

CHAPTER-VI

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.

6.1 Source of revenue

The details of various sources of revenues of ULBs in the State during the period from 2015-16 to 2019-20 are indicated in *Table 6.1*.

Table 6.1: Details of revenues of ULBs during the period 2015-20

(₹ in crore)

Year	Grants	Own Revenue	Assigned Revenue ¹	Total Revenue	Percentage of own revenue to total revenue
2015-16	1,122.65	1,100.55	492.25	2,715.45	40.53
2016-17	2,120.04	1,096.72	602.98	3,819.74	28.71
2017-18	3,130.02	1,247.11	1,371.20	5,748.33	21.70
2018-19	1,348.91	1,661.83	761.83	3,772.57	44.05
2019-20	2,279.77	876.36	703.68	3,859.81	22.70
Total	10,001.39	5,982.57	3,931.94	19,915.90	30.04

Source: Information provided by DULBs

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 in form of grants formed the major portion, i.e. 50.22 *per cent* of the total revenue for the period 2015-20. Own and assigned revenue constituted 30.04 and 19.74 *per cent* of total revenue respectively during the period 2015-20.

In addition to the above, ULBs received grant of ₹ 364.73 crore under SBM (IHHL), PMAY and DAY-NULM for transfer of funds to beneficiaries during

¹ Tax/Duty/Cess/Surcharge/Levy, etc. which are collected by State Government on behalf of Local Bodies.

2015-20. Audit observed certain shortcomings under fiscal transfer in form of grants, which are discussed in succeeding paragraphs.

During exit conference, the Department confirmed the facts and figures and replied that the efforts would be made for increasing own revenue of the ULBs.

6.1.1 Fiscal transfer to urban local bodies

6.1.1.1 State Finance Commission's Grants

The year-wise recommended devolution by SFCs and allocated devolution made by the State Government to the ULBs is given in the **Table 6.2**.

Table 6.2: Detail of recommended devolution by SFCs and allocated devolution made by the State Government to the ULBs

(₹ in crore)

Sr. No.	Particulars	2015-16 (4 th SFC)	2016-17 (5 th SFC)	2017-18 (5 th SFC)	2018-19 (5 th SFC)	2019-20 (5 th SFC)	Total
1	Net State own tax revenue (SOTR) ²	32,584.41	39,604.40	42,689.64	48,394.76	50,338.43	2,13,611.64
2	Recommended devolution ³	814.61	2,772.31	2,988.27	3,387.63	3,523.69	13,486.51
3	Recommended share of ULBs ⁴	285.11	1,247.54	1,344.72	1,524.43	1,585.66	5,987.46
4	Budgeted devolution for ULBs w.r.t Sr. No. 3	189.96 ⁵	1425.65 ⁶	2604.00 ⁶	1,394.78 ⁶	840.00 ⁶	6,454.39
5	Short (-)/excess (+) allocation of grants (3-4)	(-) 95.15	(+) 178.11	(+) 1,259.28	(-) 129.65	(-) 745.66	(+) 466.93
6	Funds actually released to ULBs	189.96 ⁵	1,585.44 ⁶	2,211.29 ⁶	1,011.18 ⁶	936.42 ⁶	5,934.29
7	Short (-)/excess (+) release from recommended allocation (3-6)	(-) 95.15	(+) 337.90	(+) 866.57	(-) 513.25	(-) 649.24	(-) 53.17

Source: Budget Document of the State and SFC's Report

The delay in constitution of SFC and acceptance of its recommendations has a bearing on the assured transfer of funds to ULBs. As already discussed in Paragraph 4.2.6.1, there was considerable delay both in constitution of SFCs and implementation of SFC's recommendations. The loss of grant to ULBs due to delayed acceptance of report of 4th SFC was ₹ 95.15 crore during the period 2015-16. Though there was short release of ₹ 53.17 crore vis-à-vis recommended share and ₹ 520.10 crore against the budgeted devolution for 2015-20, however, there was excess release of grant of ₹ 41.98 crore to ULBs vis-à-vis recommendation of 5th SFC for the period 2016-20.

² SOTR did not include share from Central Taxes, net of collection cost of two per cent and 1.5 per cent respectively in 2015-16 and during 2016-20.

³ As per 4th and 5th SFCs recommended devolution 2.5 per cent and 7 per cent of SOTR respectively.

⁴ As per 4th and 5th SFCs recommended share of ULBs 35 per cent and 45 per cent of total recommended devolution respectively.

⁵ VAT and Excise Tax not included.

