

Chapter-V

Financial resources of Urban Local Bodies

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The Fifth SFC had observed that local bodies in Punjab continue to perform the same functions which they had been handling prior to the Constitution (Seventy-fourth Amendment) Act, 1992 (74th CAA). To discharge these functions, the funds required by the local bodies are not large by any means but even then, the task of balancing the budgets of local bodies remains dependent entirely on Government support. The key to make these bodies viable, dependable and successful units of self-government is to put their financial and organisational set up on a sound, stable and self-sustaining footing. The finance of Municipalities comes from a mix of internal and external resources. The internal resources comprise revenues from taxes that the Municipalities are statutorily allowed to levy, non-tax revenues from various fees, fines, levies, borrowings and State devolutions by way of share of taxes, Grants-in-aid for implementation of Centrally Sponsored Schemes and grants in pursuance of the recommendations of the Central and State Finance Commissions.

5.1 Sources of revenue

The detail of revenues of ULBs in the State during the period 2015-16 to 2019-20 is given in **Table 5.1**.

Table 5.1: Detail of revenues of ULBs during 2015-2020

(₹ in crore)

Year	Own revenue	Assigned revenue	Grants-in-aid [#]	Total revenue	Percentage of own revenue to total revenue
2015-16	2,398.53	37.48	461.35	2,897.36	82.78
2016-17	2,689.32	63.19	744.71	3,497.22	76.90
2017-18	2,593.48	15.73	504.93	3,114.14	83.28
2018-19	2,963.51	21.54	579.17	3,564.22	83.15
2019-20	3,111.67	22.60	608.09	3,742.36	83.15
Total	13,756.51	160.54	2,898.25	16,815.30	81.81

Source: Departmental information

Includes grants from CFC, CSS, MPLADS, PIDB, etc.

Table 5.1 shows that during the period 2015-16 to 2019-20, major portion of the revenue of ULBs came from its own resources, which remained 81.81 *per cent* of the total revenue and the fiscal transfers from Government, which were only 18.19 *per cent*, constituted a small portion of the revenue of ULBs.

5.1.1 State Finance Commission grants

The share of financial resources of ULBs includes grants recommended by the State Finance Commission (SFC). Timely constitution of SFC and acceptance of its recommendations would have a bearing on the assured transfer of funds to ULBs. Devolution of adequate resources from State Government to local bodies will always remain critical for the financial health and stability of local bodies.

The detail of grants due as per recommendations of SFC and actually released to ULBs during the period 2015-16 to 2019-20 is given in **Table 5.2**.

Table 5.2: Detail of grants due as per recommendations of SFC vis-à-vis actually released to ULBs

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Non-Loan Net Own Revenue Receipts (NLNORR) of the State	26,200	27,280	30,005	31,156	29,209	1,43,850
Allocation as per recommendations of SFC (four per cent of NLNORR)	1,048	1,091	1,200	1,246	1,168	5,754
Share due to ULBs as per respective SFCs	340	682	750	779	736	3,287
Funds actually released to ULBs	0	7	0	0	0	7

Source: Departmental information

Table 5.2 shows that out of mandated devolution of ₹ 3,287 crore during 2015-2020, only ₹ seven crore (0.21 per cent) were released to ULBs during the same period.

The Department stated (August 2021) that sufficient funds had been released to ULBs under Central Finance Commissions and other schemes so that development works did not suffer adversely. The reply of the Department was not in line with recommendations of SFCs.

5.1.2 Central Finance Commission grants

Article 280(3)(c) of the Constitution of India mandates the Central Finance Commission (CFC) to recommend measures to augment the Consolidated Fund of the State to supplement the resources of Municipalities based on the recommendations of the respective SFCs. The 14th CFC recommended Basic Grant and Performance Grant to ULBs as a percentage of divisible pool account.

The position of allocation and release of CFC grants during the period 2015-16 to 2019-20 is depicted in **Table 5.3**.

Table 5.3: Allocation and release of Central Finance Commission grants

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Basic Grant						
Allocation as per CFC	235.41	325.96	376.62	435.68	588.69	1,962.36
Released by GoI	233.97	322.03	337.15	427.86	581.64	1,902.65
Shortfall(-)	-1.44	-3.93	-39.47	-7.82	-7.05	-59.71
Released by GoP	233.97	161.99	160.05	337.15	1,009.49 ¹	1,902.65
Shortfall(-)	0.00	-160.04	-177.10	-90.71	427.85	0.00
Performance Grant						
Allocation as per CFC	NA	96.20	108.87	123.63	161.89	490.59
Released by GoI	NA	93.89	106.26	0.00	0.00	200.15
Shortfall(-)	NA	-2.31	-2.61	-123.63	-161.89	-290.44
Released by GoP	NA	93.89	106.26	0.00	0.00	200.15
Shortfall(-)	NA	0.00	0.00	0.00	0.00	0.00

Source: Departmental information

NA=Not applicable, as the Performance Grant was to be provided from 2016-17 onwards.

Audit observed that against the allocation ₹ 1,962.36 crore and ₹ 490.59 crore as Basic Grant and Performance Grant as per recommendations of 14th Central Finance Commission, GoP received ₹ 1,902.65 crore and ₹ 200.15 crore, thereby resulting into short receipt of ₹ 59.71 crore and ₹ 290.44 crore respectively during the period 2015-2020.

The Department stated (August 2021) that the share of Basic Grant in respect of those ULBs whose elected bodies had not been constituted, was not released by GoI during 2015-2020 and the Performance Grant for the years 2018-19 and 2019-20 was not released to any State by GoI.

