	1.42	3,836.63	31
2016-17	2,302.67	1,352.53	9.85	3,665.05	37
2017-18	2,493.07	1,517.60	18.56	4,029.23	38
2018-19	2,300.01	1,586.38	23.19	3,909.58	41
Total	**11,380.72**	**6,670.37**	**54.32**	**18,105.41**	**37**

Source: Information furnished by DMA for 271 ULBs

5.1.1 Fiscal transfers to urban local bodies

Funds were devolved to ULBs through transfer by the Central and State Government in the form of grants. As can be seen from the above table, the fiscal transfers from Government formed the major portion of the revenue (averaging 63 *per cent*) of ULBs in the State during the period 2014-15 to 2018-19. Audit further observed that 51 (2015-16) to 81 (2018-19) *per cent* of the grants released were in the form of tied grants for payment of salaries and power sector payments and the untied grants ranged between 19 to 49 *per cent*.

There were, however, certain shortcomings under fiscal transfers as discussed below.

5.1.1.1 State Finance Commission grants

The major share of financial resources of ULBs comprised grants recommended by SFC. Timely constitution of SFC and acceptance of its recommendations have a bearing on the assured transfer of funds to ULBs.

- **Loss of grants**

As already discussed in ***paragraph 4.2.6.1***, there was considerable delay both in constitution of SFCs and implementation of SFC recommendations. The loss to ULBs due to delayed constitution and submission of report of 4th SFC alone for the period 2016-17 to 2018-19 is given in **Table 5.2.**

Table 5.2: Loss to ULBs for the period 2016-17 to 2018-19 due to delay in constitution of 4th SFC

(₹ in crore)

Particulars	2016-17	2017-18	2018-19
Non-Loan Net Own Revenue Receipts (NLNORR) of the State	88,750	93,607	1,03,602.58
Allocation as per the recommendations of SFC (10.5-12 *per cent* of NLNORR)	9,318.75 (10.5)	10,296.77 (11)	11,914.30 (11.5)
Allocation as decided by the State Government (10-10.5 *per cent* of NLNORR)	8,875.07 (10)	9,360.7 (10)	10,878.27 (10.50)
Loss of grants	443.68	936.07	1,036.03

Source: Information furnished by State Government and Finance Accounts

- **Short release of funds under SFC**

The details of funds due as per the orders of the State Government and actually released to ULBs during the period 2014-15 to 2018-19 is given in **Table 5.3**.

Table 5.3: Details of grants due and released under SFC during 2014-15 to 2018-19

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Non-Loan Net Own Revenue Receipts (NLNORR) of the State	74,870.00	80,905.22	88,750.66	93,607.00	1,03,602.58	
Allocation as decided by the State Government (10-10.5 *per cent* of NLNORR)	7,487	8,090	8,875.07	9,360.70	10,878.27	44,691.04

Funds actually released to ULBs	2,990.77	3,306.81	3,304.30	3,762.74	3,754.40	17,119.02
Amount released to parastatal agencies	514.98	1,677.34	2,421.36	3,759.78	3,634.19	12,007.65
Short release	**3,981.25**	**3,105.85**	**3,149.41**	**1,838.18**	**3,489.68**	**15,564.37**

Source: Finance Accounts and figures furnished by Government.

Audit observed that

- The funds released to ULBs was short of the mandated devolution by an extent of 20 *per cent* (2017-18) to 53 *per cent* (2014-15).
- The 3rd and 4th SFC recommended that debt servicing should be adjusted against individual ULBs allocation. However, the State Government adopted the practice of distributing the debt servicing obligation to all ULBs whether they have availed the loan or not. The State Government deducted ₹12,007.65 crore for the period 2014-15 to 2018-19 from the total amount payable to all ULBs in order to service the borrowings by KUWS&DB and KUIDFC on behalf of ULBs. This resulted in short release of funds to ULBs that had not availed any loan thereby depriving them of their complete share of SFC grant.

The State Government stated (November 2019) that there were no short releases to ULBs, as the releases to state owned projects, state share against the GoI releases, externally aided projects, parastatal agencies and CFC grants were also to be considered as share of ULBs for computing the percentage of NLNORR. Accordingly, the State Government had released 11.64 *per cent*, 14.15 *per cent*, 15.12 *per cent* and 12.86 *per cent* during the years 2014-15, 2015-16, 2016-17 and 2017-18 respectively.