⁶ Includes Surcharge on VAT and Excise Duty on liquor in budget and actual released which was discontinued after acceptance of recommendations of 5th SFC.

During exit conference, the department stated that matter would be taken up with the State Government for timely constitution of the State Finance Commissions and acceptance of its recommendations so that ULBs could get its due share of grants in time.

6.1.1.2 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. 14th Finance Commission (14th FC) recommended basic grant (80 *per cent*) and performance grant (20 *per cent*) to ULBs as a percentage of divisible pool account. Details of the allocation and release of Basic and Performance Grants to ULBs as per 14th FC recommendations during the period 2015-16 to 2019-20 is depicted in **Table 6.3**.

Table 6.3: Details of the allocation and release of Basic and Performance Grants to ULBs as per 14th FC recommendations

Period	Basic Grants			Performance Grants		
	Allocation	Released by GoI	Short released	Allocation	Released by GoI	Short released
2015-16	199.61	184.64	14.97	-	-	-
2016-17	276.39	255.66	20.73	81.57	75.45	6.12
2017-18	319.35	305.45	13.90	92.31	92.31	0.00
2018-19	369.42	353.47	15.95	104.83	0.00	104.83
2019-20	499.18	462.20	36.98	137.27	0.00	137.27
Total	1,663.95	1,561.42	102.53	415.99	167.76	248.22

(₹ in crore)

As per guidelines for implementation of recommendations of 14th FC issued (October 2015) by Ministry of Finance, GoI grants shall be released to State Government for duly constituted⁷ ULBs in two instalments in June (50 *per cent* of basic grants) and October (remaining portion of basic grants and full performance grants) in each year. Release of second and subsequent instalments of grants (both basic and performance) will be subject to receipt of utilisation certificate for the previous instalment. The Audit observed following shortcoming in the release of grant:

Basic Grants

- There was short release of ₹ 102.53 crore of basic grants by GoI to the State Government during 2015-20 due to non-formation of elected body in all the ULBs of the State as discussed in Paragraph 4.2.1 and 4.2.1.3. Further, GoI had to withhold Basic Grants of ₹ 97.92 crore (relating to

⁷ Either an elected body is in place or is under the process of being in place as per law.

2015-16) for more than 15 months due to delay in formation of elected body in 44 ULBs.

- There was delay ranging from 13 to 559 days in release of basic grant by GoI to State Government during 2015-20 due to delay in submission of utilisation certificates by the State Government.
- As per GoI guidelines, State Government are required to release the grants to ULBs within 15 days of credit to their account by GoI. In case of delay, the State Governments are required to release the same alongwith interest (i.e. bank rate of RBI) from its own funds. Audit observed that there were delays of 19 and 26 days at two instances in release of funds to ULBs by the State Government during 2015-17. However, the State Government did not release the interest amounting to ₹ 1.16 crore⁸ for delay in release of funds to ULBs in compliance with directions of GoI.

During exit conference, the department stated that matter would be taken up with the State Election Commission for timely election of the ULBs. Further, the efforts would be made for timely submission of the Utilisation Certificates to the Government of India.

Performance grants

14th FC recommended performance grant to ensure accountability of ULBs by specifying three performance criteria i.e. timely availability of audited accounts, improvement in own revenues and publication of service level benchmarks for basic services. These grants were to be disbursed from 2016-17, so as to give sufficient time and enable the State Government and ULBs to put in place a scheme and mechanism for implementation of the guidelines.

- The State Government devised (October 2016) a scheme regarding release of performance grants as recommended parameters by 14th FC. GoI approved (November 2016) and released performance grants of ₹ 75.45 crore for the period 2016-17. Audit observed that the State Government distributed the amount among all the 80 ULBs. From the records produced to the Audit it could not be examined as to whether the State Government had ensured that ULBs complied with the performance criteria for receipt of the grant or not. The main objective of performance grant was to incentivise the better performing ULBs. However, distribution of the same to all the ULBs, defeated the objective.

It is pertinent to mention that GoI devised new scheme for release of performance grant from 2017-18 and onwards assigning maximum

⁸ Worked out at RBI's bank rate of 6.75 per cent per annum.

score of 100 to the three performance criteria. ULBs which got score of 40 during 2017-18 and 60 during 2018-19 and 2019-20 were eligible for performance grant. Resultantly, only 40, 47 and 46 ULBs could qualify for the performance grant for the year 2017-18, 2018-19 and 2019-20 respectively.

