



सत्यमेव जयते

**Report of the  
Comptroller and Auditor General of India  
on  
Efficacy of Implementation of 74<sup>th</sup> Constitution  
Amendment Act, 1992**



लोकहितार्थ सत्यनिष्ठा  
Dedicated to Truth in Public Interest



**Government of Himachal Pradesh**  
*Report No. 1 of the year 2022*



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## Preface

This Report of the Comptroller and Auditor General of India covering the period April 2015 to March 2020 has been prepared for submission to the Governor of the State of Himachal Pradesh under Article 151 (2) of the Constitution of India.

The Report contains significant results of Performance Audit of “Efficacy of Implementation of the Constitution (Seventy-fourth Amendment) Act, 1992” conducted in terms of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Services) Act, 1971.

The audit has been conducted in conformity with the Auditing Standards issued (March 2002) by the Comptroller and Auditor General of India.



# **Executive Summary**



## Executive Summary

This report contains significant results of the performance audit on “Efficacy of implementation of the Constitution (Seventy-fourth Amendment) Act, 1992” covering the period from April 2015 to March 2020.

### Introduction

The Constitution (Seventy-fourth Amendment) Act, 1992 (74<sup>th</sup> CAA) was enacted, which came into force on 1 June 1993, to give Constitutional recognition to the Urban Local Bodies (ULBs) for decentralizing urban governance along with the Constitutional right to exist. The 74<sup>th</sup> CAA authorized the State Government to enact laws to empower ULBs with powers and authority as may be necessary to enable them to function as institutions of self-government to transfer various responsibilities to Municipalities and to strengthen Municipal level governance. The Twelfth Schedule of the Constitution enumerates 18 specific functions to be devolved to ULBs.

In the State of Himachal Pradesh, ULBs are categorized into three types of Municipalities viz., Municipal Corporation, Municipal Councils and Nagar Panchayats on the basis of population and revenue generated by local administration specified by Himachal Pradesh Municipal Act 1994. As of March 2020, there were 54 ULBs in Himachal Pradesh. The Municipal Corporations and other Municipalities viz., Municipal Council and Nagar Panchayats are governed by the Himachal Pradesh Municipal Corporation Act, 1994 (HPMC Act amended October 2016) and the Himachal Pradesh Municipalities Act, 1994, (HPM Act amended September 2016).

### Audit framework

The overall objective of this performance audit was to ascertain whether ULBs have indeed been empowered in terms of funds, functions and functionaries to establish themselves as effective institutions of local self-government and whether the 74<sup>th</sup> CAA has been effectively implemented in the State. The main objectives of performance audit were to assess adequacy in coverage of provisions of 74<sup>th</sup> CAA in the State Legislation; whether ULBs in the State were empowered to discharge their functions effectively through creation of appropriately designed institutions/institutional mechanisms and extent of devolution of functions by the State Government; and whether ULBs have been empowered to access adequate financial resources and human resources for discharge of functions stated to be devolved to them.

The audit findings, conclusions and recommendations relating to each of the audit objectives have been reported in four distinct chapters viz., chapters III to VI.

### **Compliance with provisions of 74<sup>th</sup> CAA**

The State statutes complied with the provisions of the 74<sup>th</sup> CAA. However, compliance to the constitutional provisions by law does not guarantee effective decentralisation on ground, unless followed by effective implementation of functions enlisted in Twelfth Schedule of Constitution. The legal provisions were not backed by decisions and actions. This was especially true in case of provisions pertaining to the devolution of functions.

*(Paragraph 3.1)*

### **Devolution of Functions & Empowerment of Urban Local Bodies**

Though the State Government carried out amendments in the State statutes viz., HPMC Act & HPM Act to comply with the provisions of 74<sup>th</sup> CAA, these amendments were not supported by firm action in terms of empowerment of ULBs to discharge their functions freely and effectively. This defeated the spirit of the Constitutional amendment, as is evident from the inconsistencies noticed during the course of performance audit.

The notification regarding devolution of functions had been issued (August 1994). Out of 18 functions, one function was not devolved to ULBs. In case of remaining 17 functions, ULBs were solely responsible for five functions; were mere implementing agencies for four functions; had limited role with overlapping jurisdiction of state departments/parastatals for six functions; and had no role for two functions.

*(Paragraph 4.1)*

Composition of municipalities in respect of test-checked ULBs was in accordance with the provisions. Seats for the direct elections were being reserved for SC/ST and women as per the prescribed norms and the seats of councillors were being rotated as per the reservation policy for each election. The term of the office of the Mayor and Deputy Mayor was not co-terminous with the duration of the House of Municipal Corporations. However, the term of offices of the Presidents and Vice Presidents of Municipal Councils and Nagar Panchayats were coterminous with the duration of Municipalities.

*(Paragraphs 4.2.1.1, 4.2.1.2, 4.2.1.4 & 4.2.1.5)*

Meetings of House of ULBs were not held regularly. The percentage of number of meetings of House of ULBs held when compared with mandatory number of meetings, ranged between 35 *per cent* and 95 *per cent* during 2015-20.

*(Paragraph 4.2.1.6)*

All three Standing Committees were formed in the test-checked 14 ULBs. However, against prescribed number of 3640 meetings, only 173 meetings were held in three ULBs (MC Solan: 44, MC Nahan: 83 and NP Sunni: 46). No meetings were held in remaining 11 selected ULBs.

*(Paragraph 4.2.2)*

Ward Committees (WCs) were not constituted in any of the test-checked ULBs except in Municipal Corporation Shimla.

*(Paragraph 4.2.3)*

District Planning Committees (DPC) were constituted in all the Districts of test-checked ULBs, however the ULBs had not prepared and submitted respective development plans to DPC.

*(Paragraph 4.2.4)*

There was delay in constitution of three SFCs (third, fourth & fifth) by 12, 24 and 06 months from scheduled date. Further, there were delays in submission of reports to the State Government by 17, 25 and 21 months.

*(Paragraph 4.2.5.1)*

The State Government had overriding powers over the Urban Local Bodies in relation to various matters viz., power to frame Rules; power to cancel and suspend a resolution or decision taken by ULB; power to dissolve ULBs; cancellation of bye-laws by Government; sanction to borrow money; sanction of regulations by Government; power in regard to taxes, budget estimates etc.