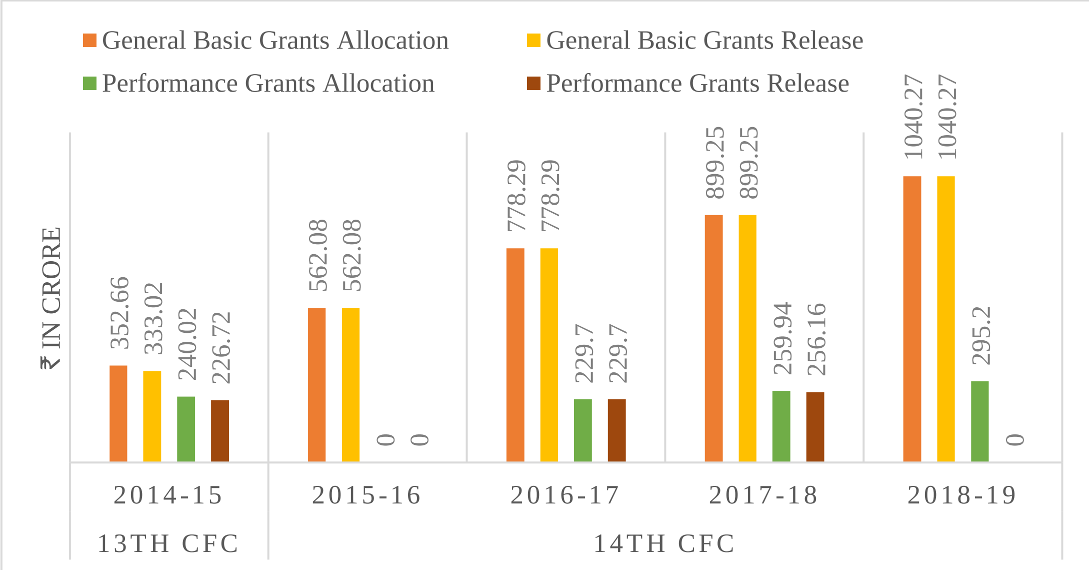
The reply of the Government was not tenable as SFC grants was a package of devolution recommended as share of NLNORR and does not include amounts released for implementation of state/central schemes and CFC grants. The 2nd, 3rd and 4th SFCs had also recommended that CFC grants should not be considered as devolution as it was not part of NLNORR.

5.1.1.2 Central Finance Commission grants

Article 280(3) (C) of the Constitution mandates the Central Finance Commission (CFC) to recommend measures to augment the consolidated Fund of a State to supplement the resource of Municipalities based on the recommendations of the respective SFCs. The 13th Finance Commission and 14th Finance Commission recommended basic grant and performance grant to ULBs as a percentage of divisible pool account.

Chart 5.1 depicts the allocation and release of CFC grants during the period 2014-15 to 2018-19.

Chart 5.1: Allocation and release of CFC grants



Source: Information furnished by DMA/UDD

It can be seen from the above that there was short release of ₹19.64 crore and ₹13.30 crore of basic grants and performance grants respectively under 13th Finance Commission during 2014-15, the reasons for which was not furnished by the State Government. The 14th Finance Commission (FFC) recommended a total allocation of ₹4,685.51 crore under basic grants for the period 2015-20 and ₹1,171.38 crore under performance grants for the period 2016-20. The State received the complete allocation of basic grants of ₹3,279.89 crore for the period 2015-16 to 2018-19. However, there was short receipt of performance grant of ₹3.78 crore for the year 2017-18 and the entire allocation of ₹295.20 crore for the year 2018-19 was yet to be received. The reason for non-receipt was not furnished.

5.1.1.3 Assigned Revenue

As per Section 140 of KMC Act, 1976, the duty on transfer of immovable property shall be levied in the form of a surcharge at the rate of two per cent of the duty imposed by the Karnataka Stamp Act, 1957, on instruments of sale, gift, mortgage, exchange and lease in perpetuity of immovable property situated within the limits of a larger urban area. The entire amount collected in respect of the lands and other properties situated in the urban areas shall be passed on to ULBs in the State, in proportion to the population of ULBs by the Inspector General of Registration and Commissioner of Stamps (IGR) after deducting 10 per cent towards collection charges.

Audit observed that transfer of duty was delayed for the period 2014-15 to 2017-18 and the duty for the year 2018-19 was yet to be transferred as indicated in **Table 5.4.**

Table 5.4: Statement showing the transfer of duty to ULBs[13]

Year	Date of transfer	Amount (₹ in crore)
2014-15	21.12.2017 & 10.12.2018	11.54
2015-16	12.12.2017 & 26.12.2017	14.19
2016-17	15.02.2019	12.52
2017-18	15.02.2019	14.65
2018-19	Yet to be transferred	

Source: Information furnished by Inspector General of Registration and Commissioner of Stamps

5.1.2 Own revenue of urban local bodies

ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstay of ULB's own revenue. The own non-tax revenue of ULBs comprises water charges, rent from commercial establishments, trade licences, fee for sanction of plans/mutations, *etc*. The State laws revealed that while the authority to collect certain taxes like property tax, advertisement tax vested with ULBs, powers pertaining to the rates and revision thereof (advertisement tax), procedure of collection (property tax), method of assessment, exemptions, concessions (property tax, advertisement tax) *etc*., were vested with the State Government. The ULBs, thus, lacked complete autonomy in generating own revenue. The share of own revenue to total revenue of ULBs for the period 2014-15 to 2018-19 was only 37 *per cent* (**Table 5.1**). The constraints / deficiencies in realisation of own revenue in the test-checked ULBs are discussed below:

5.1.2.1 Property tax

The ULBs were empowered to levy property tax every year on all buildings or vacant lands or both situated within their jurisdiction under section 103/108A of the KMC Act and Section 94 read with Section 108 of the KM Act. Self-assessment scheme was introduced by the Government from 2001-02 for assessment and collection of property tax by owners of the properties. The DMA developed an online property tax calculator through which property owners could assess and pay their taxes.