- There was short receipt of performance grant of ₹ 6.12 crore for the year 2016-17 and the entire allocation of ₹ 242.10 crore for the year 2018-19 and 2019-20 was not released by GoI to State Government. The reasons for short receipt/non-receipt were not found on record.

During exit conference, the department stated that the reasons for short receipt/non-receipt of performance grants for the year 2018-19 and 2019-20 by the Government of India would be ascertained and intimated to audit.

6.1.2 Assigned revenue of Urban Local Bodies

Assigned revenue of ULBs includes collection on account of additional stamp duty and municipal tax on consumption of electricity. The shortcomings with regard to additional stamp duty and municipal tax on consumption of electricity are discussed below:

6.1.2.1 Additional Stamp Duty

As per Section 69(c) of HM Act and Section 87(c) of HMC Act a duty (presently two *per cent* of transaction value) on transfer of immovable property is levied in addition to duty imposed under the Indian Stamp Act, 1899 on instruments of sale, gift, mortgage, exchange and lease in perpetuity of immovable property situated within the limits of municipal area. The said duty is collected by the Registrar or Sub-Registrar in the shape of non-judicial stamp paper at the time of registration of the document and intimation thereof is sent to the ULBs concerned immediately. The State Municipal Acts further provides that the amount of the duty collected shall be paid to ULBs concerned.

Prior to April 2012, the share of municipalities in the stamp duty collections was paid to them at the point of registration and did not form part of the State budget. However, this amount is routed through the State's budget as per the revised mechanism (April 2012). Director, ULBs distributes the budget to Deputy Commissioner on the basis of sale of non-judicial stamp papers during the last financial year and Deputy Commissioner releases the amount to ULBs on the basis of actual sale of non-judicial stamp papers.

Audit observed that ULBs were not getting their due share of stamp duty due to short release of funds against the allotted budget to municipalities.

Consequently, there was short release of ₹ 1,364.03⁹ crore in nine Municipal Corporations (MCs), out of 10 MCs (except MC, Yamunanagar) during the period 2014-20. The State Government sanctioned budget (Supplementary Estimates for the year 2020-21) of ₹ 1,074 crore against the arrear of ₹ 1,364.03 crore. Further, MCs could withdraw ₹ 135.06 crore against the sanctioned budget of ₹ 1,074 crore. Thus, leaving an arrear of ₹ 938.94 crore.

4th SFC and 5th SFC recommended that a system of direct transfer of stamp duty collection in real time to the ULBs must be put in place. 4th SFC further recommended to increase the rate of stamp duty from two to three *per cent*. The State Government vide its notifications dated 5 March 2021 amended the procedure for transfer of amount of stamp duty collection to ULBs. As per the amended procedure, the stamp duty shall be paid equally into (a) account of respective ULBs on monthly basis and (b) consolidated account for all the ULBs of the State maintained and managed by the DULB for this purpose. Resultantly, only one *per cent* of stamp duty would be directly transferred to the respective ULBs. Therefore, the recommendation of SFCs was not implemented by the State Government.

The State Government vide its notifications dated 8 April 2021/15 July 2021 revised the rate of stamp duty from two *per cent* to one *per cent* in case of MC, Gurugram and Faridabad. The State Government further imposed one *per cent* duty to be paid to GMDA/FMDA within the limits of the Area of GMDA/FMDA, thereby undermining the importance of Local Government vis-à-vis parastatal.

Consequently, revenue on account of stamp duty remains unpredictable on the part of ULBs and they could not depend upon this revenue for the purpose of any expenditure planning, affecting their smooth functioning. Further, due to not increasing the rate of stamp duty from two to three *per cent* as per recommendation of 4th SFC, the State Government deprived the ULBs from additional revenue generation.

During exit conference, the department stated that detailed reasons for not withdrawing the arrears of Stamp Duty would be ascertained from the concerned ULBs and intimated to audit.

6.1.2.2 Municipal tax on consumption of electricity

Section 70 of HM Act and Section 87 of HMC Act provide for levy of two *per cent* municipal tax on consumption of electricity, which is collected by Electricity Distribution Companies (DISCOMs) from the consumers. 5th SFC

⁹ (i) Ambala: ₹ 7.86 crore, (ii) Faridabad: ₹ 134.22 crore, (iii) Gurugram: ₹ 978.02 crore, (iv) Hisar: ₹ 14.45 crore, (v) Karnal: ₹ 5.76 crore, (vi) Panchkula: ₹ 71.01 crore, (vii) Panipat: ₹ 24.38 crore, (viii) Rohtak: ₹ 54.53 crore and (ix) Sonapat: ₹ 73.80 crore.