5.1.3 Octroi on electricity and Municipal Tax

(i) The Government of Punjab (GoP), in exercise of the powers conferred under Section 90(b) of PMC Act and Section 62-A of PM Act directed (February 2008) all the ULBs in the State to adopt the revised octroi rate of ₹ 0.10 per unit on import of electricity into the limits of ULBs for sale, use and consumption within the period of 15 days from the date of issue of the notification. The Fifth SFC had projected the expected income from levy of octroi on electricity for the years 2015-16 to 2019-20. However, due to implementation of GST Act, the octroi on electricity consumption was abolished in July 2017.

Audit noticed that as against the expected revenue of ₹ 216.41 crore during two years' period (2015-17) projected by Fifth SFC, ULBs in the State

¹ Out of ₹ 1,009.49 crore, ₹ 290.82 crore (of 14th Finance Commission) were released by the State Government during 2020-21.

received ₹ 228.15 crore², besides collecting ₹ 186.77 crore during next three years i.e. from 2017-18 to 2019-20, which included arrears of previous years. This showed that the ULBs were not receiving revenue on account of octroi on electricity in time.

(ii) Further, in order to safeguard the revenue of ULBs in lieu of abolition of octroi on electricity, the Department of Local Government, GoP vide notifications issued (October 2017 and November 2017) under PM Act and PMC Act respectively levied two *per cent* Municipal tax on consumption, use or sale of electricity within the Municipal limits in the State of Punjab. The tax was to be collected by PSPCL and transferred to the respective ULBs, after deducting service charges at the rate of 10 *per cent* on total collection, as intimated (July 2018) by PSPCL.

The year-wise status of Municipal tax collected by PSPCL and outstanding amount to be transferred to the Department (ULBs), is depicted in the **Table 5.4**.

Table 5.4: Status of Municipal tax as of March 2020

(₹ in crore)

Year	Total amount of tax collected by PSPCL	Deductible amount of service charges @ 10%	Amount due to be transferred to ULBs	Amount transferred to ULBs	Outstanding amount of tax
2017-18	25.92	2.59	23.33	2.56	20.77
2018-19	182.20	18.22	163.98	119.08	44.91
2019-20	196.34	19.63	176.71	114.57	62.13
Total	404.47	40.44	364.02	236.21	127.81

Source: Punjab State Power Corporation Limited, Patiala

Table 5.4 shows that PSPCL collected Municipal tax amounting to ₹ 404.47 crore during 2017-18 to 2019-20. However, after deductible service charges of ₹ 40.44 crore at the rate of 10 *per cent* on total collection, only ₹ 236.21 crore were transferred to the ULBs leaving an outstanding amount of ₹ 127.81 crore.

The Department stated (August 2021) that ULBs would be instructed to recover the pending amount of Municipal tax.

5.1.4 Property tax

The ULBs were empowered to levy property tax on all buildings or lands or both situated within their jurisdiction under Section 90 of the PMC Act and Section 61 of the PM Act with the prior approval of the Government. Further, as per Section 112-A of PMC Act, every owner or occupier shall calculate the

² 2015-16: ₹ 118.07 crore against the projection of ₹ 106.51 crore; and 2016-17: ₹ 110.08 crore against the projection of ₹ 109.09 crore.

tax on land and building himself. The Department developed (October 2018) an online property tax calculator (mSeva) through which property owners could assess and pay their taxes. The guidelines of Jawaharlal Nehru National Urban Renewal Mission (JnNURM) also emphasised the need to implement the reforms of at least 85 *per cent* collection efficiency of property tax.

The status regarding collection of property tax during 2015-16 to 2019-20 is depicted in **Table 5.5**.

Table 5.5: Status of collection of property tax during 2015-2020

(₹ in crore)

Year	Arrears as on 1 st April	Demand assessed during the year	Total amount due	Amount realised	Arrears as on 31 st March	Percentage of amount realised
2015-16	241.37	162.20	403.57	199.80	203.77	49.51
2016-17	203.77	195.09	398.86	193.61	205.25	48.54
2017-18	205.25	224.89	430.14	210.29	219.85	48.89
2018-19	219.85	228.91	448.76	219.39	229.37	48.89
2019-20	229.37	243.48	472.85	256.01	216.84	54.14

Source: Departmental information

Table 5.5 shows that an amount of ₹ 216.84 crore on account of property tax was outstanding at the end of March 2020. The collection efficiency of property tax ranged between 48.54 *per cent* and 54.14 *per cent* only during the period 2015-16 to 2019-20.

Audit noticed in test-checked ULBs that:

- Survey of properties was not conducted by 17 out of 19 ULBs during last five years. The Municipal Corporations, SAS Nagar and Patiala, conducted the survey during 2014-15 and 2017-18 respectively. Further, only the data in respect of property owners who had paid property tax in the past was available with ULBs. As such, neither any complete database was prepared nor any other source of information was available to identify correct number of properties existing in the respective area and the property tax was being realised on the basis of self-assessment.
- The Property Tax Board constituted (March 2013) by the State Government was also not effective, as discussed in paragraph 4.3.5.4. Further, efforts to improve the recovery of property tax by launching special collection drives from time to time, collection at door steps, mutual resolution of disputes, attractive incentives for timely payments, etc. as recommended by Fifth SFC, were lacking though provisions of e-collection and penalties for defaulters were in place.

