

CHAPTER I

THE STRUCTURE AND FINANCES OF THE LOCAL SELF GOVERNMENT INSTITUTIONS

1.1 Introduction

1.1.1 The Kerala Legislative Assembly passed the Kerala Panchayat Raj Act, 1994 (KPR Act) and the Kerala Municipality Act, 1994 (KM Act) in the year 1994. As envisaged in these Acts, the Government transferred (September 1995) to the Local Self Government Institutions (LSGIs) the functions, functionaries, institutions and schemes relating to matters enlisted in the respective Schedules to the Acts with effect from 2 October 1995. Government transferred the assets and liabilities of the transferred institutions also. Though LSGIs were made responsible for the administration of these institutions, they were not empowered to sell, transfer, alienate or pledge the transferred assets. The Government, however, continued to pay the salary of transferred employees.

1.2 Decentralised Planning

1.2.1 As envisaged in the Constitution and the State Acts *ibid* LSGIs were to plan and implement schemes for economic development and social justice. Based on this, Government decided (July 1996) to decentralise the planning process in Kerala during the Ninth Five Year Plan and earmark 35 to 40 *per cent* of the State's annual plan outlay for the projects drawn up by LSGIs. Government designed the decentralised planning process in a campaign mode called 'People's Plan Campaign' with the active participation of all sections of people in the form of Working Groups, Grama/Ward Sabhas and Development Seminars. During the 10th Plan, the decentralised programme in Kerala was re-structured and named 'Kerala Development Plan'. Kerala's decentralised planning has been gearing up for the execution of 11th Five Year Plan from 2007-08. Government has decided to launch the 2nd phase of People's Plan Programme in the State for proper institutionalisation of decentralisation during the plan period.

1.3 Profile of LSGIs

1.3.1 As on 31 March 2008, there were 1223 LSGIs in the state. The details of various categories of LSGIs, their area, population etc were as follows.

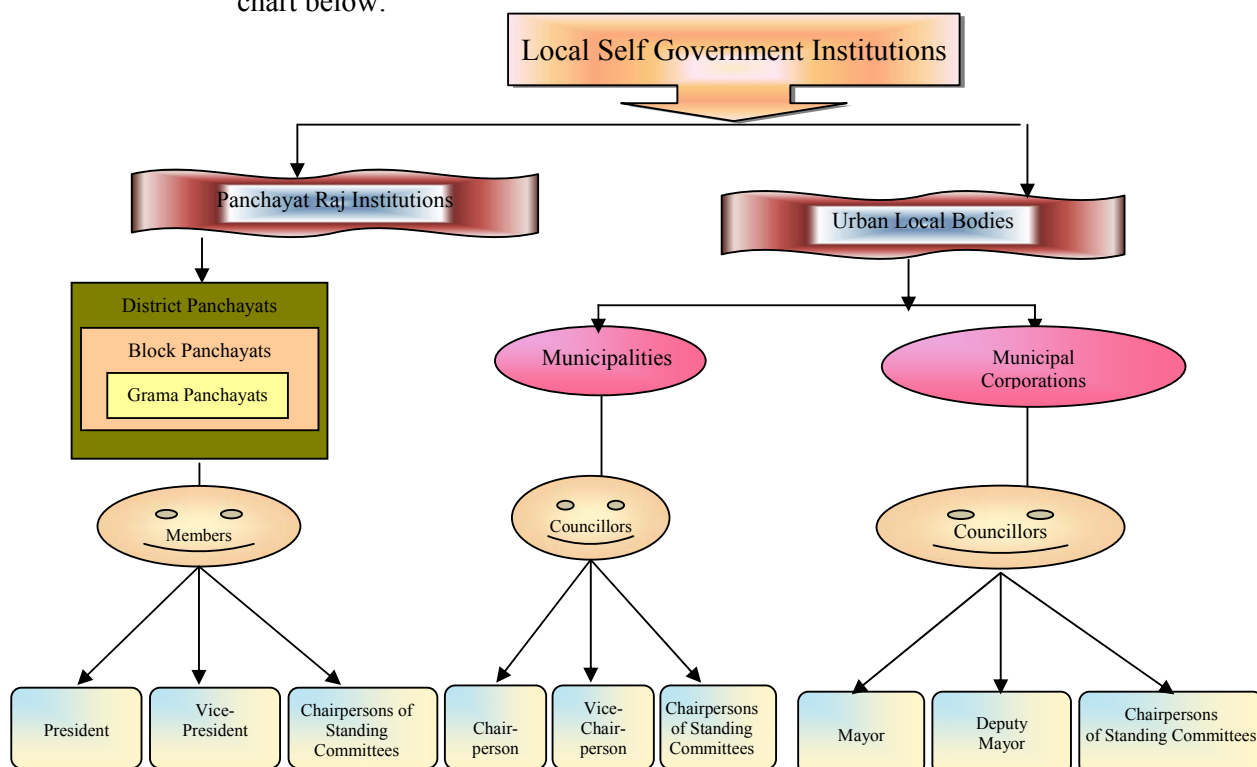
Sl. No.	Type of LSGIs	Number	Area (Sq Km)	Average area/LSGI (Sq Km)	Population (as per 2001 census)	Average Population per LSGI	Density of Population per Sq Km
1	Corporations	5	477.99	95.60	2456200	491240	5139
2	Municipalities	53	1253.22	23.65	2738170	51664	2185
3	District Panchayats (DPs)	14	37123.79	2651.70	26647004	1903357	718
4	Block Panchayats (BPs)	152		244.24		175309	
5	Grama Panchayats (GPs)	999		37.16		26674	
	Total	1223	38855.00		31841374		819

Source: Census 2001

1.3.2 The general election to 1223 LSGIs in Kerala was last held in September 2005 when 20554 representatives were elected.