in this regard observed that the ULBs were not receiving any tax in this regard as DISCOMs claimed that the ULBs had not paid electricity bills and tax amount payable to them gets adjusted with the bill amount. Therefore, 5th SFC recommended (September 2017) to resolve this issue at the State level. Resultantly, ULB-wise reconciliation of amount receivable on account of tax after adjusting of electricity bills was done. As per information provided by DULB, as on December 2020, ₹ 234.71 crore was recoverable from DISCOMs by 53 ULBs and ₹ 155.16 crore was payable to DISCOMs by 29 ULBs after adjusting amount relating to electricity bills. Accordingly, net amount of ₹ 79.55 crore was payable by DISCOMs. Audit observed that the State Government directed (May 2021) nine ULBs¹⁰ to pay ₹ 20.83 crore to DISCOMs as per the claim of DISCOMs (31 December 2020) despite the fact that as on 31 December 2020, the receivables of ULBs works out to ₹ 79.55 crore. As per the State Government directions, nine ULBs paid (June 2021) ₹ 20.83 crore to DISCOMs pending internal liabilities amongst ULBs arising after this settlement. Resultantly, dues of the ULBs could not be settled. Each Municipal Body(ies) is a separate legal entity and receivables and payables of any municipal entity cannot be adjusted against receivable and/payables of any other body.

During exit conference, the department stated that amount payable/recoverable from DISCOMs by the ULBs as on 31st December 2020 would be obtained and final position intimated to audit.

6.1.3 Own revenue of Urban Local Bodies

HM Act and HMC Act empowers ULBs in the State to tap various sources of own revenue. The detail of the revenue sources, status of levy and statutory provisions are indicated in *Appendix 6.1*.

The property tax on land and buildings is the mainstay of ULB's own revenue. The own non-tax revenue of ULBs comprises advertisement fee, water charges, rent from commercial establishments, trade licences, fee for sanction of plans/mutations, etc. The constraints/deficiencies in realisation of property tax and water charges in the test-checked ULBs (being selected areas) are discussed in Chapter-VII and some other sources of own revenue such as solid waste management charges, advertisement permission fee and trade licence fee are discussed below:

6.1.3.1 Solid Waste Management charges

As per SWM Rule 2016, ULBs are authorised to collect user fee as determined by it from time to time on its own or through its authorised agency from all

¹⁰ Municipal Corporation: Gurugram, Faridabad, Manesar, Karnal, Panchkula, Yamunnagar, Sonapat, Municipal Council: Bhadurgarh and Thanesar.

waste generators for solid waste management to cover its operating cost fully or partly. The State Government notified (October 2011) indicative monthly user charges for various categories of waste generators and ULBs are authorised to levy their own user charges and revise the same from time to time. Audit observed that five¹¹ ULBs, out of 15 test checked, did not notify the user charges. Remaining 10 ULBs notified (March 2019 to February 2021) the user charges. It was also observed that 13 test checked ULBs incurred expenditure of ₹ 183.55¹² crore during 2015-20 on various works relating to SWM, whereas only four ULBs¹³ collected ₹ 1.39 crore during 2015-20 which works out to 0.73 *per cent* of cost of carrying out SWM operations. The remaining 11 ULBs did not collect the user charges.

During exit conference, the department stated that the concerned ULBs would be instructed to recover the Solid Waste Management charges from the users as well as intimate to audit.

6.1.3.2 Advertisement permission fee

Entry 55 in List II of Schedule VII to the Constitution of India empowering States to levy tax/fee on advertisements other than advertisements published in the newspapers and advertisements broadcast by radio or television was omitted (8 September 2016) by the Constitution (One Hundred and first Amendment) Act, 2016. Section 88 (1) and Section 121 of HMC Act under which advertisement tax/fee could be levied was subsumed into the Goods and Services Tax.

Despite omission of the Entry 55 in list II of Schedule VII, the State Government notified (28 September 2016) advertisement bye-laws for Municipal Corporations. However, the same was kept in abeyance in compliance with the directions (October 2016) of Punjab and Haryana High Court and the State Government issued (March 2018) revised Haryana Municipal Corporation Advertisement Bye-laws, 2018.

The *ibid* bye-laws prescribe advertisement permission fee *inter-alia* on advertising structures on public land which shall be fixed through tendering/e-auction under Section 122 of HMC Act. Subsequently, Section 122 of HMC Act, 1994 has been amended (March 2021) for levy of advertisement permission fee by State Government.