*(Paragraph 4.3)*

The parastatal bodies were being controlled by the Government and were having their own governing bodies which did not include adequate elected representatives of ULBs. SMC had limited control over the functioning of the SJPNL, thereby defeating the purpose of devolution of functions. The power regarding approval of building construction plan was being discharged by Himachal Pradesh Housing and Urban Development Authority (HIMUDA) for development of housing colonies without any involvement of ULBs except seeking NOC for use of land. Further, there is no representation of ULBs in the Governing Body of HIMUDA. The function of 'Urban planning including town planning' and 'Regulation of land-use and construction of buildings' in industrial areas falling within jurisdiction of the ULBs is being performed by HPSIDC, even after devolution of the function to ULBs vide notification of State Government in August 1994.

*(Paragraphs 4.4, 4.4.1, 4.4.2 & 4.4.3)*

In Himachal Pradesh, two cities viz., Dharamshala and Shimla were selected to be covered under the Smart City Mission and two Special Purpose Vehicles (SPVs) were constituted under Company Act 2013 for Smart City Dharamshala and Shimla. These SPVs were directly accountable to State Government than to ULBs, and the representatives of ULBs had only 25 *per cent* (Dharamshala Smart City Limited) and 17 *per cent* (Shimla Smart City Limited) representation in the Board of Directors. Further, the functions devolved to ULB were being executed by other agencies on direction of SPV.

*(Paragraph 4.4.4)*

## **Recommendations**

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

- taking decisive action in order to translate the vision of decentralisation into reality, besides providing adequate degree of autonomy to ULBs in respect of functions assigned to them in line with the Constitutional provisions;
- constituting requisite committees for effective planning and better execution at ULBs' level; and
- involving greater participation of ULBs in the functioning of various parastatals in the State.

## **Financial Resources of Urban Local Bodies**

The 74<sup>th</sup> 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.

ULBs were largely dependent on fiscal transfers, which constituted about 78 *per cent* of their total revenue and own revenue of ULBs constituted only 22 *per cent* of their total revenue.

*(Paragraph 5.1)*

During 2015-16, funds of ₹ 4.08 crore were released in excess of the mandated devolution by the State Finance Commission, whereas there was a shortfall in funds released to ULBs against mandated devolution by an extent of ₹ 6.07 crore during 2016-17 to 2019-20.

*(Paragraph 5.2.1)*

Allocation of performance grants of ₹ 32.44 crore for the years 2017-18, 2018-19 & 2019-20 was yet to be received.

*(Paragraph 5.2.2.1)*

The State laws revealed that while the authority to collect certain taxes like property tax vested with ULBs but the powers pertaining to the rates and revision thereof, method of assessment, exemptions vested with the State Government.

*(Paragraph 5.4)*

There was no uniformity in method of levying the property tax. Surveys to enumerate the properties was not as per time schedule envisaged. Digitizing property database using Geographic Information System (GIS) and automating property tax calculations was not put in place for all the ULBs. Recovery on account of property tax (₹ 14.69 crore); conservancy tax (₹ 3.82 crore); rent from commercial establishments (₹ 10.66 crore) was outstanding thereby showing ineffectiveness of ULBs in augmenting of their own revenue.

*(Paragraphs 5.4.1.1, 5.4.1.2, 5.4.1.3, 5.4.1.4 & 5.4.2)*

Water supply management in the State was done by Jal Shakti Vibhag except MC Shimla (SJPNL) and MCs Solan and Palampur. Supplying of bulk water to ULBs at higher rates resulted in accrued liability in the test-checked Municipalities (MC Shimla ₹ 229.64 crore and MC Solan ₹ 78.67 crore). Non-Revenue Water ranged between 34 per cent and 47 per cent in MC Solan during the period 2015-20.

*(Paragraphs 5.5 & 5.6)*

Sewerage management in the State was being done by Jal Shakti Vibhag, except ULBs Shimla, where this function is being discharged by Shimla Jal Prabhandan Nigam Ltd. and MC Solan where collection of sewerage charges was the responsibility of MC. Non-levy of sewerage charges (MC Solan) resulted in revenue loss of ₹ 38.03 lakh.

*(Paragraphs 5.7 & 5.7.1)*

Budget exercise was flawed and resulted in preparation of unrealistic and unscientific budgets. Percentage variation in budgeted and actual receipt, and in budgeted and actual expenditure was more than 20 per cent, in the test-checked ULBs.

*(Paragraph 5.9.1)*

The capital expenditure i.e. programme expenses and expenses out of grants incurred by ULBs constituted about 43 per cent of the total expenditure and revenue expenditure i.e. human resource expenses, general expenses and operation & maintenance and finance charges was about 57 per cent of total expenditure.

*(Paragraph 5.10)*

ULBs were able to utilise on an average about 63 per cent of the available funds each year.

*(Paragraph 5.12)*

The powers of ULBs were limited in respect of administrative approvals and technical sanctions.

*(Paragraph 5.14)*

## **Recommendations**

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

- ensuring release of mandated share to the ULBs as per the recommendations of State Finance Commission;
- initiating action for meeting mandatory provision prescribed for obtaining Performance Grant by the ULBs;
- placing an effective mechanism for the recovery of outstanding dues by the ULBs to augment their own revenue;
- GIS mapping of the properties within the jurisdiction of the Municipalities needs to be made mandatory so that property tax management can be improved;
- removing limitations on the ability of the ULBs to raise revenues through sources such as property tax, advertisement fee, solid waste management cess etc.;

- ensuring preparation of realistic budget estimates by ULBs in a scientific manner taking into account requirements of capital expenditure as well as a realistic projection of funds expected to be mobilised; and,
- providing adequate powers and enhancing role of ULBs in administrative and executive spheres to enable them to function as an institution of self-government.

### **Human Resources of Urban Local Bodies**

The ULBs were having minimal control over human resources and the number of employees as per requirements were inadequate, as is evident from the following:

The State Government had the powers to regulate method of recruitment and condition of service, pay and allowances of ULBs.

*(Paragraphs 6.1, 6.2 & 6.3)*

The vacancy ranged from 35 *per cent* to 57 *per cent* among the various categories (except Group A) of all the ULBs.

*(Paragraph 6.4)*

In the test-checked ULBs the vacancy ranged from 13 *per cent* to 67 *per cent* among the various wings/sections, thereby hampering effective discharge of functions.

*(Paragraph 6.4.3)*

No mechanism of capacity building either in the ULBs or in the Directorate of UDD for enhancement of working quality of official was in place.