Audit noticed certain lacunae in the online calculator as below, which constrained augmentation of property tax by ULBs.

- absence of provision for collection of service charges from exempted properties;
- absence of provision for calculation of property tax on advertisement structures erected on buildings; and
- calculation of tax on vacant land at uniform rates irrespective of whether the land was self-occupied or rented and used for commercial purposes (for *e.g.*, vacant land was used for developing nurseries) *etc.*

Further, a compliance audit on the 'Collection of property tax in ULBs' for the period from 2013-14 to 2015-16 was conducted in 24 ULBs between April to

[13] This is excluding BBMP.

August 2016. The findings were included in *Paragraph 6.1 of the Report of the Comptroller and Auditor General of India (C&AG) on Local Bodies for the year ended March 2016 (Report No.5 of the year 2017).*

The observations noticed during the current audit, which were similar to the observations pointed out in the above report are as below:

- Survey of properties was not conducted by any of the test-checked ULBs. The Municipal Reforms Cell of DMA had created a database for all ULBs based on the GIS survey undertaken by DMA. This survey data was not put to use by any of the test-checked ULBs for the period test-checked.
- Instead of adopting the current guidance value, 42 ULBs adopted guidance value of 2005-06, CC, Mangaluru adopted 2007-08 value and HDMC adopted 2009-10 value.
- Property tax on telecommunication towers was not collected.
- Service charges from exempted properties was not collected except in test-checked CCs and CMCs, Bhadravathi and Bidar.
- Property tax on advertisement structures was not collected except in CC, Mangaluru.
- Arrears in collection of property tax and improper maintenance of Demand, Collection and Balance (DCB) statements were noticed in all the test-checked ULBs. The accumulated arrears of property tax in 271 ULBs, as per the information furnished by DMA, as at the end of March 2019 was ₹503.09 crores.

5.1.2.2 Advertisement tax

Section 103 of KMC Act and Section 94 of KM Act provides for levy of tax on advertisement by ULBs. Further, in accordance with Section 134 of KMC Act, the rates of tax[14] to be levied shall be subject to the maxima and minima laid down by the Government in this behalf. Section 324 (1)(*l*) of KM Act stipulates preparation of bye-laws for regulation of advertisements and their display. However, as per Section 324 (5), the bye-laws prepared if any, would not have effect until it is approved by the State Government. The above provisions restrict the autonomy of ULBs in levy of advertisement tax.

Audit observed that three[15] out of 44 test-checked ULBs had not collected advertisement tax during the period 2014-15 to 2018-19. TMC, Aland had collected advertisement tax only during 2018-19. However, none of the test-checked ULBs except TMC, Manvi had conducted any survey for levy of advertisement tax so far. In the absence of survey, potential earning of revenue could not be quantified.

[14] Schedule VIII of KMC Act specifies the maximum amount of tax to be levied for various types of advertisements.

[15] CMC, Shahabad; TMC, Srinivasapura; and TP, Kamalapura

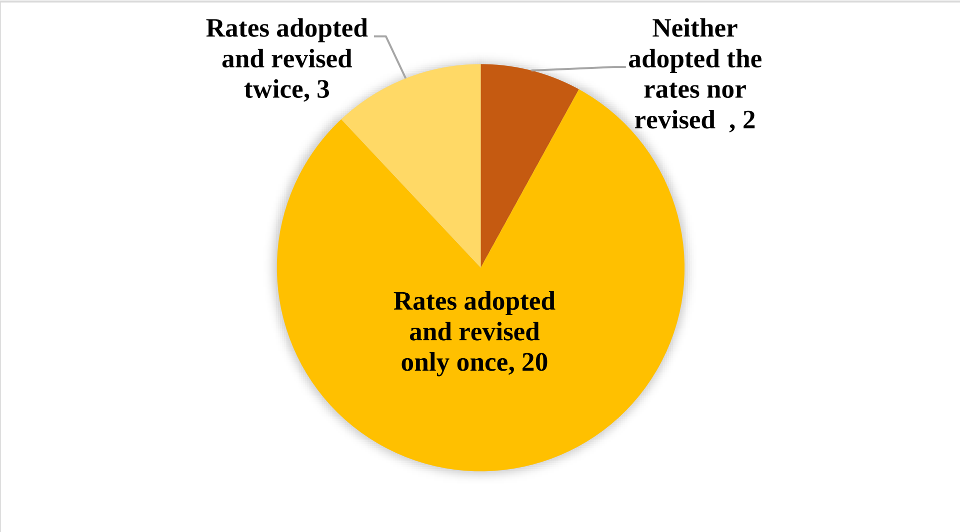
The 4th SFC report states that there was neither a clear database of the actual number of hoardings put up in the cities nor a proper record of demand collection and balance. Consequently, the revenue that could be realised from advertisement tax was not estimated so far

5.1.2.3 Water charges

As per Section 144 of the KMC Act and Section 139 of KM Act, the CCs/Municipalities may fix water rates not exceeding the rates specified in the rules in force under Section 421 of KMC Act and Section 323 of KM Act. Sections 421 and 323 provide for the Government to make rules by notification for carrying out all or any of the purposes of these Acts. This restricted the autonomy of ULBs. The State Government issued (July 2011) instructions stipulating the rates of water charges to be collected. The rates were to be revised once in three years to compensate for the rise in cost of Operation and Maintenance (O&M). Accordingly, revisions were due in 2014-15 and 2017-18.