Audit observed that four test checked Municipal Corporations could not finalise tender process to earn advertisement permission fee for public space under Haryana Municipal Corporation Advertisement Bye-laws, 2018 due to

¹¹ (i) Naraingarh, (ii) Radaur, (iii) Pehowa, (iv) Cheeka and (v) Shahabad.

¹² 13 ULBs incurred an expenditure of ₹ 183.55 crore whereas two ULBs (Panchkula and Naraingarh) did not provide information for the same.

¹³ Municipal Corporation: Ambala, Municipal Committee: Naraingarh, Radour and Pehowa.

delay in start of tendering process, incorrect application of rates for fixation of reserve price and inadequate response from the bidders. Resultantly, these Municipal Corporations could not earn advertisement permission fee during 2018-20.

In case of test checked Municipal Committees, it was observed that none of the test checked Municipal Committees conducted survey for identifying the locations for advertisement on public land and did not invite any tender for giving permission for advertisement. Resultantly, these ULBs could not earn advertisement permission fee from auction of advertisement locations on public lands.

During exit conference, the department stated that the comments of the concerned ULBs would be obtained and necessary actions taken.

6.1.3.3 Trade License Fee

The Chapter XVIII of the Haryana Municipal Corporation Act, 1994 read with the Section 352 (2) of the Act provide that various trades, commercial activities, etc. can only be performed in the municipal corporation area after getting permission/license for these purposes and payment of requisite fee. Section 128 of Haryana Municipal Act, 1973 provides for regulation of offensive and dangerous trades and various Bye-laws¹⁴; provide for levy of fee to get permission in this respect by Municipal Council and Municipal Committee.

Further, Chapter IX of the Municipal Account Code, 1930 provides that issue of license for the period not more than a year as well as prosecution in case of not taking license and renewal.

Audit observed that out of 15 test checked ULBs, only Municipal Corporation, Yamuna Nagar conducted survey to identify business activities for the purpose of levying trade license fee during 2015-20. However, the survey was not used for assessing and collecting trade license fees. The 15 test-checked ULBs collected trade license fee as and when the applicant applied and could only collect trade license fee amounting to ₹ 6.96 crore during 2015-20. Further, record in respect of invoking penal provisions under Municipal Account Code against the business owner for non-obtaining/non-renewal of trade licenses were not available in test checked ULBs.

During exit conference, the department stated that all ULBs would be instructed to conduct a survey for trade Licence Fees and recover the amount of Trade Licence fee.

¹⁴ Haryana Municipal (Sale of Fruits, Vegetable, Potatoes & Sugarcane) Bye-laws, 1976, Haryana Municipal (Regulation & Control of sale of Ice & Aerated water) Bye-Laws, 1976, etc.

6.1.3.4 Entertainment Duty

The State Government notified (August 2019) Haryana Municipal Entertainment Duty Act, 2019, which provides for levy of duty on payment for admission to entertainment. The Act was amended (September 2020) for imposing duty on Cable operators, Video Parlours and IPTV service providers, which were previously not covered under the Act. However, the rates of the duty could not be notified till (May 2021) Resultantly, ULBs could not earn revenue from this source.

During exit conference, the Department stated that matter would be taken up with the State Government for notification of the rules for Entertainment Duty so that revenue loss could be avoided.

6.2 Estimation of requirement of funds/expenditure

6.2.1 Budget making process

Each ULB prepares the budget estimates indicating the estimated receipt of funds from various sources and allocates the resources to various activities undertaken by it. The process for approval of budget as per provisions of the State Municipal Acts is discussed in succeeding paragraphs.

6.2.1.1 Municipal Corporations

As per Section 83 of HMC Act, budgets estimates prepared by Municipal Corporation are approved by the State Government. All functions relating to budget is performed by Finance and Contract Committee. The Municipal Corporation may alter the approved budget estimates (i.e. increase in any budget grant or additional budget grant) on the recommendation of the Commissioner with the prior approval of the State Government.

6.2.1.2 Municipal Council/Committee

Section 257 (3) of Haryana Municipal Act, 1973 and Chapter II of the Municipal Account Code, 1930 provide provisions in respect of Budget. Budgets estimates prepared by Municipal Council/Committee are approved by Divisional Commissioner/Deputy Commissioner. All functions relating to budget is performed by President or Finance Sub-Committee (in case sub-committee is formed) in association with Executive Officer/Secretary. The Municipal Council/Committee may alter the approved budget with the prior approval of Divisional Commissioner/Deputy Commissioner.