*(Paragraph 6.5)*

### **Recommendations**

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

- entrusting the power of recruitment with the ULBs so that they can perform the function without any hurdle;
- giving emphasis to fill all the vacant posts in the ULBs at the earliest;
- revising the sanctioned strength in accordance with the responsibilities and resources of the ULBs; and
- initiating capacity building programmes at the ULBs level as well as at Directorate level, as soon as possible.

# **Chapter-I**

## **Introduction**



### 1.1 74<sup>th</sup> Constitutional Amendment

The Constitution (Seventy-fourth Amendment) Act, 1992 (74<sup>th</sup> CAA) which came into effect on 1 June 1993, introduced Part IX-A to the Constitution pertaining to the Municipalities. The Act provided a constitutional status to Urban Local Bodies (ULBs). Article 243W of the CAA authorised the State Legislatures to enact laws to endow local bodies with powers and authority as may be necessary to enable them to function as institutions of self-government and make provisions for devolution of powers and responsibilities. The Twelfth Schedule of the Constitution enumerates 18 specific functions to be devolved to ULBs as listed in **Table 4.1**.

### 1.2 Trend of urbanisation in Himachal Pradesh

As per 2011 Census, out of the total population of 68.65 lakhs, about 6.89 lakhs live in urban areas accounting for 10.03 *per cent* of the total population. The proportion of people living in the urban areas of Himachal Pradesh had increased from 9.80 *per cent* in 2001 to 10.03 *per cent* in 2011. The growth rate of urban population in the decades 2001-2011 & 2011-2020<sup>1</sup> was 15.61 *per cent* and 9.92 *per cent* respectively. Urban Himachal Pradesh faces multiple challenges, ranging from public health issues, poverty alleviation, waste management, depletion of natural resources etc. In this scenario, ULBs have an important role to play, as most of these issues are handled best at the local level.

### 1.3 Profile of Urban Local Bodies in Himachal Pradesh

ULBs are categorized on the basis of population, geographical features, economic status, local revenue generation and level of employment within their jurisdiction. There are 54 ULBs as shown in Figure 1.

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<sup>1</sup> Projected population in 2020 as per Directorate of Economics and Statistics, Shimla HP.

**Figure-1: Criteria for formation of Municipalities in Himachal Pradesh**



Source: Annual Administration Report 2018-19 of UDD, Section 03 of respective Acts

The Municipal Corporations are governed by the Himachal Pradesh Municipal Corporations Act, 1994 (HPMC Act) and other ULBs are governed by the Himachal Pradesh Municipal Act, 1994 (HPM Act). Each Corporation/Municipal area has been divided into wards, which are determined and notified by the State Government for the purpose of election of Councillors. All ULBs have an elected body comprising Councillors.

#### **1.4 Organisational Structure of Urban Governance in Himachal Pradesh**

The Urban Development Department (UDD), headed by the Secretary to the Government, is the nodal department for the governance of all ULBs. The Directorate of Urban Development Department (UDD) established in the year 1985-86, functions as an interface between the State Government and ULBs. In accordance with the powers conferred under the HPMC/HPM Acts, the UDD monitors these ULBs through direct reporting of the Commissioners /Executive Officers / Secretaries to the Director. The organisation structure with respect to functioning of ULBs in the State is indicated at **Appendix 1.1**.

In addition to ULBs, the UDD has key parastatal agencies that deliver or facilitate urban infrastructure and services such as Shimla Jal Prabandhan Nigam Ltd. (SJPNL) and Smart City (Shimla & Dharamshala) under its control. The other parastatals such as Himachal Pradesh Housing and Urban Development Authority (HIMUDA), and Himachal Pradesh State Industrial Development Corporation (HPSIDC) under the departments of Housing and Industries respectively also deliver urban services. The details of parastatals and their functions are in **Appendix 1.2**.

**Chapter-II**  
**Audit Framework**



**2.1 Audit objectives**

The Performance Audit (PA) seeks to ascertain

- Adequacy in coverage of provisions of 74<sup>th</sup> CAA in the State Legislation;
- **Empowerment of ULBs** by the State Government to discharge their functions/responsibilities effectively through creation of appropriately designed institutions/institutional mechanisms and their functions and **extent of devolution** of the functions to the ULBs by the State Government;
- To assess whether the ULBs have been empowered to **access adequate financial resources** for discharge of functions stated to be devolved to them; and
- To assess whether the ULBs have been empowered to **access adequate human resources** for discharge of functions stated to be devolved to them.

**2.2 Audit criteria**

The criteria for the PA were derived from the following:

- Constitutional (74<sup>th</sup> Amendment) Act, 1992;
- Himachal Pradesh Municipal Corporations Act, 1994;
- Himachal Pradesh Municipal Act, 1994;
- Himachal Pradesh Municipal Services Act, 1994;
- Municipal Corporation / Councils Business Bye-Laws;
- Central/State Finance Commission Reports;
- Report of the Second Administrative Reforms Commission; and
- State Government orders, notifications, circulars and instructions issued from time to time.

**2.3 Audit scope and methodology**

The Performance Audit covering the period April 2015 to March 2020 was carried out during the months of September 2020 to March 2021. Test-check of 14 ULBs out of 54 ULBs across all tiers and selected 05 parastatals was done. ULBs were selected through simple random sampling, with population as per 2011 census as the size measure from each tier of ULBs. The list of ULBs selected is indicated in **Appendix 2.1**.

Apart from above, a test-check was done to assess the ULBs efficacy and adequacy in management of the following five selected areas:

- (i) Property Tax
- (ii) Water Supply
- (iii) Water Tax/Charges
- (iv) Public Health and Sanitation
- (v) Solid Waste Management

An entry conference was held on 02 November 2020 with the Secretary, UD, in which the audit methodology, scope, objectives and criteria were explained. Departmental replies wherever received have been factored into the Report. The audit methodology involved document analysis and responses to audit queries.

An exit conference was held on 13 January 2022 with the Principal Secretary to Government of Himachal Pradesh, Urban Development Department wherein audit findings were discussed and deliberations of conference have been appropriately incorporated in the report.

## **2.4 Acknowledgement**

Audit acknowledges the cooperation and assistance extended by the State Government, UDD, SJPNL, HPSIDC, HIMUDA, Smart City, and all the test-checked ULBs in conducting the performance audit.