The status of revision of rates of water charges by the test-checked ULBs is depicted in **Chart 5.2**.

Chart 5.2: Status of revision of water charges in test-checked ULBs



While only three ULBs had revised the rates both during 2014-15 and 2017-18, Hubballi-Dharwad Municipal Corporation (HDMC) and CMC, Bidar had neither adopted the rates nor revised the water charges since 2011. Further, the revisions carried out were not commensurate with the O&M expenses. Comparison of the O&M expenses with the collection of water charges in 42[16] test-checked ULBs showed that the average collection was only 52 *per cent* of the O&M expenses during the period 2014-15 to 2018-19 as indicated in **Table 5.5**.

[16] CMCs, Bidar and Channapatna had not furnished the details.

Table 5.5: Details of water charges demanded and collected by test-checked ULBs

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Balance	98.75	120.38	139.40	152.02	176.40
Demand	97.18	109.09	116.84	119.62	132.59
Total Demand	195.93	229.47	256.24	271.64	308.98
Total Collection	75.55	90.07	104.22	95.24	99.83
Closing Balance	120.38	139.40	152.02	176.40	209.15
O& M Cost	125.87	168.49	245.99	188.35	188.59
Collection against O&M Cost in *per cent*	**60**	**53**	**42**	**51**	**53**

Source: Information furnished by 42 ULBs.

Moreover, the arrears of water charges to be collected increased from ₹98.75 crore in 2013-14 to ₹209.15 crore in 2018-19 indicating the ineffectiveness of the ULBs in augmenting their own revenue.

5.1.2.4 Solid Waste management cess

Section 103B (2) of KMC Act, 1976 provides for levy of solid waste management (SWM) cess for the purpose of collection, transportation and disposal of solid waste. There was no such provision under the KM Act, 1964. However, as per Chart of Accounts under the Karnataka Municipal Accounting Manual (KMAM), the Government as a matter of policy, and with a view to keep the town in a better hygienic/sanitary condition *i.e.*, to maintain 'litter free zones', may direct the municipalities to levy and collect a cess, in the nature of revenue income, for this purpose. Accordingly, DMA had issued (September 2009) instructions directing all ULBs to collect SWM cess. To facilitate collection of SWM cess with greater efficiency, the DMA directed ULBs to collect the cess along with property tax through the property tax returns.

This direction was, however, flawed as SWM cess cannot be collected from properties exempt from payment of property tax such as places of public worship, educational institutions, Government buildings *etc.*, and was not recoverable from defaulters in payment of property tax.

5.1.2.5 Rent from commercial establishments

The ULBs were empowered to collect rent from the buildings let out to private agencies and the rent was to be revised periodically. Scrutiny of records showed that rent amounting to ₹21.39 crore was in arrears as at the end of March 2019 in 43[17] test-checked ULBs. The correctness of the demand raised and amount collected could not be ensured in the absence of proper DCB registers.

Audit observed that there was no standard protocol for entering into agreements with the tenants stipulating the terms and conditions including revision of rent. Agreements were not renewed in 5,544 out of 10,311 cases in 22 out of 44 test-checked ULBs. This could be attributed to the huge vacancy of 51 *per cent* in

[17] TMC, Harappanahalli did not furnish the information

the cadres of Revenue Officers, Assistant Revenue Officers and Revenue Inspectors in the test-checked ULBs.

5.1.2.6 Trade licence

Section 369 of the KMC Act and Section 256 (a)-Part I of Schedule XIII of KM Act specify that trade license fee should be obtained by ULBs from all business establishments who intend to carry out any trade in the municipal areas. While the KMC Act bestows the powers on CCs, the provisions of KM Act require other categories of ULBs to prepare bye-laws, which are to be approved by the Government.

Scrutiny of the records showed that arrears in collection of trade licence fees of ₹12.01 crore as at the end of March 2019 in 42[18] test-checked ULBs. This indicated that business establishments continued to function without valid licences. No mechanism existed for monitoring the renewal of trade licences and there was 40 *per cent* vacancy in the cadre of Senior/Junior Health Inspectors who were responsible for carrying out this activity. Failure to renew trade licences resulted in an approximate loss of revenue of ₹3.85 crore[19] to the test-checked ULBs.

5.1.2.7 Tapping of various sources of revenue by ULBs

The 4th SFC had identified 5 sources of tax revenue and 30 sources of non-tax revenue such as building plan/licence approval fees, trade licence, rent from shops/markets/commercial establishments, water charges, parking fee, UGD charges, cable laying charges *etc.*, that could be levied by ULBs to augment their own resources. Audit observed that the ULBs were tapping 30 of these 35 identified sources. The details of the five sources that were not tapped is indicated in **Table 5.6**.