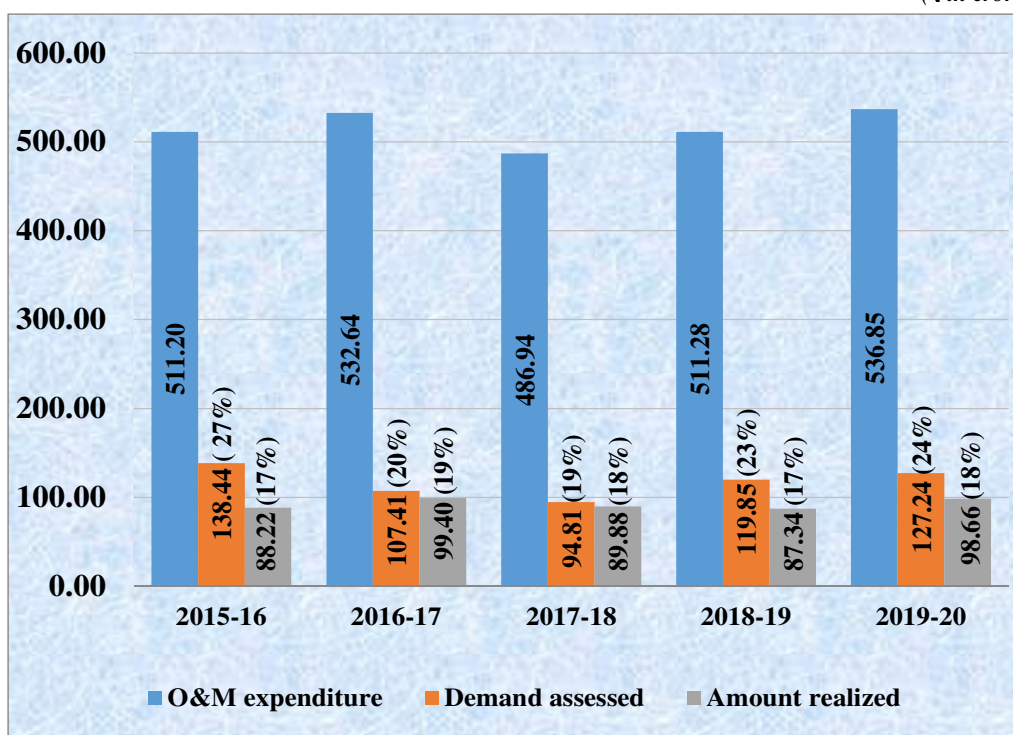
The Department stated (August 2021) that the ULBs had been advised from time to time through departmental review to improve the recovery of user charges and speed up the recovery of income under other sources of revenue by conducting special collection drives, e-collection, collection at door step, etc. Thus, earnest efforts were being made to recover the outstanding arrears.

5.1.5 User charges

The expenditure on the provision of basic services like water supply, sewer, sewage treatment plant (STP) and solid waste management (SWM) in urban areas is rising enormously. The ULBs were expected to meet at least the maintenance charges of these facilities from their own sources by levying suitable charges on the beneficiaries. The Fourth SFC recommended that the ULBs should levy such charges on water supply and sewerage so that they are able to recover 90 *per cent* expenditure on operation and maintenance (O&M) incurred on these services by 2015-16. The Fifth SFC also observed that despite this recommendation accepted by the Government, the policy was still in the process of finalisation.

The year-wise position of user charges assessed *vis-à-vis* expenditure on O&M is depicted in **Chart 5.1**.

Chart 5.1: User charges assessed *vis-à-vis* expenditure on O&M during 2015-2020
(₹ in crore)



Source: Departmental information

Chart 5.1 shows that as against the recommendation of SFCs requiring the user charges to cover 90 *per cent* of the cost of expenditure on O&M, the average collection of user charges during 2015-2020 was only 18 *per cent*. The underlying reasons for short collection of user charges was short assessment of demand which was only 20 *per cent* of the expenditure incurred on O&M during the same period. The status of recovery/outstanding user charges during 2015-2020 is given in **Table 5.6**.

Table 5.6: Status of recovery of user charges during 2015-2020

(₹ in crore)

Year	Arrears as on 1 st April	Demand assessed during the year	Total amount due	Amount realised	Arrears as on 31 st March	Percentage of amount realised
2015-16	411.71	138.44	550.15	88.22	461.93	16.04
2016-17	461.93	107.41	569.34	99.40	469.94	17.46
2017-18	469.94	94.81	564.75	89.88	474.87	15.92
2018-19	474.87	119.85	594.72	87.34	507.38	14.69
2019-20	507.38	127.24	634.62	98.66	535.96	15.55

Source: Departmental information

Table 5.6 shows that collection of user charges remained between 14.69 *per cent* and 17.46 *per cent* only during the period 2015-2020 and an amount of ₹ 535.96 crore was outstanding on this account at the end of the year 2019-20.

The Department stated (August 2021) that the ULBs would be issued necessary instructions to recover the arrears.

5.1.5.1 Four authorities *viz.* (i) Municipal Corporation, SAS Nagar; (ii) Greater Mohali Area Development Authority (GMADA); (iii) Punjab Small Industries and Export Corporation (PSIEC); and (iv) Department of Water Supply and Sanitation (DWSS) were providing water supply and sewerage services/other civic services in SAS Nagar and were collecting user charges against these services. Test-check of records of Municipal Corporation, SAS Nagar revealed the following:

(i) The Municipal Corporation, SAS Nagar was providing water supply service in its jurisdiction³ and collecting water charges as per resolution passed by the House in April 2001. Though the Government had revised the water rates in September 2009, the MC continued to charge the water supply at old rates. If the Corporation too had revised the water rates, it would have received ₹ 4.99 crore instead of ₹ 1.92 crore on this account during the period 01.07.2018⁴ to 31.12.2020.

³ Industrial Area (Phase VI to IX) and Village Mohali.

⁴ Information prior to 01.07.2018 was not provided by MC, SAS Nagar.