## **2.5 Organisation of audit findings**

The audit observations relating to status of devolution of functions, funds and functionaries are presented in the following chapters:

Chapter III – Compliance with provisions of 74<sup>th</sup> CAA

Chapter IV – Devolution of Functions and Empowerment of Urban Local Bodies

Chapter V – Financial Resources of ULBs

Chapter VI– Human Resources of ULBs

Chapter VII– Conclusion

**Chapter-III**  
**Compliance with provisions of**  
**74<sup>th</sup> CAA**



**3.1 Comparison of State level legislations with 74<sup>th</sup> CAA**

The 74<sup>th</sup> CAA introduced certain provisions relating to Municipalities vide Article 243Q to 243ZG. The State Government enacted the Himachal Pradesh Municipal Corporation Act (HPMC Act) and Himachal Pradesh Municipal Acts (HPM Act) on 18 October 1994 with introduction of provisions corresponding to the CAA provisions as detailed in **Table 3.1**.

**Table-3.1: Comparison of State level legislations with the provisions of 74<sup>th</sup> CAA**

Provision of Constitution of India	Requirement as per provision of Constitution of India	Sections of HPMC and HPM Act, 1994	
		HPMC	HPM
Article 243Q	<b>Constitution of Municipalities</b> provides for three types of municipalities namely a Nagar Panchayat for transitional area, a Municipal Council for a smaller urban area and a Municipal Corporation for a larger urban area.	03	03
Article 243R	<b>Composition of Municipalities:</b> All seats shall be filled by direct elections and by persons with special knowledge in municipal administration nominated by Government. The Legislature of a State may by law, provide for representation to the Municipality, Members of Parliament and Legislative Assembly whose constituencies lie within the municipal area and State Legislative Council who are registered as electors within the city.	04	10
Article 243S	<b>Constitution and composition of Ward Committee:</b> This provides for constitution of Ward Committees in all municipalities with a population of three lakh or more.	44C	51C
Article 243T	<b>Reservation of seats:</b> The seats to be reserved for Scheduled Caste (SC)/Scheduled Tribe (ST), Women and Backward classes for direct election.	10	11
Article 243U	<b>Duration of Municipalities:</b> The municipality has a fixed tenure of 5 years from the date of its first meeting and re-election to be held before the expiry of its term and within six months from the date of dissolution, if dissolved.	05	14
Article 243V	<b>Disqualifications for membership:</b> A person shall be disqualified for a member of a Municipality- <ul style="list-style-type: none"> <li>• If he is so disqualified by or under any law for the time being in force for the purposes of elections of the Legislature of the State concerned.</li> <li>• If he is so disqualified by or under any law made by the Legislature of the State.</li> </ul>	08	16

Article 243W	<p><b>Powers, authority and responsibilities of the Municipalities:</b> All municipalities would be empowered with such powers as may be necessary to enable them to function as effective institutions of self-government. The State Government shall entrust with such powers and authority to enable them to carry out the responsibilities in relation to the 12<sup>th</sup> Schedule.</p>	42	48
Article 243X	<p><b>Power to impose taxes by, and funds of the Municipalities:</b></p> <ul style="list-style-type: none"> <li>• Municipalities would be empowered to levy and collect the taxes, fees, duties etc.</li> <li>• Assign taxes, duties, tolls and fees levied and collected by State Government.</li> <li>• Grant-in-aid would be given to the Municipalities from the Consolidated Fund of State.</li> <li>• Constitution of funds for crediting and withdrawal of money by Municipalities.</li> </ul>	84 & 85, 79 (a-ii & iii) & 69	65 & 66, 69, 64 (a-ii & iii), 52
Article 243Y read with Article 243I	<p><b>Finance Commission:</b> State Government shall constitute Finance Commission for</p> <ul style="list-style-type: none"> <li>• Review the financial position of the Municipalities and taking such steps that help in boosting the financial condition of the Municipal bodies</li> <li>• Distributing between the State and the Municipalities of the net proceeds of the taxes, fees, tolls and duties that are charged by the State Government.</li> <li>• Allotting the funds to the municipal bodies in the state from the consolidated fund of the State.</li> </ul>	79	64
Article 243Z	<p><b>Audit of accounts of Municipalities:</b> This provides provision for maintenance of accounts by the Municipalities and the auditing of such accounts.</p>	161	252 & 255
Article 243ZA read with Article 243K	<p><b>Elections to the Municipalities:</b> Superintendence, direction and control of all procedure of election of the Municipalities shall be vested in the State Election Commission (SEC).</p>	09	281
Article 243ZD	<p><b>Committee for District Planning:</b></p> <ul style="list-style-type: none"> <li>• Constitution of District Planning Committee at district level.</li> <li>• Composition of District Planning Committee.</li> <li>• Preparation of draft development plan and forwarding to the Government.</li> </ul>	421	261

The State statutes complied with the provisions of the 74<sup>th</sup> CAA. However, compliance to the constitutional provisions by law does not guarantee effective decentralisation on ground, unless the same is also followed by effective implementation of functions enlisted in Twelfth Schedule of Constitution.

Audit observed that the legal provisions were not backed by decisive actions with regard to actual implementation, resulting in a situation in which the spirit of 74<sup>th</sup> CAA was not completely upheld. This was especially true in case of provisions pertaining to the devolution of functions and creation of appropriate institutional mechanisms for effective decentralisation, which have been discussed in the subsequent chapters.

**Chapter-IV**  
**Devolution of Functions &**  
**Empowerment of Urban Local Bodies**



### 4.1 Actual status of devolution of Functions

The 74<sup>th</sup> CAA sought to empower ULBs to perform functions and implement schemes in relation to 18 subjects specified in the 12<sup>th</sup> Schedule. Each State was expected to enact a legislation to implement the amendment.

The State Government vide notification (August 1994) transferred 16 out of 18 functions to ULBs. Subsequently, power to implement the function of 'Regulation of Land Use and Construction of Buildings' were delegated to various ULBs by the Town & Country Planning Department vide notifications issued from time to time. Fire Services was the only function that was not transferred.