Table 5.6: Statement showing the revenue sources not tapped by ULBs

Sl. no.	Source	Statutory provision exists or not
1	Levy of tax on animals and dogs	Yes
2	Other fees and tolls	Yes
3	Cable laying charges	Can be levied subject to preparation of byelaws by ULBs and approval from Government
4	Greenery charges	No
5	Dog fee	No

Source: KM and KMC Acts

As cable laying charges and greenery charges could be a good source of revenue, the ULBs should ensure that these charges are levied.

---

[18] CMCs, Bidar and Kollegal did not furnish the information.

[19] In the absence of trade-wise details, the least of the rates was considered in respect of ULBs where resolutions were passed. In ULBs where there were no resolutions, the rate of similar ULBs was adopted.

The details of revenue sources, status of levy and statutory provisions are indicated in **Appendix 5.1.**

Recommendation 8: Limitations on the ability of the ULBs to raise revenues through sources such as property tax, advertisement tax, solid waste management cess etc., need to be removed urgently.

5.2 Estimation of requirement of funds / expenditure

In accordance with the provisions[20] of KM Act, 1964 and KMC Act, 1976, the Commissioner/Chief Officer of each ULB prepares the budget estimates indicating the receipt of funds from various sources and allocates the resources to various activities undertaken by it and presents it to the Governing Council for approval. After the approval by the Governing Council, ULBs forward the budget to the DMA and the Government.

This shows that the KM Act, 1964 and the KMC Act, 1976 are not in consonance with the provisions of the 74th CAA, as the Constitution provisions are silent about the approval of the budget while both the Acts specifically mention role of the State Government in sanctioning / modifying the budget. However, it was observed that in practice, the Governing Council forwards the budget to DMA and the State Government for information.

5.2.1 Unrealistic budget exercise

Expenditure estimation depends on services to be provided by the local government and the costs associated with the provision of these services. It should include both the capital and O&M expenditure that the local body will have to incur to achieve appropriate service levels.

(i) During the early 1960s, the Zakaria Committee formulated minimum standards of services for different levels of ULBs and estimated the annual recurring requirements for each municipal service to be provided by the ULBs. The Committee also felt that it was possible to maintain the various services if adequate taxes and charges were levied for services provided.

Since the delivery of municipal services comes with a cost, it was necessary to scientifically estimate the cost of each municipal service to assess the requirement and source of funds for efficient delivery. This was pointed out by the 3rd SFC too. Such an exercise was not undertaken either by ULBs or the State Government. Thus, the budget exercise by ULBs was not based on a scientific assessment of the cost that would be incurred in delivery of various municipal services as discussed below.

(ii) The budget was prepared on the basis of expected allocation of funds by the Government. This method of budget preparation suffered from a basic flaw as the stipulated date for approval of the budget for ULBs was 15th January of the preceding financial year whereas the State budget was usually placed before

[20] Section 287 of KM Act, 1964 and Section 167 to 170 of KMC Act, 1976.

the Legislature in the month of March. The ULBs allocated resources for various activities, which would be based on the expected receipt of funds and not on the actual receipt of funds. Any shortfall in receipt of funds would impact the execution/implementation of the activities planned.

Illustrative examples of preparation of unrealistic budget in each category of ULBs is shown in **Table 5.7**.

Table 5.7: Statement showing variation in budget in each category of ULB

(₹ in lakh)

Name of the ULB	Year	Receipts			Expenditure		
		Budget	Actuals	Percentage of actuals to budget	Budget	Actuals	Percentage of actuals to budget
CC, Davanagere	2014-15	57,703.78	17,450.73	30	57,821.59	17,758.88	31
	2015-16	65,033.58	19,950.16	31	64,936.77	17,246.72	27
	2016-17	77,767.01	25,328.99	33	78,175.13	23,057.35	29
	2017-18	86,393.97	24,824.81	29	86,680.87	25,840.45	30
	2018-19	30,510.95	23,294.36	76	35,055.00	23,906.63	68
CMC, Doddaballapura	2014-15	8,884.64	2,063.53	23	9,971.05	1,796.23	18
	2015-16	3,349.38	3,104.63	93	4,198.27	2,359.01	56
	2016-17	3,430.47	2,473.50	72	4,922.64	2,167.31	44
	2017-18	3,765.21	2,385.09	63	5,353.88	2,683.85	50
	2018-19	3,944.29	3,070.68	78	5,326.74	3,465.39	65
TMC, Laxmeshwar	2014-15	1,933.78	863.94	45	2,026.00	592.30	29
	2015-16	1,579.21	950.85	60	2,095.65	1,070.77	51
	2016-17	1,147.79	1,123.41	98	1,790.18	1,101.54	62
	2017-18	2,191.24	1,266.26	58	2,286.93	1,353.04	59
	2018-19	2,291.99	895.28	39	2,537.60	797.66	31
TP, Thirthahalli	2014-15	574.35	554.74	97	1,108.08	437.83	40
	2015-16	806.77	548.29	68	1,093.04	404.53	37
	2016-17	794.14	673.68	85	1,410.24	488.65	35
	2017-18	1,058.50	730.26	69	1,891.20	964.03	51
	2018-19	926.83	689.83	74	2,083.45	498.90	24