The Department stated (August 2021) that the rates were being charged as per resolution passed by the House, therefore, there was no loss of revenue. It was added that the Corporation had now adopted the revised rates of 2009 as per resolution passed by the House. The reply was not in line with the recommendations of Fourth and Fifth SFCs which stipulated that ULBs should levy such charges on water supply and sewerage so that they were able to recover 90 per cent expenditure on operation and maintenance (O&M) incurred on these services. But the ULBs were able to assess demand of user charges ranging between 19 to 27 per cent of O&M expenditure incurred during 2015-2020, as discussed in the preceding paragraph.

(ii) The Department of Water Supply and Sanitation (DWSS) was entrusted with the work of operation and maintenance (O&M) of water supply in partial area⁵ of SAS Nagar. It was noticed that DWSS was recovering O&M expenses from the Municipal Corporation, SAS Nagar even though the water charges were being collected by the DWSS. No record/instructions/agreement was available with the Corporation for such type of arrangement. In the absence of any agreement, transfer of funds amounting to ₹ 14.84 crore during 2015-2020 on account of operation and maintenance of water supply and sewerage services was not justified.

The Department stated (August 2021) that as per policy of the State Government (September 2013), the provision of water supply and sewerage in Municipal Corporation, Mohali (SAS Nagar) had been specifically entrusted to DWSS. But, since the function of provision of water supply and sewerage fell within the domain of ULBs, therefore, the estimates thereof were passed by the Municipal Corporation for providing funds for provision of such services. However, the Department did not clarify under which circumstances the DWSS was recovering the expenses on O&M from the Corporation, when the user charges were being collected by DWSS.

5.1.6 Rent and lease money

The ULBs were empowered to collect rent from the buildings/premises let out to private agencies. The position of assessment and recovery of rent/lease money during 2015-16 to 2019-20 is depicted in **Table 5.7**.

⁵ Phase I to XI, Sectors 48, 70 and 71, Village Shahi Majra, Madanpura, Mataur and Industrial Area (Phase I to V).

Table 5.7: Position of assessment and recovery of rent/lease money during 2015-2020

(₹ in crore)

Year	Arrears as on 1 st April	Demand assessed during the year	Total amount due	Amount realised	Arrears as on 31 st March	Percentage of amount realised
2015-16	21.27	23.71	44.98	21.21	23.77	47.15
2016-17	23.77	25.02	48.79	22.11	26.68	45.32
2017-18	26.68	28.98	55.66	23.29	32.37	41.84
2018-19	32.37	28.95	61.32	25.00	36.32	40.77
2019-20	36.32	31.17	67.49	27.19	40.30	40.29

Source: Departmental information

Table 5.7 shows that at the end of March 2020, rent/lease of ₹ 40.30 crore was in arrears. The recovery rate ranged between 40.29 per cent and 47.15 per cent which was in decreasing trend during the period 2015-2020, thereby showing the ineffectiveness of the ULBs in augmenting their own revenue.

The Department stated (August 2021) that the ULBs would be issued necessary instructions to recover the arrears.

5.1.7 Short receipt of revenue from GMADA

The work of urban planning and development in SAS Nagar is mainly vested in the Greater Mohali Area Development Authority (GMADA). Test-check of records of Municipal Corporation, SAS Nagar revealed the following:

(i) As per decision taken in the meetings held (July 2016) under the chairmanship of the Principal Secretary, Housing and Urban Development, Punjab, GMADA, after initial development, handed over (August 2016) the areas of Sectors 48 to 71 and Sectors 76 to 81 to the Municipal Corporation, SAS Nagar for further maintenance and capital works. For this purpose, GMADA was to release funds maximum up to ₹ 50 crore per annum to Municipal Corporation, SAS Nagar for first five financial years (2016-17 to 2020-21) and ₹ 22.50 crore per annum for the next five financial years (2021-22 to 2025-26) on certain terms and conditions.

It was, however, observed that GMADA released ₹ 35 crore (out of due amount of ₹ 250.00 crore) during the period of five years i.e. 2016-17 to 2020-21, whereas the Corporation had already executed works amounting to ₹ 100.10 crore from their own funds during 2018-19 to 2019-20 in the areas handed over to it by GMADA. However, the balance funds of ₹ 215.00 crore had not been released by GMADA in line with the decision (July 2016) of the Department of Housing and Urban Development, thereby overburdening the Municipal Corporation.

The Department stated (August 2021) that the efforts were being made by the Municipal Corporation to recover the amount as per agreement executed between both the authorities.

(ii) The building plans in SAS Nagar were approved by GMADA and all the charges receivable were also collected by them. It was decided in the meeting held (June 2011) under the chairmanship of the Chief Minister that GMADA would transfer 50 *per cent* of the collection on account of scrutiny fee and non-construction charges to Municipal Corporation, SAS Nagar retrospectively w.e.f. 01 April 2008.

Accordingly, GMADA transferred (July 2011) ₹ 4.30 crore for the period from April 2008 to June 2011 to MC, SAS Nagar on account of scrutiny fee and non-construction charges and thereafter, neither any fee was transferred nor any details thereof were given to the Corporation. Audit noticed that GMADA collected scrutiny fee and non-construction charges amounting to ₹ 28.62 crore during 2015-16 to 2019-20, but the requisite share of ₹ 14.31 crore was not transferred to the Corporation.

The Department stated (August 2021) that efforts were being made by the Municipal Corporation, SAS Nagar to recover the due amount from GMADA.