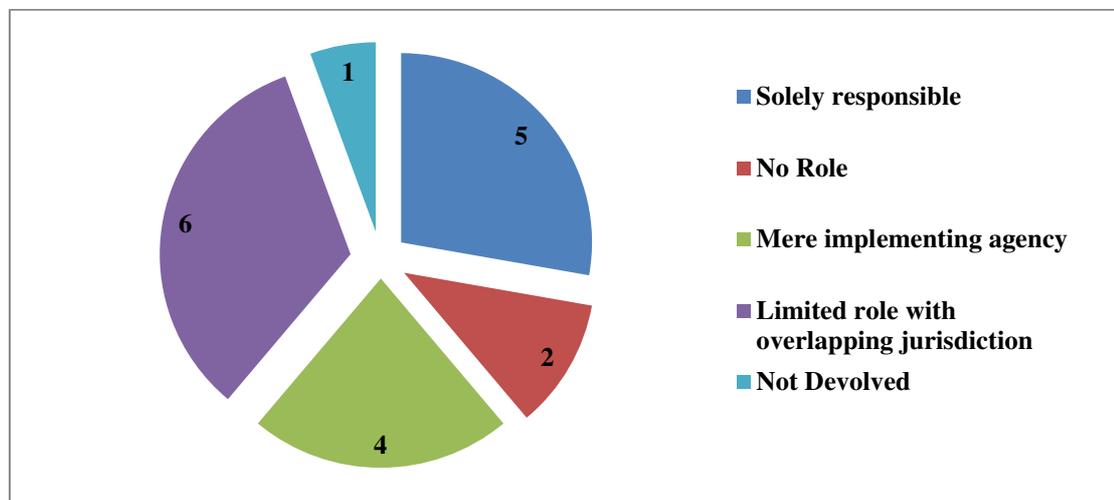
The Fourth SFC also made recommendations for full transfer of funds, functions and functionaries to ULBs, as per the notification (August 1994). However, several overlaps in discharge of the functions between ULBs and parastatals / government departments were observed.

Out of 18 functions:

1. ULBs were solely responsible for five functions;
2. ULBs had no role in two functions;
3. ULBs were mere implementing agencies for four functions;
4. ULBs had limited role with overlapping jurisdiction of state departments/parastatals for six functions;
5. One function not devolved to ULBs.

The function-wise role of ULBs is depicted in **Chart 4.1**:

**Chart-4.1: Function wise role of ULBs**



**Table-4.1: Detail showing actual status of implementation of functions by the ULBs**

Sl. No.	Functions Obligatory/ Discretionary	Activities	Actual status of implementation	Authorities discharging functions
<b>Functions where ULBs were solely responsible</b>				
1.	Slum improvement and up-gradation	Identifying beneficiaries	ULBs were wholly responsible for discharging this function through schemes like Integrated Housing & Slum Development Programme (IHSDP), Pradhan Mantri Awas Yojana- (Urban) (PMAY-U) etc.	<b>ULBs</b>
		Affordable Housing		
		Upgradation		
2.	Urban poverty alleviation	Identifying beneficiaries	ULBs were wholly responsible for discharging this function through schemes like <b>DAY-National Urban Livelihood Mission (NULM)</b> and Street vendor scheme etc.	<b>ULBs</b>
		Livelihood and employment		
		Street vendors		
3.	Cattle pounds; prevention of cruelty to animals	Catching and keeping strays	ULBs were wholly responsible for discharging this function.	<b>ULBs</b>
		Sterilisation and anti-rabies		
		Ensuring animal safety		
4.	Burials and burial grounds; cremations, cremation grounds	Construction and O&M of crematoriums and burial grounds and electric crematoriums	ULBs were wholly responsible for discharging this function.	<b>ULBs</b>
5.	Regulation of slaughterhouses and tanneries	Ensuring quality of animals and meat	ULBs were wholly responsible for discharging this function.	<b>ULBs</b>
		Disposal of waste		
		O & M of slaughterhouse		
<b>Functions with no role for ULBs</b>				
6.	Water supply for domestic, industrial and commercial purposes	Distribution of water	Jal Shakti Vibhag was responsible for this function in 51 out of 54 ULBs. In three ULBs namely Palampur, Solan and Shimla (Shimla Jal Prabhandhan Nigam Limited) this function was performed by the ULBs/Parastatal.  <b>(The details are given in Para 5.5)</b>	<b>Jal Shakti Vibhag</b>
		Providing connections		
		Operation & Maintenance (O&M)		
		Collection of charges		
7.	Urban forestry, protection of the environment and promotion of ecological aspects	Afforestation	Forest Department executes all the functions of urban forestry.	<b>Forest Department</b>
		Greenification		
		Awareness drives		
		Protection of the environment and promotion of ecological aspects		
		Maintenance of natural resources like water bodies etc.		

<b>Functions where ULBs were mere implementing agencies</b>				
8.	Urban planning including town planning	Master Planning/Development Plans/Zonal Plans	<b>The Town &amp; Country Planning Department</b> is primarily responsible for preparing Development plan and Sectoral plans, (HPTCP Rules 2016)	<b>TCP Department</b>
		Enforcing master planning regulations	No Master Plans were prepared, and ULBs are only enforcing the regulations of the Development Plan, Sectoral Plan.	<b>ULBs</b>
		Enforcing building bye-laws and licenses	No building bye-laws were prepared by the ULBs except MC Shimla (1998). However, the Director, UDD (August 2015) had directed the MC Shimla to adopt / follow the TCP Rules, 2014.	<b>ULBs</b>
		Group Housing, Development of Industrial areas	<b>Himachal Pradesh Housing and Urban Development Authority (HIMUDA)</b> is responsible for planning & developing group housing schemes. <b>(Discussed in detail in Para 4.4.2)</b> <b>Himachal Pradesh State Industrial Development Corporation (HPSIDC)</b> is responsible for development of industrial areas / estates. <b>(Discussed in detail in Para 4.4.3)</b>	<b>HIMUDA, HPSIDC</b>
9.	Regulation of land-use and construction of buildings	Regulating land use	ULBs were responsible for regulation of construction and subdivision of land up to 2500 sqm and the Director Town & Country Planning Department is responsible for areas more than 2500 sqm.	<b>ULBs</b>
		Approving building plans/high rises	ULBs were only responsible for ensuring compliance to regulations prescribed in the Development Plans wrt construction of buildings/high rise buildings, except for Dalhousie & Manali where it was being executed by the field units of the TCP department under supervision of Deputy Commissioner of District. Further, checking of fire safety measures in high rise buildings was vested with <b>Fire Department</b> .	