1.4 Organisational set up

1.4.1 LSGIs constituted in rural and non-rural areas are referred to as Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively. PRIs in the State were constituted based on a three-tier system as shown in the chart below:



The members of each tier of the Panchayats elect the President, Vice President and Chairpersons of the Standing Committees. Similarly, Councillors of the Municipality/Municipal Corporation elect the Chairperson/Mayor, Vice Chairperson/Deputy Mayor and Chairpersons of the Standing Committees.

1.4.2 The President/Chairperson/Mayor is an ex-officio member of every Standing Committee and the Vice President/Vice Chairperson/Deputy Mayor is an ex-officio member and Chairperson of the Standing Committee for Finance.

1.4.3 Each PRI has a Secretary and supporting staff who are Government servants. The Secretaries of Municipalities and Municipal Corporations are Government servants while the staff belongs to the Municipal Common Service.

1.5 Regulatory Environment

1.5.1 Mentions were made in Para 1.5 of CAG's Audit Report (LSGIs) for previous years regarding conflicting provisions in Kerala Local Fund Audit Act, KPR Act & KM Act, of the date of submission of Consolidated Audited Statement of accounts of all LSGIs to Government for placing before the Legislature. Though Government agreed (July 2007) to make suitable amendments to the KPR Act and KM Act, it has not been materialised as of December 2008.

1.5.2 No officer has been authorised under KLFA Act to collect and consolidate the audited accounts of DPs, Municipalities and Corporations so far (December 2008).

Though the Deputy Directors of Panchayats (DDPs) and Assistant Development Commissioners (ADCs) were authorised (December 2004) to collect and consolidate the audited accounts of BPs & GPs respectively, they could not undertake the work as the accounts of LSGIs were in arrears at various stages. Government stated (February 2008) that measures were being taken to clear the arrears and State Performance Audit Officer was being authorised to collect and consolidate the accounts of LSGIs.

1.5.3 Government did not frame Rules and Manuals for preparation of budget and accounts in PRIs in tune with the revised accounting formats. This contributed to the poor accounting and financial reporting by PRIs.

1.5.4 Administrative Report of each LSGI was to be prepared every year by 30 September of the succeeding year and forwarded to an officer authorised by the Government for consolidation and submission to the Government and

the Legislative Assembly. No officer has been nominated to ensure preparation and consolidation of the Administrative Reports.

1.6 Financial Reporting

1.6.1 The DLFA is the Statutory auditor of the LSGIs. The CAG provides Technical Guidance and Supervision (TGS) under Section 20(1) of CAG's (DPC) Act, 1971 for the proper maintenance of accounts and audit of LSGIs. The CAG also conducts audit of LSGIs under the provisions of section 14 and 15 of the Act *ibid* wherever applicable.

1.6.2 According to Section 9(1) of KLFA Act, it was mandatory for the LSGIs to submit their accounts to DLFA for audit by 31 July every year. As on 31 July 2008, 1724 accounts pertaining to the period from 1996-97 to 2007-08 were in arrears as shown in the table below:

Year of accounts	Due during the year	Accounts received				Balance in arrears
		Up to December 2007	During 01/2008 to 03/2008	During 2008-09 (upto July 2008)	Total	
1996-97	1214	1085	60	1	1146	68
1997-98	1214	1050	94	1	1145	69
1998-99	1214	1010	128	1	1139	75
1999-00	1214	998	143	1	1142	72
2000-01	1215	1049	113	1	1163	52
2001-02	1215	1056	101	6	1163	52
2002-03	1215	992	176	5	1173	42
2003-04	1215	940	231	5	1176	39
2004-05	1215	838	330	9	1177	38
2005-06	1223	726	415	17	1158	65
2006-07	1223	0	921	136	1057	166
2007-08	1223	0	0	237	237	986
Total	14600	9744	2712	420	12876	1724

Source: DLFA

It could be seen from the above table that the LSGIs were in default in furnishing accounts from 1996-97 onwards. From 1996-97 to 1998-99, the arrears depicted an increasing trend and thereafter up to 2005-06, it showed a decreasing trend. From 2006-07 to 2007-08, it again showed an increasing trend. Accounting is a continuous process and as per the Accounting Rules, the closing balance of previous year should be taken as the opening balance of the succeeding year. Unless the accounts of previous year were closed, it could not be possible to finalise the accounts of the next year. Therefore, the arrear

position shown in the table for the period 1999-2000 to 2005-06 was not correct, as it showed a decreasing trend instead of an increasing trend.

On being pointed out, the DLFA stated (May 2009) that when the Secretaries of some of the LSGIs transferred during the end of a financial year, the successors furnished only the accounts of the year from which they assumed charge without finalizing the accounts of the previous years. The reply of the DLFA was not tenable since submission of accounts without finalizing the accounts of previous years was against accounting rules and so the audit reports issued based on these accounts could not depict a true and fair picture of the accounts of the LSGIs.

1.6.3 Age- wise details of pending accounts

Age-wise details of pendency in submission of accounts by the LSGIs were as under:

Year of accounts	Pendency	Number of accounts
1996-97	> 11 years	68
1997-98	> 10 years	69
1998-99	> 9 years	75
1999-00	> 8 years	72
2000-01	> 7 years	52
2001-02	> 6 years	52
2002-03	>5 years	42
2003-04	> 4 years	39
2004-05	> 3 years	38
2005-06	> 2years	65
2006-07	>1 year	166
2007-08	less <1 year	986
Total		1724

The number of LSGIs which did not submit their accounts even after 10 years was 137. The delay in submitting the accounts by 293 LSGIs ranged from five to nine years. Though Rule 16 of Kerala Local Fund Audit Rules, 1996, empowers the DLFA to carry out proceedings in a Court of Law against the Secretaries of the LSGIs who defaulted the submission of accounts, no such action was taken against the defaulting LSGIs.