5.1.8 Short release of grant to Punjab Municipal Fund

The Government of Punjab enacted (October 2006) the Punjab Municipal Fund Act, 2006 to assign⁶ amount of tax levied and collected under the Punjab Value Added Tax Act, 2005 to the Municipalities and to provide for constitution of the Punjab Municipal Fund (PMF) with a view to compensate Municipalities for the loss of revenue, suffered due to abolition of octroi in the State of Punjab and for the matters connected therewith or incidental thereto. Thereafter, the GoI enacted (June 2017) Goods and Services Tax (GST) Act, 2017 and VAT was subsumed under the GST. Accordingly, the Government decided (June 2017) that the Grants-in-aid so provided to PMF would not be less than the sum provided during the year 2015-16 with 14 *per cent* annual increase.

The details of Grants-in-aid (GIA) provided to PMF during the period 2015-16 to 2019-20 is depicted in **Table 5.8**.

⁶ As per Section 3(2) of the PMF Act, 2006, 11 *per cent* of VAT collected shall be credited direct to the PMF provided that the amount so collected to the fund shall not be less than ₹ 550 crore.

Table 5.8: Details of Grants-in-aid provided to PMF during 2015-2020

(₹ in crore)				
Year	Budget estimate	Amount due after including 14 per cent annual increase	Total amount received	Amount short received
2015-16	1,449.99	NA	1,449.99	0.00
2016-17	1,564.58	NA	1,564.58	0.00
2017-18	1,933.99	1,884.41	1,783.43	-150.56
2018-19	1,984.73	2,148.22	1,834.73	-150.00
2019-20	2,107.20	2,448.98	1,541.63	-565.57
Total	9,040.49	6,481.61	8,174.36	-866.13

Source: Departmental information

NA=Not applicable

Note: Prior to 01.07.2017, 11 per cent share of VAT was being credited direct to PMF.

Table 5.8 shows that there was short release of ₹ 866.13 crore on account of GIA provided to PMF during 2017-2020 against the decision of the Government (June 2017). Further, the Government also ignored the factor of annual increase of 14 per cent while preparing the budget estimates in respect of PMF for years 2017-18 to 2019-20.

The Department stated (August 2021) that the proposal of 14 per cent annual increase was not approved by the Council of Ministers in its meeting held in June 2017. Audit, however, noticed that the Local Government Minister had observed that exclusion of 14 per cent increase was an omission in recording the minutes and directed (June 2017) that the matter be taken up with the Chief Secretary for amending the minutes suitably so that the decision which was actually taken, be recorded and implemented. Further outcome of the matter was awaited.

5.2 Budget estimates and expenditure

In accordance with the provisions of Section 86 of PMC Act, the Corporation shall, not later than the first week of February of every year, prepare the budget estimate for the ensuing year which shall be an estimate of the income to be received and expenditure to be incurred by the Corporation on account of the Municipal Government of the city and forward it to the State Government.

The budget estimate received by the Government shall be returned to the Corporation before 31st day of March after approval, without any modification or with such modifications as the Government may deem fit. Further, every increase in a budget-grant and every additional budget-grant made in any year under sub-section (1) of Section 87 shall be made with the prior approval of the Government and after such approval, shall be deemed to be included in the budget estimate finally adopted for that year.

As per paragraph 31.9 of Punjab Municipal Accounting Manual, 2017, Class I Municipal Councils send their budget proposals to the Department and

Class II & III Councils including Nagar Panchayats forward their budget proposals to the concerned Regional Deputy Directors for approval.

The procedure of preparation and approval of budget in respect of ULBs, as laid down in the Punjab Municipal Accounting Manual, 2017, is detailed in **Table 5.9**.

Table 5.9: Procedure of preparation and approval of budget in ULBs

Category of ULB	Preliminary edition of budget	Finalisation of preliminary budget	Budget approval
Municipal Corporation	Commissioner	Finance Sub-Committee	Secretary to Government of Punjab, Department of Local Government
Municipal Council (Class-I)	Executive Officer	President	Director, Department of Local Government
Municipal Council (Class-II & III)/ Nagar Panchayat	Executive Officer	President	Concerned Regional Deputy Director

Source: Punjab Municipal Accounting Manual, 2017

Thus, the provisions of PMC Act, stipulating the role of State Government in sanctioning/modifying the budget, were not in consonance with the provisions of 74th CAA.

5.2.1 Unrealistic budget estimates

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.

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.

The details of budget estimates *vis-à-vis* actuals in respect of receipts and expenditure of ULBs during the period 2015-2020 are shown in **Table 5.10**.

Table 5.10: Budget estimates *vis-à-vis* actual receipt and expenditure of ULBs

(₹ in crore)

Category of ULB	Year	Receipts (Own Revenue)			Expenditure		
		Budget	Actuals	Percentage of actuals to budget	Budget	Actuals	Percentage of actuals to budget
Municipal Corporation	2015-16	1,645.15	1,423.63	86.53	1,659.13	1,461.16	88.07
	2016-17	1,721.84	1,580.56	91.79	2,246.90	1,410.12	62.76
	2017-18	1,934.50	1,537.53	79.48	2,435.11	1,424.73	58.51
	2018-19	2,073.07	1,738.22	83.85	2,147.68	1,495.96	69.65
	2019-20	2,317.12	1,825.12	78.77	2,197.42	1,570.76	71.48

Category of ULB	Year	Receipts (Own Revenue)			Expenditure		
		Budget	Actuals	Percentage of actuals to budget	Budget	Actuals	Percentage of actuals to budget
Municipal Council	2015-16	1,038.78	852.18	82.04	1,073.16	935.52	87.17
	2016-17	908.01	986.19	108.61	953.87	1,148.52	120.41
	2017-18	943.95	941.64	99.76	1,036.13	981.89	94.77
	2018-19	1,024.67	1,083.30	105.72	1,091.72	1,030.98	94.44
	2019-20	1,256.15	1,137.46	90.55	1,346.97	1,082.53	80.37
Nagar Panchayat	2015-16	163.32	122.72	75.14	172.06	132.08	76.76
	2016-17	315.66	122.57	38.83	336.54	189.88	56.42
	2017-18	330.49	114.31	34.59	347.78	135.40	38.93
	2018-19	337.37	141.99	42.09	336.00	142.17	42.31
	2019-20	189.33	149.09	78.75	198.87	149.28	75.06

Source: Departmental information

Table 5.10 shows that percentage of actual receipts *vis-à-vis* budget estimates during the period 2015-16 to 2019-20 ranged between 34.59 *per cent* and 108.61 *per cent*, and that of actual expenditure *vis-à-vis* budget estimates ranged between 38.93 *per cent* and 120.41 *per cent* in ULBs. Thus, the budget estimates with variation of more than 10 *per cent* could be termed as unrealistic.