The authorities involved in budget making process as well as details of per capita budget in test checked ULBs are given in the **Appendix 6.2**. The appendix shows that ULBs did not have budget approving power in the State, which undermine role of local governance and its accountability to the people.

During exit conference, the department confirmed the facts and figures.

6.2.2 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.

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 various services if adequate taxes and charges were levied for the 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. Such an exercise was not undertaken by any of test checked 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.

Audit observed that the 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 the Legislature in the month of February/March. Resultantly, all the test checked ULBs were preparing budget without considering actual/ expected allocation of funds by the Government in form of grants (i.e. SFC/ CFC grant and other grants).

Illustrative examples of preparation of unrealistic budget in each category of ULBs is shown in **Appendix 6.3**.

As evident there from, the variation in actual income vis-à-vis the budget during the period 2015-16 to 2019-20 ranged between (-) 23 and (-) 59 per cent in MC Panchkula; (-)8 and (-)65 per cent in Municipal Council, Kaithal and (-) 46 and (-) 55 per cent Municipal Committee, Cheeka. On the other hand, revenue expenditure was over estimated in all the years except 2018-19 in case of Municipal Corporation, Panchkula, Municipal Council, Kaithal and Municipal Committee, Cheeka. Further due to non-consideration of any receipt on account of grant from State Budget, variation in actual development expenditure vis-à-vis the budget was ranging between (-) 54 and 63 per cent in Panchkula, between 8 and 868 per cent in Kaithal and between (-) 18 and 176 per cent in Cheeka indicating poor planning in execution of development works.

During exit conference, the department stated that ULBs would be instructed to consider actual/expected allocation of funds by the Government in form of grants (i.e. SFC/CFC grant and other grants) at the time of preparing budget.

Recommendation: Efforts need to be made to motivate the ULBs to prepare their budgets in a scientific manner taking into account realistic projection of funds expected to be mobilised.

6.3 Expenditure of Urban Local Bodies

The expenditure of ULBs can be categorised into four major categories such as human resources expenses, general expenses, development/programme expenses and other expenses. The details of expenditure incurred by ULBs in the State for the period 2015-16 to 2019-20 is given in **Table 6.4**.

Table 6.4: Details of major categories expenditure incurred by ULBs

(₹ in crore)

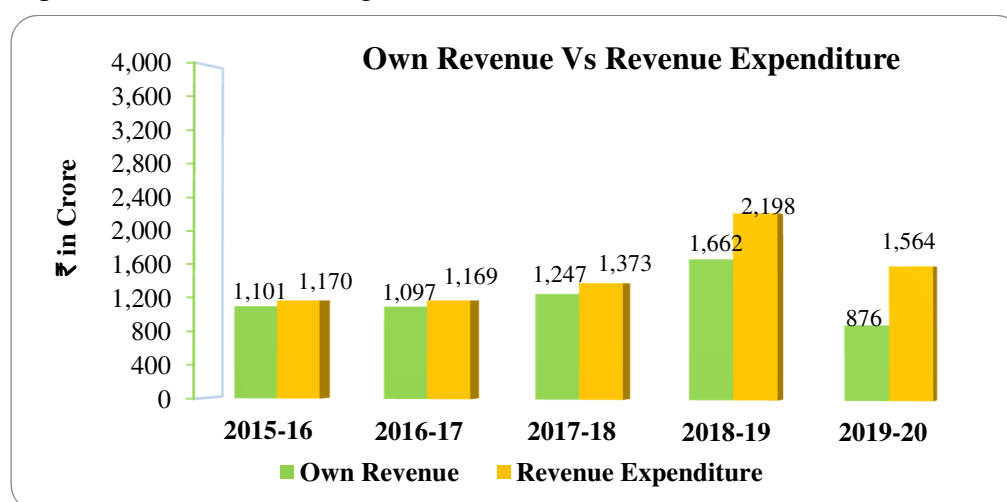
Year	Human Resources Expenses	General Expenses	Development/ Programme Expenses	Others Expenses	Total Expenses
2015-16	637.37	196.14	252.10	336.95	1,422.56
2016-17	783.68	182.62	915.00	202.81	2,084.11
2017-18	899.88	163.24	1,483.53	309.61	2,856.26
2018-19	980.43	335.72	521.79	881.87	2,719.81
2019-20	1,072.99	239.55	716.67	251.83	2,281.04
Total	4,374.35	1,117.27	3,889.09	1,983.07	11,363.78
Expenditure (in per cent)	38.49	9.83	34.22	17.46	100.00

The Human resource expenses constituted about 38 *per cent* of the total expenditure followed by programme/development expenses at 34 *per cent*. Further analysis of the expenditure is discussed in succeeding paragraphs.