		Demolishing illegal buildings	Section 253 of HPMC Act and section 211 of HPM Act 1994 provides power to ULBs in respect of demolishing illegal building. This function was vested with ULBs.	
10.	Planning for economic and social development	Program implementation for economic activities	<b>ULBs:</b> Implementation of various welfare schemes in sectors such as Housing, Employment etc. as per scheme guidelines. <b>Social Justice and Empowerment Department:</b> Safeguarding welfare of SC/STs and other weaker sections.	<b>ULBs</b>
		Policies for social development		<b>Social Justice and Empowerment Department</b>
11.	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded	Identifying beneficiaries	By ULBs	<b>ULBs</b>
		Providing tools/benefits such as tricycles	By Social Justice & Empowerment Department (SJ&ED)	<b>SJ&amp;ED</b>
		Housing programs	ULBs through Centrally sponsored schemes– PMAY(U).	<b>ULBs</b>
		Scholarships	Various Centrally Sponsored scholarships schemes, State Government sponsored scholarships programs and Technical Education sponsored schemes were run by HP Education Department & Tribal Development Department of HP and Technical Education Department of the State. ULBs had no role in this regard.	<b>Education &amp; Tribal Development Department</b>
<b>Functions with limited role of ULBs with overlapping jurisdiction</b>				
12.	Roads and bridges	Construction and maintenance of roads	<b>ULBs:</b> Construction and maintenance of Municipal roads along with bridges, drains, flyovers, and footpaths within the jurisdiction of ULBs. <b>Himachal Pradesh Public Works Department (HPPWD):</b> was responsible for road works including maintenance of Major District Roads, State Highways and National Highways within ULBs.	<b>ULBs and HPPWD</b>
		Construction and maintenance of bridges, drains, flyovers and footpaths		
13.	Vital statistics including birth and death registration	Coordinating with hospitals / crematoriums etc. for obtaining information	No coordination of ULBs with hospitals as Hospitals were under control of Department of Health and Family Welfare. Crematoriums were under control of ULBs.	<b>ULBs &amp; Health Department</b>
		Maintaining and updating database	ULBs were responsible for maintaining and updating the data	

			of death and birth and issuance of certificate. Hospitals were also maintaining the data of death and birth and issuance of certificate. However, the birth and death reports are uploaded by the ULBs and Hospitals in the Civil Registration System which is a portal of Registrar General & Census Commissioner of India.	
14.	Provision of urban amenities and facilities such as parks, gardens, playgrounds	Creation of parks and gardens	The State Government provides funds to ULBs for construction of parks. Further, playgrounds were also being constructed by Youth & Sports Department of State.	<b>ULBs &amp; Youth &amp; Sports Department of State</b>
		Operation and Maintenance	By ULBs	<b>ULBs</b>
15.	Public amenities including street lighting, parking lots, bus stops and public conveniences	Installation and maintenance of streetlights	Installation of street lights was being done by HP State Electricity Board Ltd. (HPSEBL) and maintenance of the streetlights was the responsibility of the ULBs.	<b>HPSEBL</b>
		Deciding and operating bus routes	The decisions regarding operating bus routes were taken by the Regional Transport Office, Transport Department.	<b>Transport Department</b>
		Creation and maintenance of parking lots	ULBs were responsible for creation and maintenance of parking within its jurisdiction.	<b>ULBs</b>
		Creation and maintenance of public toilets	By ULBs.	<b>ULBs</b>
16.	Public health, sanitation conservancy and solid waste management	Maintaining hospitals, dispensaries	Maintenance of hospital and dispensaries in all the ULBs were being done by Health & Family Welfare Department (H&FWD)	<b>H&amp;FWD</b>
		Immunisation/Vaccination	The activity was being performed by H&FWD	<b>H&amp;FWD</b>
		Registration of births and deaths	The activity was being performed by both H&FWD and ULBs	<b>H&amp;FWD &amp; ULBs</b>
		Cleaning and disinfection of localities affected by infectious disease	By ULBs	<b>ULBs</b>
		Sewerage Management	By Jal Shakti Vibhag in the State except for MC Shimla where Shimla Jal Prabhandhan Nigam Limited (SJPNL) is executing the function as discussed in <b>para 5.7.1.</b>	<b>JSV &amp; SJPNL</b>
		Solid-waste management	By ULBs as discussed in <b>para 5.8</b>	<b>ULBs</b>

17.	Promotion of cultural, educational and aesthetic aspects	Schools and education	This function was being performed by Education Department.	<b>Education Department</b>
		Fairs and festivals	Fairs and festivals were under the administrative control of District Administration. Further, various parts of functions have been devolved to various departments such as Department of Language, Art & Culture, ULBs, Jal Shakti Vibhag etc.	<b>Department of Language, Art &amp; Culture, ULBs, Jal Shakti Vibhag etc.</b>
		Cultural buildings / institutions	Being performed by Department of Language, Art & Culture.	<b>Department of Language, Art &amp; Culture</b>
		Heritage	Being performed by Department of Language, Art & Culture.	
		Public space beautification	By ULBs	<b>ULBs</b>
<b>Function not devolved</b>				
18.	Fire Services	Establishing and maintaining fire brigades	This function was vested with <b>Fire Department.</b>	<b>Fire Department</b>
		Providing fire NOC / approval certificate in respect of high-rise buildings		

It can be seen from the **Tables 4.1** that out of 18 functions, one function was not devolved to ULBs. In case of remaining 17 functions, ULBs were solely responsible for five functions; were mere implementing agencies for four functions; had limited role with overlapping jurisdiction of state departments / parastatals for six functions; and had no role for two functions.

The State Government should cause to transfer the functions from the departments along with funds and functionaries to the ULBs. The objectives of the 74<sup>th</sup> Constitution amendment could be achieved only by transferring functions, funds and functionaries in letter and spirit.

During the exit conference, the Government stated that five functions had been fully devolved and remaining functions were either partially devolved or un-devolved to ULBs. Further, the Government assured that the remaining functions would be devolved fully in a phased manner.

#### **4.1.1 Activity Mapping of Functions**

Second Administrative Reforms Committee (ARC) in its Sixth Report (Para 3.3.1.7) relating to Local Governance has recommended that there should be a clear-cut delineation of functions at each level of local governance. This should not be a onetime exercise and should be done continuously while working out locally relevant socio-economic programmes, restructuring organisations and framing subject matter laws.

It was observed that mapping of the 18 functions listed in 12<sup>th</sup> Schedule into specific activities and assigning the responsibility for each activity was not done by the Government/ UDD. This had resulted in lack of clarity on roles and responsibilities of the ULBs.

Director UDD admitted (June 2021) the facts but did not furnish reasons for not mapping the activities.