Source: Annual accounts of ULBs

The variation in actual receipts *vis-à-vis* the budget during the period 2014-15 to 2018-19 ranged between 29 to 76 *per cent* in CC, Davanagere; 23 to 93 *per cent* in CMC, Doddaballapura; 39 to 98 *per cent* in TMC, Laxmeshwar and 68 to 97 *per cent* in TP, Thirthahalli. The receipts were overestimated in all the years except during one year where the actual receipts were in excess of 90 *per cent*. On the other hand, the expenditure was overestimated by 71 *per cent* on an average in CC, Davanagere during 2014-15 to 2017-18; by 50 *per cent* in CMC, Doddaballapura during 2015-16 to 2017-18 and by 46 and 37 *per cent* in TMC, Laxmeshwar and TP, Thirthahalli during 2014-15 to 2018-19 respectively. Audit noticed that execution of basic infrastructure works such as roads, pavements and footpath and road side drains were affected.

Recommendation 9: Special efforts need to be made to motivate the ULBs to prepare their budgets in a scientific manner taking into account requirements of capital expenditure as well as a realistic projection of funds expected to be mobilised.

5.3 Expenditure of urban local bodies

The expenditure of ULBs can be categorised into five major categories such as programme expenses, operations and maintenance, general expenses, human resource expenses and interest and finance charges. The details of expenditure incurred by ULBs in the State for the period 2014-15 to 2018-19 is exhibited in **Table 5.8**.

Table 5.8: Details of expenditure incurred by ULBs in the State

(₹ in crore)

Year	Human Resources Expenses	General Expenses	Operation and Maintenance	Interest and Finance Charges	Programme Expenses, Grants etc.	Total expenditure
2014-15	623.30	91.81	1,006.15	49.46	77.18	1,847.91
2015-16	649.90	102.71	1,355.85	23.71	69.51	2,201.68
2016-17	703.26	122.98	1,511.75	58.68	81.43	2,478.10
2017-18	766.27	161.48	1,894.55	68.08	166.49	3,056.88
2018-19	900.67	172.32	1,714.13	24.52	136.07	2,947.72
Total	**3,643.40**	**651.32**	**7,482.43**	**224.45**	**530.68**	**12,532.28**

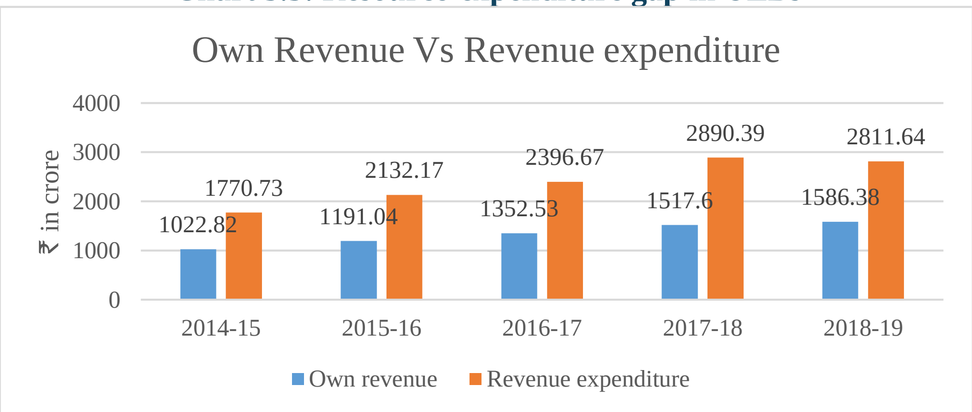
Source: Information furnished by DMA for 271 ULBs

The operation and maintenance (O&M) expenses constituted about 60 *per cent* of the total expenditure followed by human resource expenses at 29 *per cent*. The capital expenditure *i.e.*, programme expenses and expenses out of grants incurred by ULBs was a mere four[21] *per cent* of the total expenditure.

5.3.1 Resource-expenditure gap

The ULBs were able to generate own resources only to the extent of 56 *per cent* of the revenue expenditure during the period 2014-15 to 2018-19. A comparison of the own revenue to revenue expenditure showed large gaps as depicted in **Chart 5.3**, which needs to be addressed by ULBs.

Chart 5.3: Resource-expenditure gap in ULBs



[21] This does not include the expenditure incurred by parastatals.