1.6.4 Arrears in audit and issue of audit reports

DLFA received 12876 accounts up to July 2008 out of 14600 (including the accounts for 2007-08). Of these 8110 Audit Reports were issued (July 2008) as detailed below:

Year of accounts	Due during the year	Accounts received upto 31 July 2008	Audit Report issued	Arrears in issue of Audit Report
1996-97	1214	1146	1093	53
1997-98	1214	1145	1062	83
1998-99	1214	1139	1030	109
1999-00	1214	1142	1020	122
2000-01	1215	1163	972	191
2001-02	1215	1163	918	245
2002-03	1215	1173	804	369
2003-04	1215	1176	597	579
2004-05	1215	1177	352	825
2005-06	1223	1158	197	961
2006-07	1223	1057	62	995
2007-08	1223	237	3	234
Total	14600	12876	8110	4766

The arrears in the issue of Audit Report were 4766 (37.01 per cent). As per Section 10 of KLFA Act, 1994, the DLFA should complete the audit of accounts submitted by LSGIs within six months of receipt of accounts. Excluding the accounts for the year 2007-08, 4532 accounts were pending audit.

1.7 Upkeep of accounts

1.7.1 Eleventh Finance Commission (EFC) recommended payment of grant of Rs.4,000 per Panchayat per annum on an average for upkeep of accounts of GPs and BPs which did not have exclusive staff for the purpose. Despite this, 1724 accounts were still in arrears as mentioned in Paragraph 1.6.2.

1.8 Database on the finances of LSGIs

1.8.1 As recommended by EFC, the CAG prescribed eight standard formats for creation of database of the revenue and expenditure of all LSGIs. Though Government accepted (September 2004) the formats prescribed by CAG, the development of database was not started. Even though Government constituted (February 2008) a committee to look into the matter, the automation and networking of the operations of LSGIs did not materialise.

1.9 Different categories of funds

The different categories of funds operated by LSGIs are as follows:

1.9.1 Category 'A' funds are plan funds provided by the State Government to the LSGIs from the state annual plan outlay to carry out projects formulated by the LSGIs under People's Plan Campaign/Kerala Development Plan. From 2006-07, this category of funds were renamed as 'Development Expenditure Fund' and allocated from the Non-plan grants of the State Government. The share of each LSGI is predetermined every year as indicated in Appendix-IV of Detailed Budget Estimate of the State Government. As per the original budget estimate the amount provided during 2007-08 was Rs.1540 crore under three sectors viz. General, Special Component Plan (SCP) and Tribal Sub Plan (TSP) as detailed in the table below:

(Rs. in crore)

Sl. No.	Type of LSGI	No. of LSGIs	Category 'A' funds provided in Original Budget Estimates			
			General	SCP	TSP	Total
1	Corporations	5	77.55	23.64	---	101.19
2	Municipalities	53	97.58	27.57	0.75	125.90
3	District Panchayats	14	128.25	78.42	19.74	226.41
4	Block Panchayats	152	128.25	78.42	13.16	219.83
5	Grama Panchayats	999	598.52	235.25	32.90	866.67
Total		1223	1030.15*	443.30	66.55	1540.00

Source: Appendix-IV of the Budget estimates for 2007-08.

* Included provisions for special incentive of Rs.2.35 crore, Rs.50 lakh and Rs.50 lakh to outstanding GPs, BPs and Municipalities respectively.

1.9.2 Based on the recommendations of Third State Finance Commission (TSFC), funds allocated to the LSGIs for meeting their expenditure on traditional functions, maintenance and development activities were released to the LSGIs by way of transfer credit to Public Account as Deposit of Local Bodies from the Consolidated Fund of the State on instalment basis. The figures of expenditure booked in the State Accounts was the amount transferred to the Public Account and not the expenditure incurred by the LSGIs. Of the amount of Rs.1538.44 crore released, the LSGIs had drawn Rs.1396.61 crore leaving a balance of Rs.141.83 crore in the Public Account as shown below:

(Rs. in crore)

Sl. No.	Type of LSGIs	Funds allocated	Funds released	Public Account			Amount actually spent by LSGIs
				Amount transferred/ credited	Amount drawn by LSGIs	Balance (4 – 6)	
1	2	3	4	5	6	7	8
1	Corporations	101.19	101.09	101.40	99.71	1.38	99.46
2	Municipalities	125.90	125.86	126.40	116.20	9.66	114.59
3	District Panchayats	226.41	225.11	227.90	199.40	25.71	197.66
4	Block Panchayats	219.83	219.83	225.40	210.50	9.33	203.05
5	Grama Panchayats	866.67	866.55	872.60	770.80	95.75	762.73
	Total	1540.00	1538.44	1553.70*	1396.61	141.83	1377.49

Source: Detailed Appropriation Accounts 2007-08 & Information Kerala Mission.

Against the amount of Rs.1396.61crore drawn from the Public Account, the actual utilisation was Rs.1377.49 crore leaving the balance amount of Rs.19.12 crore in their Own Fund Account. However, the utilisation of Category ‘A’ funds of Rs.1377.49 crore during 2007-08 was higher than the amount of Rs.1221.37 utilised during the previous year.

1.9.3 Category ‘B’ funds consist of plan and non-plan funds for implementation of state schemes transferred to LSGIs and state share of Centrally Sponsored Schemes. The major State-Sponsored Plan schemes are Special Live Stock Breeding Programme, distribution of house sites to rural landless workers, etc. The distribution of unemployment wages, agricultural workers pension, widow pension, etc. is the non-plan schemes. The share of each LSGI is not provided in the budget and is decided by the Head of the Department to which the scheme relates. The allotment of funds is made by the District officers of the department concerned. Department/Major Head-wise allocation and utilisation of plan and non-plan funds under category ‘B’ during 2007-08 were as follows:

* included Rs. 15.26 crore being beneficiary contributions and donations received from other LSGIs, organizations, individuals etc. and credited by them.