During the exit conference, the State Government stated that the action to map 18 functions into specific activities and assigning the responsibility for each activity would be initiated.

## **4.2 Institutional mechanisms for empowerment of Urban Local Bodies**

As already discussed above, the State Government had transferred 17 functions to ULBs. The discharge of these functions can be effective only when appropriate institutions are established and adequately empowered. The 74<sup>th</sup> CAA provides for establishment of such institutional mechanisms as discussed in **Table-3.1**.

This section discusses the effectiveness of such institutional mechanisms.

### **4.2.1 State Election Commission**

After the enactment of 74<sup>th</sup> amendment to the Constitution of India, the State Election Commission (SEC) was to be constituted under Article 243K and 243ZA for the superintendence, direction, and control of preparation of the electoral rolls and conduct of elections of Panchayats and Municipalities in the State. The SEC of Himachal Pradesh came into existence on 23<sup>rd</sup> April 1994.

It was noticed that SEC directs, under the provisions of Section 09 and 281 of HPMC and HPM Act, Deputy Commissioner of the District to make proposals for delimitation of wards and publish the Draft Proposals for delimitation. If objections or suggestions are received the same are disposed of by the Dy. Commissioner within 10 days from the receipt of objections. After removal of objection and suggestion, if any, final delimitation orders are issued and process for reservation and rotation of Wards are started. After finalization of orders of delimitation and reservation of wards, orders of this effect is submitted by the Dy. Commissioner to Government for further submission to SEC.

#### **4.2.1.1 Composition of Municipalities**

Article 243R prescribes criteria for composition of Municipalities. As per the HPMC and HPM Acts, the Corporations and Municipalities consist of following:

- Elected Councillors/members,
- Nominated Councillors/members (No voting power),
- Member of State Legislative Assembly representing the constituencies which comprise wholly or partly the Municipal area.

The Mayor/President is elected amongst the Councillors and is assisted by three Standing Committees<sup>1</sup>. The Commissioner/Executive Officer/Secretary is the executive head of ULBs.

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<sup>1</sup> General Standing Committee, Finance, Audit and Planning Committee and Social Justice Committee.

#### 4.2.1.2 Reservation of seats

Article 243T stipulates reservation of seats and section 10 & 11 of HPMC and HPM Acts also provide for reservation to SCs and STs, in every municipal constituency/constituencies in proportion to their population. If total population of SCs or STs in a municipal area is less than five *per cent* then no constituency shall be reserved. Fifty *per cent* of seats shall be reserved for women out of total number of wards and within the seats reserved for SCs and STs. These reserved constituencies shall be rotated after every five years from the date of first election, based on percentage of population.

It was observed that reservation of seats for SC, ST and Women were as per prescribed norms (Notification of reservation of ward 2015 and 2020) and rotation of the seats of Councillors/Members was being done as per reservation policy.

#### 4.2.1.3 Status of elections and formation of councils

The election shall be conducted by SEC as per Section 09 of HPMC Act, 1994 and section 281 of HPM Act, 1994. Further, for implementation of the above provision, the State Government enacted HP Municipal Corporation Election Rules, 2012 and Himachal Pradesh Municipalities Election Rules, 2015.

Elections shall be completed before expiry of ULB's tenure. In case of dissolution, election shall be held within six months. Further, Article 243U of Constitution of India and provisions of the HPMC and HPM Acts, stipulate a fixed tenure of five years for the Councillors/Members of ULBs from the date of its first meeting.

It was observed that elections in all the ULBs were held, and councils were formed within stipulated time except in MC Shimla where election was held after a minor delay of 12 days which was due on 4 June 2017, but conducted on 16 June 2017.

Status of elections held in the ULBs of the State is depicted in **Table 4.2**.

**Table-4.2: Status of elections and formation of councils in ULBs**

Category of Municipality	Election due	Election Held on	Delay/remarks if any
Municipal Corporation Shimla	04.06.2017	16.06.2017	12 days delay
Municipal Corporation Dharamshala	Not applicable as Dharamshala was upgraded from Council to Corporation on date 05.10.2015.	27.03.2016	Nil
Municipal Councils	10.01.2016	10.01.2016	31 Municipal Councils formed
Nagar Panchayats	10.01.2016	10.01.2016	21 Nagar Panchayats formed

#### 4.2.1.4 Election of Mayor, Deputy Mayor and their term

The Model Municipal Law 2003 circulated by the Ministry of Urban Development, GoI prescribes that the term of office of the Mayor/President shall be coterminous with the duration of the Municipality.

However, it was noticed that Section 36 of HPMC Act provides that the Corporation shall at its first meeting and thereafter at the expiration of every two and half years, elect one of its Councillors to be the Chairperson, to be known as the Mayor and another Councillor to be the Deputy Mayor of the Corporation. In Himachal Pradesh the tenure of the corporation is five years.

It was observed that in 2010 vide an amendment in HPMC Act, Mayor and Deputy Mayor were to be elected directly for a tenure of five years, which was re-amended in 2013 for two and half years and Mayor and Deputy Mayor were to be elected from amongst the elected Councillors of the Corporation. Thus, the terms of municipality and Mayor/Deputy Mayor were not coterminous and the section 36 of HPMC Act, was not in consonance with Model Municipal Law, 2003 of GoI.

#### **4.2.1.5 Election of President and Deputy President of Councils**

Section 22 of HPM Act provides that every Municipal Council or Nagar Panchayat shall elect President and Vice-President from amongst elected members. Section 23 of HPM Act provides for a fixed tenure of five years or the residue of the term, whichever is less for President/Vice President.

In test-checked ULBs it was observed that the elections of President and Deputy President were held as per norms, and tenure of five years was followed which was in consonance with the directions of Municipal Model Law 2003 of GoI.

#### **4.2.1.6 Frequency of meetings of ULBs**

Section 53 & 28 of the HPMC and HPM Act respectively provides that municipalities shall ordinarily hold at least one meeting in every month for the transaction of its business.

It was observed that in all the 14 test-checked ULBs, meetings of ULBs were not held regularly. The percentage of number of meetings of ULBs held, ranged between 35 per cent and 95 per cent during 2015-20 (as detailed in **Appendix 4.1**).

During the exit conference, the Government stated that instructions would be issued to the ULBs to ensure conduct of requisite meetings and the matter will be taken up at the Govt. level for amendment of the Act to provide penal provision/feasible measures for not adhering the prescribed schedule of meetings by the ULBs.