During exit conference, the department confirmed the facts and figures.

6.3.1 Resource-expenditure gap

The gap between own revenue and revenue expenditure of ULBs in the State is presented in the following chart.



Audit observed that the ULBs in the State were not able to generate own revenue resources to meet their revenue expenditure during 2015-20.

During exit conference, the department stated that efforts would be made for increasing own revenues of the ULBs.

6.3.2 Analysis of financial data of urban local bodies

The Audit analysed data in respect of all ULBs for the year 2019-20 to study the fiscal autonomy, self-reliance and their dependence on various grants by following three ratios:

- **Local fiscal autonomy:** This is the share of own revenue to the total revenue of the ULBs.
- **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.
- **Local dependence on fiscal transfer:** This is the share of CFC and SFC grants to the total fiscal revenue of the ULBs.

Local fiscal autonomy and local dependence on fiscal transfer are inversely proportional to each other. Higher the fiscal autonomy lesser is the dependence on fiscal transfer. The ratio-wise performance of ULBs for the year 2019-20 is depicted in the table below:

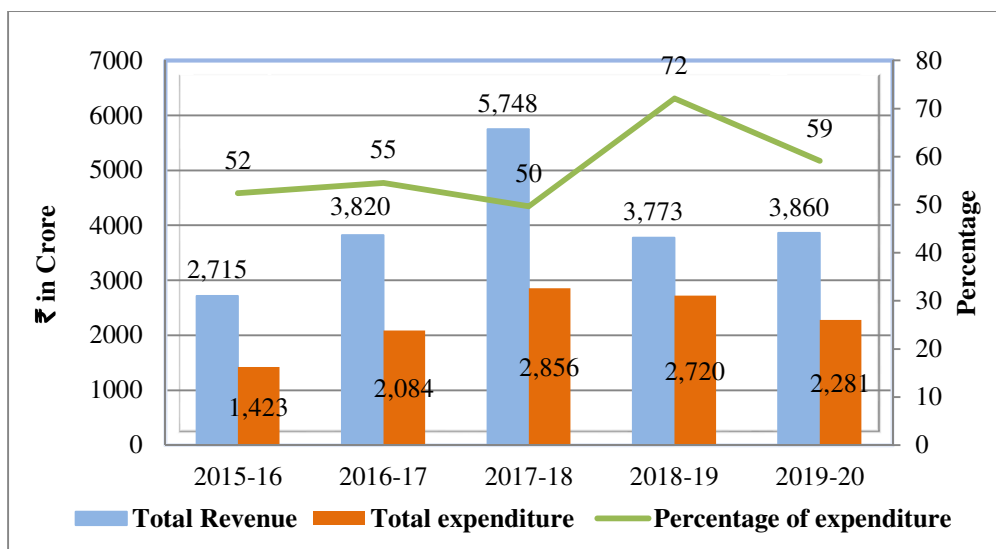
Percentage of expenditure	≤ 25	> 25 ≤ 50	> 50 ≤ 75	> 75 ≤ 100 or more
Fiscal Autonomy	66	19	02	0
Coverage of Expenditure /self-reliance	10	23	30	24
Local dependence on fiscal transfer	0	06	55	26

- Sixty six out of 87 ULBs were dependent on fiscal transfers in excess of 75 per cent of their total revenue and no ULB was able to score the ratio of own revenue to total revenue higher than 75 per cent.
- In 24 ULBs, the coverage of revenue expenditure from own revenue sources was more than 75 per cent, of which eight ULBs had coverage more than 100 per cent and only 10 ULBs coverage of revenue expenditure from own revenue sources was less than 25 per cent.
- In 26 out of 87 ULBs, local dependence on fiscal transfer were in excess of 75 per cent of their total revenue and in 55 ULBs, dependency on fiscal transfer were more than 50 per cent but equal or less than 75 per cent.

During exit conference, the department confirmed the facts and figures.

6.3.3 Extent of utilisation of funds

A comparison of the total expenditure with total revenue for the period 2015-16 to 2019-20 showed that ULBs were able to utilise on an average about 57 per cent of the available funds each year as depicted in *Chart*.



The constraints in utilisation of funds could include the restriction/limitations on financial and administrative powers of ULBs as discussed in succeeding Paragraph 6.4 and shortage of manpower as discussed in Paragraph 5.2.