Sl. No	Major Head	Budget provision			Expenditure			Per centage		
		Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
1	2202-General Education	---	123.54	123.54	---	99.69	99.69	---	80.69	80.69
2	2210-Medical and Public Health	---	14.33	14.33	---	13.22	13.22	---	92.25	92.25
3	2217-Urban Development	375.79	---	375.79	79.68	...	79.68	21.20	...	21.20
4	2225-Welfare of SC,ST and Other Backward Classes	23.35	2.81	26.16	21.97	3.76	25.73	94.09	133.81	98.36
5	2230-Labour and Employment	---	48.84	48.84	---	48.61	48.61	---	99.53	99.53
6	2235- Social Security and Welfare	...	323.22	323.22	...	305.27	305.27	---	94.45	94.45
7	2401-Crop Husbandry	---	10.61	10.61	---	10.35	10.35	---	97.55	97.55
8	2402-Soil and Water Conservation	---	0.11	0.11	---	0.10	0.10	---	90.91	90.91
9	2403-Animal Husbandry	---	0.07	0.07	---	0.07	0.07	---	100.00	100
10	2415-Agricultural Research and Education	...	0.01	0.01	...	0.01	0.01	---	100.00	100
11	2501-Special Programme for Rural Development	23.32	...	23.32	23.24	---	23.24	99.66	---	99.66
12	2505-Rural Employment	19.89	...	19.89	19.88	---	19.88	99.95	---	99.95
13	2515-Other Rural Employment Programmes	10.39	0.39	10.78	9.45	0.39	9.84	90.95	100.00	91.28
14	2851-Village and Small Industries	...	0.04	0.04	...	0.04	0.04	---	100.00	100
Total		452.74	523.97	976.71	154.22	481.51	635.73	34.06	91.89	65.08

Source: - Detailed Appropriation Accounts 2007-08

Out of Rs.976.71 crore allocated under Category 'B', under 14 distinct Major Heads, the expenditure incurred was Rs.635.73 crore (65.08 per cent) which included plan expenditure of Rs.154.22 crore (34.06 per cent). Against the budget provision of Rs.375.79 crore under Urban Development being state share of Centrally Sponsored Schemes* the expenditure incurred was Rs.79.68 crore only (21.20 per cent). Though a total amount of Rs.452.74 crore was provided in the Budget for Plan expenditure, the expenditure incurred was Rs.154.22 crore only (34.06 per cent). From 2006-07 onwards, unutilised funds under Category 'B' shall lapse as on 31 March of each year. Thus non-utilisation of Rs.340.98 crore (Rs.298.52 crore under Plan and Rs. 42.46 crore under Non-plan) provided in the budget resulted in the lapse of funds.

* Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Swarna Jayanti Shahari Rozgar Yojana (SJSRY), Integrated Housing & Slum Development Programme (IHSDP), Kerala Sustainable Urban Development Project (KSUDP)

During the period from 2002-03 to 2007-08, against the budget provision of Rs.3350.91 crore, the amount released under Category 'B' was Rs.2916.98 crore as indicated below:

(Rs. in crore)

Year	Budget Provision			Amount released			Per centage of release		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
2002-03	125.38	351.89	477.27	97.23	338.96	436.19	77.54	96.33	91.39
2003-04	8.55	326.55	335.10	100.76	314.01	414.77	1178.48	96.16	123.77
2004-05	113.46	348.06	461.52	101.74	323.93	425.67	89.67	93.07	92.23
2005-06	110.11	404.36	514.47	101.62	371.72	473.34	92.29	91.93	92.01
2006-07	127.22	458.62	585.84	103.89	427.39	531.28	81.66	93.19	90.69
2007-08	452.74	523.97	976.71	154.22	481.51	635.73	34.06	91.89	65.08
Total	937.46	2413.45	3350.91	659.46	2257.52	2916.98	70.35	93.54	87.05

Per centage of release of plan funds except during 2003-04 and 2005-06 was less than non-plan funds as seen from the above details.

1.9.4 Category 'C' funds are non-plan grants provided by the State Government to meet the expenditure on maintenance of assets of LSGIs. Funds were provided separately for the maintenance of road and non-road assets under separate heads of accounts. As per the recommendations of TSFC, the State Government was to release under this category 5.5 per cent of state tax revenue of previous year. The Commission also recommended the amount of the Maintenance Grant (MG) to be provided to each LSGI during 2006-07. Government accepted the amount of maintenance grant proposed by the Commission for each LSGI only for the first four months of 2006-07 stating that for the payment of maintenance grant, for the remaining period, a formula would be finalised by June 2006 based on the value of actual assets transferred and the need for maintaining such assets by LSGIs. However, Government had not prescribed the formula during 2006-07 and 2007-08 and the amount proposed by the Commission was continued to be paid to the LSGIs. During the period from 2004-05 to 2007-08, State Government provided Rs.1458.76 crore in the budgets and released Rs. 1236.51 crore (42.02 per cent) as shown below:

(Rs.in crore)

Year	State tax revenue of previous year	MG due (5.5 per cent)	MG provided in the budget	Short provision	MG released	Short release with reference to entitlement	Per centage of short release
2004-05	8089	444.90	307.54	137.36	174.43	270.47	60.79
2005-06	8963	492.97	396.23	96.74	306.62	186.35	37.80
2006-07	9779	537.84	350.00	187.84	350.00	187.84	34.92
2007-08	11942	656.81	404.99	251.82	405.46	251.35	38.27
Total	38773	2132.52	1458.76	673.76	1236.51	896.01	42.02

Source: Finance Accounts and Budgets 2004-05 to 2007-08

The short release of maintenance grant during 2004-05 to 2007-08 was Rs.896.01 crore, which was in contravention of the recommendations of TSFC.