5.3.1.1 Analysis of financial data of urban local bodies

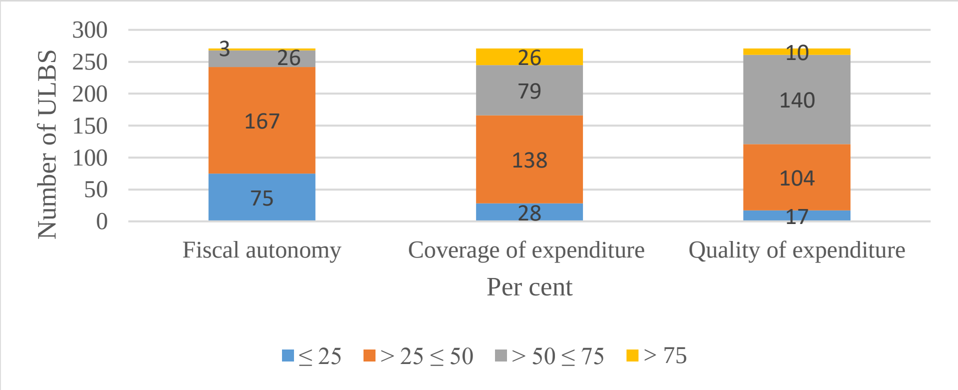
The Municipal Reforms Cell of DMA furnished ULB-wise details of revenue and expenditure for the period 2014-15 to 2018-19 for 271 ULBs. This data was analysed to study the fiscal autonomy in the ULBs. The following four ratios were considered to establish the fiscal autonomy in ULBs.

1. **Local fiscal autonomy**: This is the share of own revenue to the total revenue of the ULB.
2. **Local dependency on fiscal transfer**: This is the share of Central Finance Commission (CFC) and State Finance Commission (SFC) grants to the total fiscal revenue of the ULBs.
3. **Coverage of revenue expenditure from own revenue sources (self-reliance)**: This is the proportion of revenue expenditures that are covered through the own revenue sources.
4. **Quality of expenditure**: This is the share of O&M expenditure in total revenue expenditure. If this ratio is high, the quality of expenditure is considered better.

Local fiscal autonomy and local dependency on fiscal transfer are inversely proportional to each other. Higher the fiscal autonomy lesser is the dependency on fiscal transfer.

The ratio-wise performance of ULBs for the year 2018-19 is depicted in **Chart 5.4**.

Chart 5.4: Ratio-wise performance of ULBs for 2018-19



- ✓ 75 ULBs were dependent on fiscal transfers in excess of 75 *per cent* of their total revenue and in three ULBs, the ratio of own revenue to total revenue was higher than 75 *per cent*. Among the test-checked ULBs, CC, Mangaluru, where the share of own revenue was 66 per cent of the total revenue was less dependent on fiscal transfers.
- ✓ In 26 ULBs, the coverage of revenue expenditure from own revenue sources was in excess of 75 *per cent*, of which 11 ULBs had coverage equal to or in excess of 100 *per cent*. In 28 ULBs, the coverage was less than or equal to 25 *per cent*. Among the test-checked ULBs, while TMC, Kundapura had coverage of 102 *per cent*, CC, Mangaluru; CMC,

Ranebennur and TP, Thirthahalli had coverage above 80 *per cent* and in TP, Kamalapura, the coverage was only 22 *per cent*.

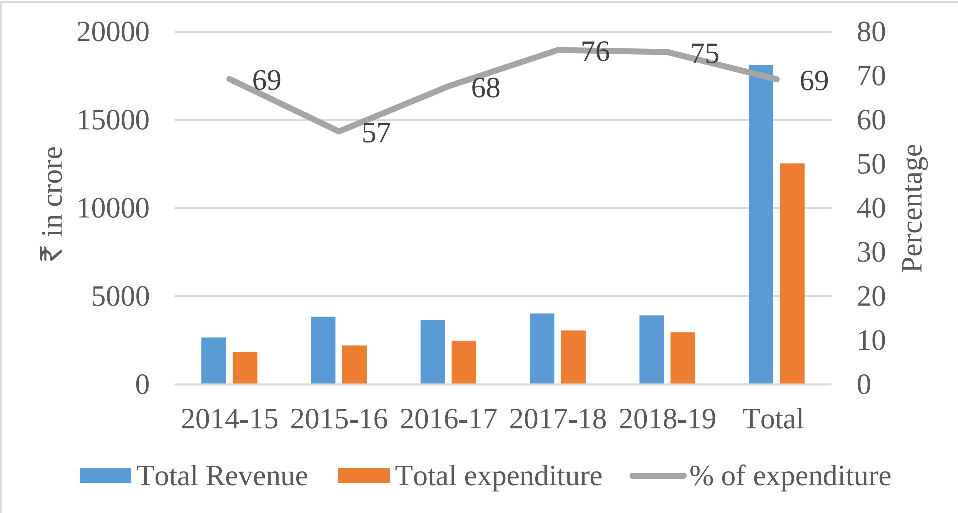
- ✓ The quality of expenditure was high (excess of 75 *per cent*) in 10 ULBs and low (less than or equal to 25 *per cent*) in 17 ULBs. Among the test-checked ULBs, it was 78 *per cent* in CC, Mangaluru and it was 26 *per cent* in CMC, Shahabad and TMC, Wadi.

Thus, it can be seen that CC, Mangaluru was performing better overall among the test-checked ULBs. The other ULBs can explore the possibility of taking cues and learning from CC, Mangaluru to improve their performance.