During exit conference, the department stated that efforts would be made to overcome the shortage of manpower by recruitment.

6.4 Financial power of Urban Local Bodies

Fiscal autonomy can be complete only when supported by decentralisation of financial and administrative powers. The decentralisation provides for (i) creating an efficient and reliable administration; (ii) intensify and improve local governance; (iii) enhance accountability and responsiveness; (iv) improved capacity of the local people to participate in the decision making process, especially with regard to service delivery; and (v) increased motivation *etc.*

6.4.1 Power related to development works-

State Government revised (May 2018) financial powers of various authorities for according the administrative approval of the estimates and approval of tenders for developmental works in municipalities, which are given in the **Table 6.5**.

Table 6.5: Details of financial powers of various authorities

(₹ in lakh)

Category of Municipalities	Commissioner Corporation/District Commissioner ¹⁵	Municipal Corporation/Municipal Committee	Corporation/Council/Committee	Director, ULB	Administrative Secretary, ULB
Corporation	≤ 100	>100 ≤ 250	>250 ≤ 300	>300	>300
Council	>25 ≤ 50	≤ 25	>50 ≤ 300	>300	>300
Committee	>15 ≤ 50	≤ 15	>50 ≤ 300	>300	>300

¹⁵ District Municipal Commissioner w.e.f 1st August 2020.

It was observed that elected body of Municipal Corporation had more power than Commissioner of Municipal Corporation whereas elected body of Municipal Council/Committee had less power than District Municipal Commissioner.

During exit conference, the department confirmed the facts and figures.

6.4.2 Power related to other expenditure

As per Section 37D of Haryana Municipal Corporation Business Bye-laws, 2009, power in respect of purchase of value or amount exceeding ₹ 20,000 but less than ₹ 50,000 are delegated to Municipal Corporation (more than five members including Mayor/Dy. Mayor) and if purchase of value or amount exceeds the limit of ₹ 50,000 powers are vested in Commissioner provided provision exist in the budget.

As per Section 49 of Haryana Municipal Business Bye-laws, 1981, Council/Committee has powers to incur non-contingent expenditure up to limits specified below:

President	Upto ₹ 5,000 in any case
Executive Officer	Upto ₹ 3,000 in any one case
Secretary	Upto ₹ 1,000 in any one case

The power of ULBs is thus insignificant for proper day-to-day functioning of the municipalities.

During exit conference, the department confirmed the facts and figures.

6.5 Accounting arrangement of ULBs

Based on the Eleventh Central Finance Commission recommendations and the guidelines issued by the Ministry of Finance, GoI, CAG constituted a task force to recommend budget and accounting formats for ULBs in India. The CAG Task Force suggested accrual basis of accounting, budget and accounting formats for ULBs. Based on the task force report, MoUD, GoI prepared (November 2004) National Municipal Accounts Manual (NMAM). The manual is to be adopted by the State Government in order to draft state specific municipal accounting manual.

The maintenance of accounts of ULBs in the State is governed by Municipal Account Code, 1930 which is outdated as role of ULB in Urban Governance has changed completely and amendment in the Municipal Account Code in line with NMAM is under progress since 2011. Presently, ULBs in the State are following cash based accounting system. No uniform codification structure of different heads of income and expenditure and uniform accounting format for ULB have been prescribed. Though Municipal Account Code, 1930 prescribe format for annual accounts, however, the same is outdated and in

absence of any uniform accounting format and coding structure, test checked ULBs were preparing income and expenditure statement on cash basis in different accounting formats.

During scrutiny of audit and inspection report for the year 2019-20 of the Director, Local Audit Funds it was noticed that even the prescribed accounting system of Municipal Account Code, 1930 was not being followed in test checked 13 ULBs (Audit and Inspection Reports of Municipal Corporation, Karnal and Municipal Committee, Gharaunda was not found in office of Director, Local Audit Funds). Audit further observed that monthly/annual accounts have not been maintained by the 13 ULBs as required under Municipal Account Code, 1930. Irregularities like reconciliations of main cash book with other cash book not done, cash book not verified by AO indicate that cash book/bank reconciliations system are weak and do not provide assurance with respect to the accounting records.

Further, DULB does not maintain consolidated accounting data at State level. In the absence of any uniform accounting format, Directorate of Local Audit, Haryana who is primary auditor of ULBs was not certifying the accounts of ULBs.

During exit conference, the department stated that amendment in the Municipal Account Code in line with NMAM is under process.