Details regarding utilisation of maintenance grants in selected LSGIs are given in Para 3.1 of Chapter III.

1.9.5 Category 'D' funds are General Purpose Funds (GPF) provided by the State Government for meeting general expenditure including the expenditure on traditional functions of LSGIs. The details of allocation of funds under Category 'C' and 'D' to each LSGI were provided in Appendix-IV of the Detailed State Budget Estimates. According to TSFC recommendations, 3.5 per cent of the state tax revenue of previous year was to be provided as GPF in lieu of Basic Tax Grant, Surcharge on Stamp Duty, Rural Pool Grant, etc. As against Rs.1357.06 crore due to the LSGIs, the State Government provided Rs.1080.97 crore only in the budgets and released Rs.1121.24 crore (82.62 per cent) during the period from 2004-05 to 2007-08 as detailed below:

(Rs. in crore)

Year	State tax revenue of previous year	GPF due (3.5 per cent)	GPF provided in the budget	GPF released	Short release with reference to entitlement	Per centage of short release
2004-05	8089	283.12	195.39	192.05	91.07	32.17
2005-06	8963	313.71	255.59	250.35	63.36	20.20
2006-07	9779	342.26	300.00	299.96	42.30	12.36
2007-08	11942	417.97	329.99	378.88	39.09	9.35
Total	38773	1357.06	1080.97	1121.24	235.82	17.38

Source: Finance Accounts and budgets 2004-05 to 2007-08

The short release of GPF during the period 2004-05 to 2007-08 was Rs.235.82 crore.

1.9.6 State Government during the period from 2002-03 to 2007-08 released Rs.12518.39 crore to LSGIs vide Category 'A' to 'D' against a budget provision of Rs.14162.33 crore as shown below:

(Rs. in crore)

Category of LSGIs	Budget provision			Release			Per centage	Per centage of share of each category of LSGI
	From 2002-03 to 2006-07	2007-08	Total	From 2002-03 to 2006-07	2007-08	Total		
Corporations	725.66	521.68	1247.34	645.54	226.14	871.68	69.88	6.96
Municipalities	969.37	267.58	1236.95	806.68	264.43	1071.11	86.59	8.56
District Panchayats	1290.95	324.86	1615.81	1049.47	343.79	1393.26	86.23	11.13
Block Panchayats	1256.96	316.58	1573.54	1137.40	327.35	1464.75	93.09	11.70
Grama Panchayats	6667.70	1820.99	8488.69	5920.79	1796.80	7717.59	90.92	61.65
Total	10910.64	3251.69	14162.33	9559.88	2958.51	12518.39	88.39	100.00

Source: - Detailed Appropriation Accounts 2002-03 to 2007-08

During 2007-08, the funds provided and released by the State Government were Rs.3251.69 crore and Rs.2958.51 crore respectively. Out of Rs.12518.39 crore released (88.39 per cent) to the LSGIs, the share of Corporations was 6.96 per cent whereas the share of GPs was 61.65 per cent. Fund allocation to ULBs and PRIs was in the ratio of 1:5.

1.9.7 Expenditure of LSGIs

The expenditure details of funds received by LSGIs from Government in respect of categories 'A' to 'D' are as detailed below:

(Rs. in crore)

Sl. No.	Category of funds	Funds allocated	Funds released	Excess (+)/Short (-)	Funds utilised	Balance funds with LSGIs
1	A	1540.00	1538.44	(-)1.56	1377.49	160.95
2	B	976.71	635.73	(-)340.98	635.73	00.00
3	C	404.99	405.46	(+) 0.47	333.55	71.91
4	D	329.99	378.88	(+) 48.89	311.12	67.76
Total		3251.69	2958.51	(-)293.18	2657.89	300.62

As the above funds were deposited in separate deposit accounts under Public Accounts (8448-Deposits of Local Funds), the credit balance in these accounts indicated the unutilised funds. Against the allocation of Rs.3251.69 crore made in the state budget, the amounts released and utilised were Rs. 2958.51 crore and Rs.2657.89 crore respectively.

1.9.8 Category 'E' Funds consist of grants received from GoI for implementation of Centrally Sponsored Schemes, funds from World Bank, Asian Development Bank, etc. and funds received from the District Collectors (for flood/drought relief), Literacy Mission, etc. The funds under this category are disbursed to the LSGIs through agencies such as District Rural Development Agencies (DRDAs) renamed as Poverty Alleviation Units (PAUs), State Poverty Eradication Mission (SPEM), Director of Urban Affairs (DUA), District Collectors, etc. The funds are to be deposited and utilised as specified by the fund provider. The details of funds received and utilised during 2007-08 for Centrally Sponsored Schemes implemented by LSGIs are given below:

(Rs. in crore)

Sl. No.	Authority / Agency which disbursed the fund	Type of LSGI	Opening Balance	Funds distributed to LSGIs		Total funds available	Funds utilised by LSGIs	Balance	Per centage of utilisation
				Central Share	State Share				
1	PAU	PRIs	58.12	297.49	86.21	441.82	371.89	69.93	84.17
2	DUA	ULBs	43.12*	117.38	39.04	199.54	19.81	179.73	9.93
3	SPEM	ULBs	18.88	39.81	6.55	65.24	14.14	51.10	21.67
Total			120.12	454.68	131.80	706.60	405.84	300.76	57.43

Source: Commissioner of Rural Development, DUA and SPEM.