5.3.2 Extent of utilisation of funds

A comparison of the total expenditure with total revenue for the period 2014-15 to 2018-19 showed that ULBs were able to utilise on an average about 69 *per cent* of the available funds each year as depicted in **Chart 5.5**.

Chart 5.5: Extent of utilisation of funds



The constraints in utilisation of funds could include the following:

- ✓ While the CFC guidelines specified the areas for utilisation of funds, the guidelines of the State Government governing the allocation and utilisation of CFC grants specified the minimum and maximum percentage of grants to be allocated and utilised for various activities such as water supply (min of 15 *per cent* and max of 30 *per cent*), UGD (min 10 *per cent* and max 20 *per cent*), roads (min 10 *per cent* and max 15 *per cent*) *etc*. This restricted the autonomy of the ULBs in utilising the funds as per their needs.
- ✓ The restrictions/limitations on financial and administrative powers of ULBs as discussed subsequently in ***Paragraph 5.4***.
- ✓ The huge number of vacancies in various cadres, as detailed in the ***Paragraph 6.2.1***.
- ✓

5.4 Financial powers of urban local bodies

Fiscal autonomy can be complete only when supported by decentralisation of financial and administrative powers. The decentralisation provides for

- ✓ creating an efficient and reliable administration;
- ✓ intensify and improve local governance;
- ✓ enhances accountability and responsiveness;
- ✓ improved capacity of the local people to participate in the decision making process, especially with regard to service delivery; and
- ✓ increased motivation *etc*.

5.4.1 Powers relating to works

The State Government revised (November 2016) the administrative, technical and tender approval powers relating to ULBs for undertaking basic infrastructure works. The administrative approval powers as per the above orders is given in **Table 5.9.**

Table 5.9: Statement showing the administrative approval powers for ULBs

(₹ in lakh)

<table>
<tr><th>Category of ULB</th><th>Commissioner /Chief Officer</th><th>Standing Committee</th><th>Council</th><th>DC</th><th>DMA</th><th>Government</th></tr>
<tr><td>CC</td><td>≤50</td><td>>50 ≤ 100</td><td>>100 ≤ 200</td><td>>200 ≤ 500</td><td rowspan="4">>500 ≤ 1,000</td><td rowspan="4">≥1,000</td></tr>
<tr><td>CMC</td><td>≤15</td><td>>15 ≤ 30</td><td>>30 ≤ 100</td><td>>100 ≤ 500</td></tr>
<tr><td>TMC</td><td>≤5</td><td>>5 ≤ 15</td><td>>15 ≤ 30</td><td>>30 ≤ 500</td></tr>
<tr><td>TP</td><td>≤2</td><td>>2 ≤ 10</td><td>>10 ≤ 15</td><td>>15 ≤ 500</td></tr>
</table>

Source: Government order dated 11 November 2016

Further, the authorities indicated in the above table had the powers to approve tenders as per their administrative powers for tenders involving tender premium less than or equal to 5 *per cent*. For tender premium greater than 5 *per cent* but less than or equal to 10 *per cent*, the powers were vested with DMA and for tenders up to 1,000 lakhs and beyond 10 *per cent*, the powers were vested with the Government.

As regards the powers for according technical sanction to estimates, the Engineers of CCs, CMCs, TMCs and TPs had powers up to 500 lakh, 50 lakh, 5 lakh and 5 lakh respectively.

In comparison, municipal bodies of Andhra Pradesh, Bihar, Gujarat, Kerala, Maharashtra, Rajasthan *etc.*, were vested with complete administrative powers.

5.4.2 Powers relating to other expenditure

The State Government amended (February 2004) the Karnataka Municipalities (Powers of Expenditure) Rules, 1986 wherein expenditure powers were specified for town and city municipalities. Review of the expenditure powers showed that the municipalities did not have any power to purchase furniture, vehicles such as cars, vans, jeeps, road rollers, tractors or other vehicles or mechanical equipment. These powers were vested with the Deputy Commissioner and DMA. The municipalities had full powers only for legal charges. Expenditure limits were prescribed for various items, a few of which are indicated in **Table 5.10.** These limitations have not been revised for more than 16 years and are too low considering inflation.

Table 5.10: Statement showing the expenditure limits for ULBs

Sl. no.	Item of expenditure	Town municipality	City municipality
1	National celebrations like Independence day, Republic day *etc.*	5,000 in each case	15,000 in each case
2	Tea and light refreshment charges at Council and Committee meetings	18,000 per annum	36,000 per annum
3	Major overhauls and repairs of vehicle and other machinery	10,000 in each case	50,000 in each case
4	Purchase of stationery	50,000 per annum	1,00,000 per annum
5	Prevention and suppression of epidemics	50,000 per annum	1,50,000 per annum
6	Alleviate distress caused by accidental fire or floods *etc.*	5,000 in each case	20,000 in each case

Source: Gazette notification dated 3 February 2004

The restrictions/limitations on the financial powers of ULBs as discussed in the above two paragraphs negate the movement towards greater decentralisation.

Recommendation 10: Delegation of powers relating to works and other expenditure needs to be revised in order to ensure efficiency.