The Department stated (August 2021) that the ULBs would be instructed to meet the budget targets so that development works or implementation of other activities as planned in the budget did not suffer adversely. Further, ULBs would also be advised to adopt minimum standards prescribed for civic services and ascertain the requirement of funds as well as analyse actual expenditure to be incurred in the succeeding year so as to minimise the variations in the budget estimation of receipts and expenditure.

5.3 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;
- ✓ intensified and improved local governance;
- ✓ enhanced 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.

In order to streamline the process of execution of development works and procurement of goods in Local Government Department, a Standard Operating

Procedure was prepared (August 2018) by the State Government for administrative, technical and tender approval powers relating to ULBs for undertaking basic infrastructure works.

The ULBs shall preferably procure goods at the Rate Contracts with the registered suppliers for such goods with Controller of Stores, Punjab or through Government e-Marketplace (GeM) portal. The GeM portal shall be utilised by the ULBs for direct on-line purchases as under:

Sr. No.	Procedure	Amount
1.	Available supplier on the GeM	Upto ₹ 50,000
2.	GeM seller having lowest price amongst the available sellers, of at least three different manufacturers, on GeM, meeting the requisite quality, specification and delivery period.	Above ₹ 50,000 and up to ₹ 30 lakh
3.	Supplier having lowest price meeting the requisite quality, specification and delivery period after mandatorily obtaining bids, using online bidding or reverse auction tool provided on GeM.	Above ₹ 30 lakh

The administrative approval powers of ULBs in emergent maintenance of essential services are as under:

Sr. No.	Authority/Type of ULB	Amount (₹)
1.	Commissioner, Municipal Corporation	1,00,000
2.	Executive Officer for Class I Municipal Council	40,000
3.	Executive Officer for Class II Municipal Council	30,000
4.	Executive Officer for Class III Municipal Council and Nagar Panchayat	20,000

Provided that the total expenditure on such emergent maintenance works shall not exceed two *per cent* of the total annual budget for development and maintenance works of ULBs.

The powers of ULBs in respect of technical sanction are as under:

Sr. No.	Officer competent to accord technical sanction	Amount up to which the technical sanction can be accorded
1.	Junior Engineer	Up to ₹ 2 lakh
2.	Assistant Municipal Engineer/ Assistant Corporation Engineer	Above ₹ 2 lakh up to ₹ 25 lakh
3.	Municipal Engineer/ Corporation Engineer	Above ₹ 25 lakh up to ₹ 50 lakh
4.	Superintending Engineer	Above ₹ 50 lakh up to ₹ 1 crore
5.	Chief Engineer	Above ₹ 1 crore up to ₹ 5 crore
6.	Committee of three Chief Engineers	Above ₹ 5 crore

The comparative statements shall be vetted by the authorities as under:

Sr. No.	Officer competent to accord technical sanction	Amount of financial bid up to which to be vetted by the technical officer
1.	Assistant Municipal Engineer/ Assistant Corporation Engineer	For works up to ₹ 5 lakh
2.	Municipal Engineer/Corporation Engineer	Above ₹ 5 lakh up to ₹ 25 lakh
3.	Superintending Engineer	Above ₹ 25 lakh to ₹ 50 lakh
4.	Chief Engineer	Above ₹ 50 lakh up to ₹ 5 crore
5.	Committee of three Chief Engineers	Above ₹ 5 crore

- ✓ Purchases of goods up to ₹ 5,000 occasionally or in emergent needs may be made without inviting quotations or bids on the basis of certificate to be recorded by the competent authority.
- ✓ All tenders above ₹ 20,000 shall be invited through e-tendering mode only.

The powers to incur other expenditure viz. celebration of Independence Day and Republic Day and on works of emergent nature are as under:

(Amount in ₹)

Sr. No.	Type of ULB	For celebration of Independence Day and Republic Day (fixed in January 2004)	For emergent nature works (fixed in February 2016)
1.	Municipal Corporation	30,000	--
2.	Municipal Council Class-I (at District level)	20,000	30,000
3.	Municipal Council Class-I	15,000	30,000
4.	Municipal Council Class-II	10,000	30,000
5.	Municipal Council Class-III	7,000	30,000
6.	Nagar Panchayat	7,000	20,000

Audit observed that the powers and role of ULBs were limited in respect of administrative approvals in emergent maintenance of essential services, technical sanctions, acceptance of financial bids and other expenditure, thereby restricting the autonomy of ULBs.

The Department stated (August 2021) that issues raised by Audit would be considered at the time of renewing the Standard Operating Procedure in respect of ULBs.

5.4 Expenditure of Urban Local Bodies

(i) The expenditure of ULBs can be divided into five major categories/heads such as salaries and wages; contingencies; capital expenditure; operation and maintenance (O&M) and repayment of loan and interest. The detail of expenditure incurred by ULBs in the State for the period 2015-2020 is exhibited in **Table 5.11**.