LSGIs received Rs.454.68 crore as central assistance and Rs.131.80 crore as state share out of which Rs.405.84 crore (57.43 per cent) was utilised. At the end of the year there was an unspent balance of Rs.300.76 crore including the unspent balances of previous years (**Appendix-I**).

1.9.9 Category 'F' funds consist of tax and non-tax revenue of LSGIs which are also known as 'Own Funds'. Property tax, profession tax, entertainment tax, advertisement tax and timber tax constituted tax revenue. Non-tax revenue consists of licence fees, registration fees, etc. leviable under the Acts. LSGIs except District Panchayats and Block Panchayats are empowered to collect the above tax and non-tax revenues. This category also includes income derived from assets of LSGIs, beneficiary contributions, earnest money deposits, retention money, etc. However, income from transferred assets and institutions could be utilised only for their maintenance. The details of own funds of LSGIs in the State were not collected and consolidated by the Government as envisaged in the Acts. Hence the details of own fund collection of all LSGIs were not available. Though all the LSGIs were requested to forward the details of own fund in a proforma, only 129 LSGIs have responded. The details of receipts of 129 LSGIs are shown below:

(Rs. in crore)

Sl. No.	Type of LSGIs	No of LSGIs	Tax	Non-Tax	Total	Average receipt
1	Corporations	---	---	---	---	---
2	Municipalities	11	19.50	16.61	36.11	3.28
3	District Panchayats	5	---	9.01	9.01	1.80
4	Block Panchayats	18	---	0.50	0.50	0.03
5	Grama Panchayats	95	18.41	19.71	38.12	0.40
Total		129	37.91	45.83	83.74	0.65

* This figure does not agree with the closing balance shown in the Report of the previous year as some items (VAMBAY, NSDP etc.) are excluded and interest credited is added to OB.

1.9.10 Category 'G' consists of all funds which do not come under any other category. This included loans from KURDFC¹, HUDCO², KSRDB³, etc. utilisation of which was governed by instructions/guidelines issued by the competent authority from time to time.

1.9.11 Loans aggregating Rs.212.77 crore availed by LSGIs from the following sources were outstanding to be repaid as on 31 March 2008.

(Rs. in crore)

Sl. No.	Source of Loan	Loan outstanding as on 31 March 2008					Total
		Corporation	Municipality	DP	BP	GP	
1.	State Government	3.69	21.74	---	---	---	25.43
2.	KURDFC	---	26.50	---	---	1.57	28.07
3	HUDCO	21.57	0.74	95.46	---	---	117.77
4	Kerala State Co-operative Bank	2.78	3.46	---	35.26	---	41.50
Total		28.04	52.44	95.46	35.26	1.57	212.77

Of the balance amount of Rs.212.77 crore outstanding, loan amount of Rs.23.14 crore was received by the LSGIs during 2007-08.

1.10 Drawal of Funds

1.10.1 The total receipts of LSGIs under all categories as per available details were Rs.4338.15 crore during 2007-08 as detailed in the table below:

(Rs. in crore)

Sl. No	Type of LSGI	Funds received during 2007-08											Total receipts
		Category A Funds for schemes formulated by LSGIs	Category B Funds for state sponsored schemes	Category C Funds for maintenance		Category D General Purpose Fund	Category E funds for Centrally Sponsored schemes		Category 'F' Own Fund ⁴		Category 'G' Other receipts		
				Road assets	Non- road assets		Central share	State share	Tax	Non-tax	Loan	Others	
1	Corporations	101.09	351.06	12.39	17.06	42.59	157.19	45.59*	98.16	36.68	16.77	---	
2	Municipalities	125.86	76.63	17.28	21.64	28.02			87.09	55.95	5.47	---	
Total ULBs		226.95	427.69	29.67	38.70	70.61	157.19	45.59*	185.25	92.63	22.24	---	1250.93
1	DPs	225.11	19.65	32.68	37.12	21.60			---	1.11	---	---	
2	BPs	219.83	57.52	---	25.78	24.27	297.49	86.21*	---	2.03	---	---	
3	GPs	866.55	471.85	110.50	130.54	262.40			162.59	117.70	0.90	---	
Total PRIs		1311.49	549.02	143.18	193.44	308.27	297.49	86.21*	162.59	120.84	0.90	---	3087.22
Total LSGIs		1538.44	976.71	172.85	232.14	378.88	454.68	131.80*	347.84	213.47	23.14	---	4338.15

* Included under Category 'B'. Hence not reckoned for total receipts.

The receipts increased from Rs.3663.68 crore in 2006-07 to Rs.4338.15 crore in 2007-08; the increase being 18.41 per cent.

¹ Kerala Urban and Rural Development Finance Corporation

² Housing and Urban Development Corporation

³ Kerala State Rural Development Board (defunct)

⁴ Figures adopted by TSFC

1.11 Sectoral Allocation of Funds

1.11.1 Category 'A' funds for implementation of projects formulated by LSGIs are provided under three distinct sectors viz. General, SCP and TSP as mentioned in paragraph 1.9.1. The amount provided under these sectors during the period from 2003-04 to 2007-08 showed that provision of funds under SCP and TSP increased from 19.99 and 3.38 *per cent* during 2003-04 to 28.79 and 4.32 *per cent* during 2006-07. During 2007-08 also the fund provided for SCP and TSP was same as that of 2006-07 as detailed below:

(Rs. in crore)

Sl. No.	Sectors	2003-04		2004-05		2005-06		2006-07		2007-08		Total	
		Amount	Per centage	Amount	Per centage	Amount	Per centage	Amount	Per centage	Amount	Per centage	Amount	Per centage
1	General	1009.23	76.63	1016.67	75.30	990.36	72.03	936.50	66.89	1030.15	66.89	4982.91	71.37
2	SCP	263.33	19.99	285.20	21.13	334.47	24.32	403.00	28.79	443.30	28.79	1729.30	24.77
3	TSP	44.44	3.38	48.13	3.57	50.17	3.65	60.50	4.32	66.55	4.32	269.79	3.86
	Total	1317.00	100.00	1350.00	100.00	1375.00	100.00	1400.00	100.00	1540.00	100.00	6982.00	100.00

Source: Budgets 2003-04 to 2007-08

The LSGIs were prohibited from diverting funds earmarked for one sector to another. However, Government could not ensure that funds earmarked for a particular sector were not diverted to another sector as details of expenditure under each sector were not ascertainable from the Government Accounts.

1.11.2 Utilisation of funds provided for General, SCP and TSP Schemes by the LSGIs during 2007-08 was as under:

(Rs. in crore)

Category of LSGIs	Total No of LSGIs	General			SCP			TSP			Total		
		Provi sion	Expen diture	Per centage	Provi sion	Expendit ure	Per centage	Provi sion	Expen diture	Per centage	Provi sion	Expendit ure	Per centage
GPs	999	598.52	500.04	83.55	235.26	228.32	97.05	32.90	34.37	104.46	866.68	762.73	88.01
BPs	152	128.25	108.51	84.61	78.42	80.07	102.10	13.16	14.47	109.95	219.83	203.05	92.37
DPs	14	128.25	97.81	76.27	78.42	78.60	100.23	19.74	21.25	107.65	226.41	197.66	87.30
Municipa lities	53	97.58	85.94	88.07	27.57	27.58	100.04	0.75	1.07	142.66	125.90	114.59	91.02
Corporati ons	5	77.55	71.86	92.66	23.63	27.60	116.80	---	---	---	101.18	99.46	98.30
TOTAL	1223	1030.15	864.16	83.89	443.30	442.17	99.75	66.55	71.16	106.93	1540.00	1377.49	89.45

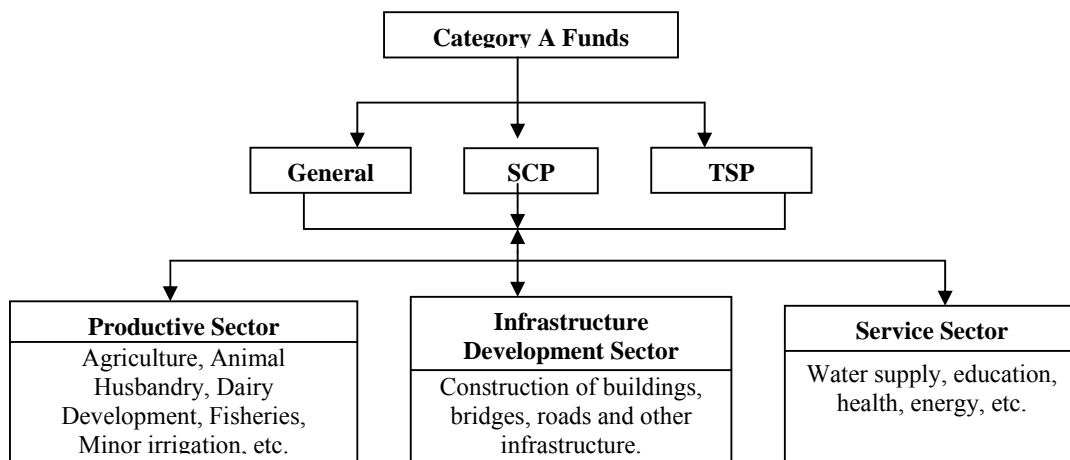
Source: Information Kerala Mission

Scrutiny revealed that the LSGIs spent Rs.864.16 crore (83.89 *per cent*) against the budget provision of Rs.1030.15 crore provided for General Category

¹ Includes EFC grant of Rs.80.98 crore.

Schemes and Rs.442.17 crore (99.75 per cent) against the budget provision of Rs.443.30 crore for SCP schemes. The utilisation of funds for TSP schemes was Rs.71.16 crore (106.93 per cent) against the provision of Rs.66.55 crore.

1.11.3 The LSGIs were to provide funds received under the above sectors further under three major sectors viz. productive sector, infrastructure development sector and service sector. The functions included under each such sector are indicated in the following chart.



Government prescribed the following ceilings for the utilisation of funds under each sector during the tenth five year plan period.

Sl. No.	Sector	PRIs	ULBs
1	Productive Sector	30 per cent (GPs and BPs) 25 per cent (DPs)	10 per cent (Minimum)
2	Infrastructure Development Sector	30 per cent (Maximum)	50 per cent (Maximum)
3	Service Sector	Not prescribed	Not prescribed

The Tier- wise and category wise details of grant-in-aid provided and expended in the Tenth Plan period (2002-07) by different LSGIs were as detailed below:

(Rs. in crore)

Tier	Productive			Service			Infrastructure			Project not classified			Total		
	Provi sion	Expen diture	Per centage	Provi sion	Expendi ture	Per centage	Provi sion	Expendi ture	Per centage	Provi sion	Expen diture	Per centage	Provi sion	Expendi ture	Per centage
GPs	969.99	609.96	62.88	1948.48	1493.09	76.63	831.22	633.78	76.25	227.62	216.13	94.95	3977.31	2952.96	74.25
BPs	197.57	113.94	57.67	470.95	360.61	76.57	208.23	169.96	81.62	69.09	70.01	101.33	945.84	714.52	75.54
DPs	208.97	116.34	55.67	475.61	384.37	80.82	218.86	151.61	69.27	10.56	9.52	90.15	914.00	661.84	72.41
Municipal ities	65.29	40.53	62.08	281.61	209.97	74.56	194.42	164.11	84.41	23.81	23.56	98.95	565.13	438.17	77.53
Corpora tions	44.13	18.80	42.60	222.77	141.28	63.42	162.96	126.79	77.80	17.73	17.37	97.97	447.59	304.24	67.97
Total	1485.95	899.57	60.53	3399.42	2589.32	76.17	1615.69	1246.25	77.13	348.81	336.59	96.50	6849.87	5071.73	74.04

Source : Economic Review 2007.