Table 5.11: Trend of expenditure of ULBs

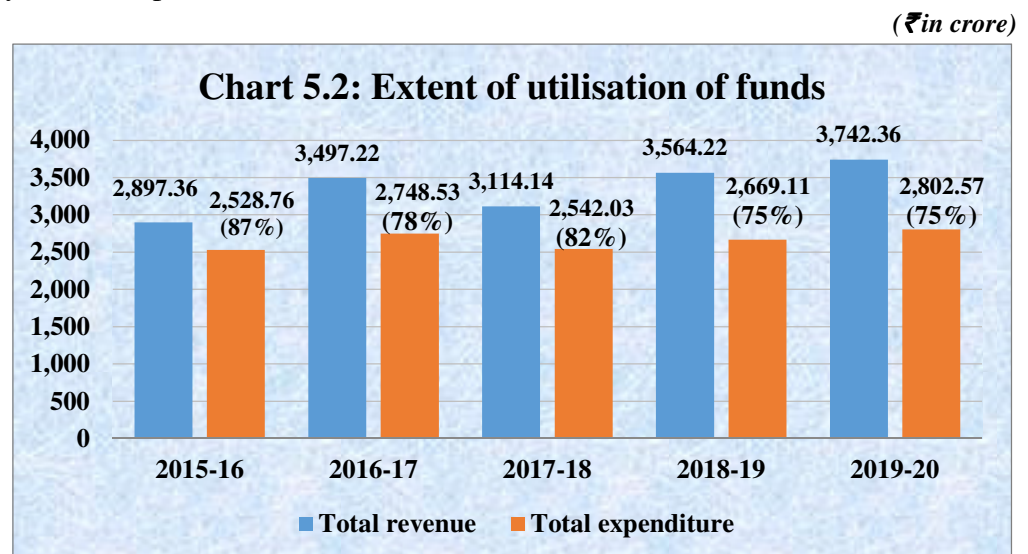
Head	2015-16	2016-17	2017-18	2018-19	2019-20	Total	Percentage of total expenditure
Salaries and wages	1,326.49	1,422.79	1,522.94	1,599.08	1,679.04	7,550.34	56.81
Contingencies	338.47	221.87	170.92	179.46	188.43	1,099.15	8.27
Capital expenditure	314.30	526.69	319.99	335.99	352.79	1,849.76	13.92
Operation and maintenance	511.20	532.64	486.94	511.28	536.85	2,578.91	19.40
Repayment of loan and interest	38.30	44.54	41.24	43.30	45.46	212.84	1.60
Total	2,528.76	2,748.53	2,542.03	2,669.11	2,802.57	13,291	

Source: Departmental information

The Fifth SFC emphasised that O&M of water supply and sewerage system was either supply driven or complaint driven without any kind of assessment of quality of services. There is, thus, an urgent need to improve the O&M of these services so as to provide satisfactory facilities to the public, who in turn will normally be happy to pay for these services. **Table 5.11** shows that during the five years' period from 2015-16 to 2019-20, the average expenditure on O&M was 19.40 per cent only, and it decreased from 20.22 per cent in 2015-16 to 19.16 per cent in 2017-18 and remained at this level during 2018-2020. Thus, despite increase in population and expansion of services, the expenditure on O&M remained nearly static during this period.

The Department stated (August 2021) that instructions would be issued to the ULBs to make every effort to increase their expenditure on O&M works so that satisfactory facilities could be provided to public.

(ii) A comparison of the total expenditure with total revenue for the period from 2015-16 to 2019-20 showed that ULBs were able to utilise 75 per cent to 87 per cent of the available funds during the period of five years, as depicted in **Chart 5.2**.



Source: Departmental data

It was further noticed that expenditure more than 100 *per cent* of their own revenue was incurred by 57 ULBs.

The Department stated (August 2021) that the ULBs would be instructed to make earnest efforts to increase the extent of utilisation of funds in a time bound manner so that satisfactory facilities could be provided to public.

5.5 Solid Waste Management

Unscientific disposal of Municipal Solid Waste has serious consequences on the environment as well as on human health. To tackle these problems, Ministry of Environment, Forest and Climate Change, GoI notified (April 2016) Solid Waste Management (SWM) Rules, 2016 and also defined the duties of the Urban Development Department in the States and Union Territories for management of solid waste.

Rule 11 of SWM Rules provided that the State Government would prepare a State Policy and SWM Strategy for the State through Director, Local Bodies Department within one year from the notification of SWM Rules. Further, as per Rule 15, ULBs would also prepare a SWM plan as per State Policy and Strategy on SWM within six months from the date of notification issued by the State Government in this regard and submit a copy of the same to the Local Bodies Department. Under these rules, ULBs were authorised to collect user fee as determined by it from time to time on its own or through its authorised agency from all waste generators.

The State Government notified (July 2018) Punjab State SWM Policy, 2018 and SWM Strategy, prepared by Punjab Municipal Infrastructure Development Company (PMIDC), for the State in accordance with SWM Rules after analysing the deficiencies of earlier cluster approach for filling all gaps in respect of infrastructure for door-to-door collection of segregated waste at source, transportation, processing and disposal which have the provision of collection of user charges from categories of waste generators.

Audit observed (April 2021) that 100 *per cent* door-to-door collection of solid waste was being done in 137 out of 163 ULBs⁷ (84.05 *per cent*) and 100 *per cent* source segregation of solid waste was also being done in 72 ULBs (44.17 *per cent*). During test-check of records related to SWM in selected ULBs, audit noticed the following:

5.5.1 Payment made without realising intended benefits due to non-commissioning of Solid Waste Processing Project

Prior to implementation of SWM Rules, 2016, the Department of Local Government, GoP, had divided (August 2013) the State into eight clusters⁸ for development of Municipal SWM Project.

⁷ Position in respect of four ULBs was not provided by the Department.

⁸ (i) Amritsar; (ii) Bathinda; (iii) Ferozepur; (iv) Jalandhar; (v) Ludhiana; (vi); Pathankot; (vii) Patiala; and (viii) SAS Nagar (GMADA).

During test-check of records (January 2021) in Municipal Corporation, Patiala, it was noticed that 22 ULBs were to be covered under Patiala Cluster under the project. While tenders for SWM project were in progress, the acquisition process of land for dumping site at village Dudhar for Patiala Cluster was finalised and possession taken (November 2013) by the Municipal Corporation, Patiala though the agreement for the purpose in respect of *Shamlat* land measuring 20 acres was executed for 33 years with Gram Panchayat, Dudhar village in January 2015.

The tenders for Patiala SWM Cluster could not be finalised till May 2018, when it was decided by PMIDC under the control of the Department to combine Patiala and GMADA Clusters. The land for the project for Patiala Cluster had already been acquired on lease in village Dudhar, whereas acquisition of land for GMADA Cluster was under process, due to which tenders for the combined Patiala-GMADA cluster could not be finalised. However, as per agreement (January 2015), Municipal Corporation, Patiala kept paying rent to Gram Panchayat, village Dudhar @ ₹ 10.00 lakh per annum with annual increase of 10 *per cent* (₹ one lakh) without utilising the land for any purpose. This resulted into unfruitful expenditure amounting to ₹ 94.75 lakh for the period from November 2013 to March 2021 (*Appendix 5.1*).

The Department stated (August 2021) that the Dudhar based plant was a collective enterprise of 22 ULBs including Patiala and liquidation of the same could be done only if all stakeholders agreed to the same. The Municipal Corporation, Patiala on its own, was not authorised to release the land marked for utilisation of all the constituent ULBs. Thus, it was prudent not to give up the stake over land as so much homework had already been done. The fact, however, remains that expenditure of ₹ 94.75 lakh on rent/lease had already been incurred for more than seven years without utilising the land for any purpose.

5.6 Conclusions

The 74th CAA provided for fiscal transfers from the Central and State Governments to the ULBs besides empowering them to raise their own revenue. However, the ULBs were having limited access to the financial resources, which were not commensurate with their functions.

- The fiscal transfers constituted about 18 *per cent* of the revenue of ULBs during the period 2015-16 to 2019-20. However, there was shortfall in release of committed funds by the State Government. Out of mandated devolution of ₹ 3,287 crore during 2015-2020 as per SFC recommendations, only ₹ seven crore (0.21 *per cent*) were released to ULBs during the same period.

- Against the allocation of ₹ 1,962.36 crore and ₹ 490.59 crore as Basic Grant and Performance Grant as per recommendations of 14th Central Finance Commission, GoP received ₹ 1,902.65 crore and ₹ 200.15 crore, thereby resulting into short receipt of ₹ 59.71 crore and ₹ 290.44 crore respectively during the period 2015-2020.
- There was short release of ₹ 866.13 crore on account of Grants-in-aid by the State Government to Punjab Municipal Fund during 2017-2020.
- Recovery on account of Municipal tax (₹ 127.81 crore) from PSPCL; property tax (₹ 216.84 crore); user charges (₹ 535.96 crore); rent/lease (₹ 40.30 crore); amount of ₹ 229.31 crore from GMADA was outstanding; thereby showing ineffectiveness of the ULBs in augmenting their own revenue.
- As against the recommendations of the Fourth and Fifth SFCs requiring the user charges to cover 90 *per cent* of the cost of expenditure on operation and maintenance (O&M), the average collection of user charges during 2015-2020 was only 18 *per cent*. The underlying reasons for short collection of user charges was short assessment of demand which was only 20 *per cent* of the expenditure incurred on O&M during the same period.
- During the five years' period from 2015-16 to 2019-20, despite increase in population and expansion of services, the expenditure on O&M decreased from 20.22 *per cent* in 2015-16 to 19.16 *per cent* in 2017-18.
- Percentage of actual receipts *vis-à-vis* budget estimates ranged between 34.59 *per cent* and 108.61 *per cent*, and that of actual expenditure *vis-à-vis* budget estimates ranged between 38.93 *per cent* and 120.41 *per cent* in ULBs during the period 2015-16 to 2019-20. Thus, the budget estimates with variation of more than 10 *per cent* could be termed as unrealistic.
- The powers and role of ULBs were limited in respect of administrative approvals in emergent maintenance of essential services, technical sanctions, acceptance of financial bids and other expenditure, thereby restricting the autonomy of ULBs.

5.7 Recommendations

In the light of the audit findings, the State Government may like to consider:

- (i) *ensuring release of mandated share to ULBs as per recommendations of Central/State Finance Commissions and due GIA to Punjab Municipal Fund;*
- (ii) *putting in place an effective mechanism for the recovery of outstanding dues from the organisations/bodies concerned by ULBs to augment their own resources;*

- (iii) taking appropriate action on the recommendations of SFC with regard to levy such charges on water supply and sewerage by ULBs so that they are able to recover 90 per cent expenditure on O&M incurred on these services, besides improving O&M on the water supply and sewerage system;*
- (iv) ensuring preparation of realistic budget estimates by ULBs in respect of receipts and expenditure; and*
- (v) providing adequate powers and enhancing role of ULBs in administrative and executive spheres to enable them to function as institutions of self-government and to strengthen Municipal level governance in line with the provisions of 74th CAA.*