During the Tenth Plan period, the expenditure incurred on the productive sectors by GPs and BPs was 20.65 per cent and 15.95 per cent against the 30 per cent prescribed. Against the 25 per cent prescribed for DPs, the expenditure incurred was 17.58 per cent. The expenditure of ULBs was 7.99 per cent against the minimum 10 per cent prescribed (**Appendix-II**). The LSGIs also incurred Rs. 336.59 crore (6.65 per cent) for schemes outside the prescribed sectors.

1.12 Short utilisation of funds for Centrally Sponsored Schemes

1.12.1 The financial achievements in respect of the following six Centrally Sponsored Schemes by LSGIs during 2007-08 were tardy as shown below:

(Rs. in crore)

Sl. No.	Name of Scheme	Opening Balance	Fund Received	Total	Fund utilised	Balance	Per centage of utilisation
1	SJSRY ¹	12.48	8.40	20.88	7.42	13.46	35.54
2	IHSDP ²	6.40	37.96	44.36	6.72	37.64	15.15
3	TSC ³	0.38	37.05	37.43	20.71	16.72	55.33
4	IWDP ⁴	8.19	1.97	10.16	6.68	3.48	65.75
5	UIDSSMT ⁵	37.54	90.98	128.52	0.00	128.52	0.00
6	JNNURM ⁶	5.58*	65.44	71.02	19.81	51.21	27.89
Total		70.57	241.80	312.37	61.34	251.03	19.64

Out of Rs.312.37 crore available, the utilisation was only Rs.61.34 crore (19.64 per cent). Though there was Rs.128.52 crore available with UIDSSMT, no money was utilised during 2007-08. In respect of the remaining schemes, the percentage of utilisation ranged between 15.15 and 65.75.

1.13 Pendency in clearing objections raised by the CAG

1.13.1 The CAG conducted the audit of LSGIs under Sections 14, 15 and 20(1) of CAG's (DPC) Act, 1971. Objections raised in audit were communicated to the respective LSGIs in the form of Local Audit Reports (LARs) with a copy to the Government. Though the replies to the objections were to be furnished within four weeks of receipt of LARs, 890 LARs out of 1245 issued (71.49 per cent) and 9532 paragraphs out of 14672 (64.97 per cent) were pending to be settled as on 28 February 2009 for want of satisfactory replies from LSGIs concerned as detailed below:

¹ Swarna Jayanthi Shahari Rozgar Yojana - Kudumbasree

² Integrated Housing and Slum Development Programme - Kudumbasree

³ Total Sanitation Campaign - CRD

⁴ Integrated Wasteland Development Programme - CRD

⁵ Urban Infrastructure Development Scheme for Small and Medium Towns . - Chief Town Planner

⁶ Jawaharlal Nehru National Urban Renewal Mission. - KSUDP

* Against Rs.103.29 crore shown in the CB in the AR 2006-07, State Government released Rs.5.58 crore only.

Year	Opening Balance		Clearance		Outstanding	
	No. of LARs	No of Paras	No of LARs	No of Paras	No of LARs	No of Paras
1998-99 to 2002-03	361	4461	352	4193	9	268
2003-04	218	3639	1	320	217	3319
2004-05	204	2806	2	309	202	2497
2005-06	150	1385	---	126	150	1259
2006-07	167	1219	---	91	167	1128
2007-08*	145	1162	---	101	145	1061
Total	1245	14672	355	5140	890	9532

* Addition during 2007-08.

Government constituted (August 2007), Audit Monitoring Committees (AMCs) at district and state levels for different categories of LSGIs for timely settlement and clearance of audit paragraphs. The District level AMC (DLAMC) was to settle audit paragraphs in respect of GPs, BPs and Municipalities in the respective districts whereas the State Level AMC (SLAMC) was responsible for settlement of audit paragraphs in respect of DPs and Corporations. During the period from February 2008 to February 2009, seven meetings of DLAMC were held and six LARs and 613 paragraphs were settled. SLAMC did not meet during the period.

1.14 Conclusion

1.14.1 There was no database on the revenue and expenditure of LSGIs. Preparation and submission of annual accounts by 442 LSGIs was delayed by more than 5 years. Delay is noticed in conducting the audit and issue of audit reports by DLFA. The percentage of utilisation of funds received for the Centrally Sponsored Schemes was low. Utilisation of funds allotted by Government under SCP and TSP sectors could not be monitored as no separate heads of accounts for accounting the expenditure under these sectors were prescribed. Government is yet to frame Budget and Accounts Rules to give effect to the revised accounting formats. Clearance of audit objections was very poor.

1.15 Recommendations

- Creation of financial database of LSGIs should be expedited.
- Government should take effective steps to clear the arrears in the preparation and submission of accounts for audit by the LSGIs and the audit by the DLFA to ensure proper financial reporting.
- Government should ensure full utilisation of funds released for Centrally Sponsored Schemes.
- Government should prescribe separate heads of accounts for accounting the expenditure under SCP and TSP sectors.

- Government should instruct the LSGIs to ensure that Category A Funds are not utilised for schemes outside the sectors prescribed.
- Government should consider appointing an authorised officer to consolidate the audited accounts of DPs and ULBs so as to get a total picture of finances of all LSGIs.
- Government should prescribe revised Budget/Account Rules for PRIs.
- Arrangement for speedy settlement of audit objections should be made to reduce the pendency.
- Loan should not be allowed unless available funds are fully utilised.