#### **4.2.2 Standing Committees in ULBs**

Section 40 and section 49 of the HPMC and HPM Act provide for constitution of the standing committees along with their functions, which are detailed in **Table 4.3**:

**Table-4.3: Functions of Standing Committees in ULBs**

Name of committee	Functions
<b>General Standing Committee</b>	Functions relating to establishment matters, communications, buildings, urban housing, relief against natural calamities, water supply etc.
<b>Finance, Audit and Planning Committee</b>	Functions relating to the finance of the municipality, framing of budgets, scrutinizing proposals for increase of revenue, examination of receipts and expenditure statements, consideration of all proposals affecting the finances of the municipality etc.
<b>Social Justice Committee</b>	Functions relating to promotion of education, economic, social, cultural interest of weaker sections

It was observed that all the three Standing Committees were constituted in the test-checked ULBs. However, against prescribed<sup>2</sup> 3640 meetings (260 x 14), only 173 meetings were held in three ULBs (MC Solan: 44, MC Nahan: 83 and NP Sunni: 46). No meetings were held in remaining 11 selected ULBs.

Thus, in 11 ULBs the standing committees remained almost non-functional during 2015-20 and the requisite number of meetings were not conducted.

#### **4.2.3 Formation of Ward Committees in ULBs**

Section 51-C of HPM Act and Section 44-C of HPMC Act, 1994 provide that there shall be a Ward Committee (WC) for each ward in the Corporation / municipality to be constituted<sup>3</sup> within six months of the constitution of Corporation / municipality. It shall be duty of the President to conduct meetings of the WC at least once in two months for discussing developmental issues and plans of the ward concerned. The WCs were to act as a bridge between the municipal government and citizens. They were to perform duties such as preparation and submission of ward development schemes for allotment of funds, ensure proper utilisation of allotted funds, maintenance of public utilities and safeguarding the assets of the corporation.

It was noticed that WCs were not constituted in any of the test-checked ULBs except in MC Shimla (SMC), where WCs were constituted in 30 out of 34 Wards as on date of audit. It was further noticed that against the required 505 meetings (July 2017 to November 2020) only one meeting was held in each WC.

The Commissioners/Executive officers/Secretaries of municipalities stated (October 2020-March 2021) that due to lack of knowledge, less population of wards and unavailability of list of community personnel, the Ward Committees could not be constituted.

<sup>2</sup> As per HP Municipal Business Bye Laws, 2006 every standing committee shall meet once a week on day as initially determined by the Standing Committee.

<sup>3</sup> Each WC shall consist of a President (elected member of the ward) and not more than nine eminent members, to be nominated by the Ward Sabha.

During the exit conference, the Government stated that instructions would be issued to the ULBs to ensure constitution of ward committees for discharge of assigned functions smoothly.

#### **4.2.4 Formation of District Planning Committee**

Article 243ZD of the Constitution and Section 421 & 261 of HPMC and HPM Acts, 1994 mandated for constitution of a District Planning Committee (DPC) for consolidation of plans prepared by panchayats and municipalities. The fourth SFC had also recommended the formation of DPC in the State. The DPC was to prepare a comprehensive District Development Plan (DDP) about matters of common interest<sup>4</sup> between panchayats and municipalities. The Chairman of DPC, as approved by the committee was to forward the DDP to the State Government for integration into the State plan.

It was noticed that the DPCs were constituted in all the Districts. Further, the test-checked ULBs had not prepared and submitted respective development plans to DPC as they were not aware about existence of DPC. In the absence of which the DPCs could not consolidate DDPs of the districts for further integration with State plan.

Non-preparation of development plans by ULBs had resulted in non-preparation of comprehensive plans of districts as a whole and integrated development plan of the State. This had also resulted in lack of effective implementation of devolved functions.

The Commissioners /Executive Officers /Secretaries stated (September 2020 to March 2021) that ULBs had not prepared and submitted any DDP. However, specific reasons for non-preparation of development plans were not furnished.

During the exit conference, the State Government assured to strengthen the District Planning Committee and prepare Development Plans by ULBs.

#### **4.2.5 State Finance Commission**

Article 243-I of the Constitution of India makes it mandatory for the State Government to constitute a Finance Commission (FC) within one year of the commencement of the CAA and reconstitution after every five years. State Finance Commission (SFC) is to review financial position of the local bodies and to make recommendations for devolution of funds. Provision for constitution of SFC was also made in the HPMC and HPM Acts.

##### **4.2.5.1 Constitution of SFCs and implementation of recommendations**

Details regarding constitution and status of recommendations of the five SFCs constituted in the State are given in **Table-4.4**.

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<sup>4</sup> Spatial planning; sharing of water and other physical and natural resources; integrated development of infrastructure and environment conservation and extent and type of available resources, whether financial or otherwise.

**Table-4.4: Statement showing the delay in constitution of SFC and implementation of recommendations**

SFC	To be constituted as per Constitution	To be re-constituted after every five years	Actually constituted	Delay in months (4-3)	Date of submission of SFC Report	Date of submission of Report as per TOR	Date of acceptance of the Report by Govt.	Delay in months (6-7)	Period covered
1	2	3	4	5	6	7	8	9	10
<b>First</b>	By 31 May 1994	--	April 1994	--	Nov 1996	Timeline not fixed	April 1997	-	1996-97 to 2000-01
<b>Second</b>	1999-2000	May1999	25.05.1998	--	Oct 2002	Timeline not fixed	March 2003	-	2002-03 to 2006-07
<b>Third</b>	2004-05	May 2004	26.05.2005	12	Nov 2007	July 2006	April 2008	17	2007-08 to 2011-12
<b>Fourth</b>	2009-10	May 2009	20.05.2011	24	Jan 2014	Dec 2011	Feb 2014	25	2012-13 to 2016-17
<b>Fifth</b>	2014-15	May 2014	19.11.2014	06	Jan 2018	April 2016	Aug 2018	21	2017-18 to 2021-22

Recommendations of the fourth and fifth FCs were applicable during the period covered under Audit. It can be seen from the table above that:

- There was delay in constitution of three SFCs (third, fourth & fifth) by 12, 24 and 06 months from scheduled date, and there was further delay in submission of reports to the State Government by 17, 25 and 21 months.
- Delay of 24 months in constitution of 4<sup>th</sup> SFC was due to delay in granting approval for engagement of secretarial and supporting technical staff for Commission. As a result the Commission had to submit Interim Reports (IR) for the years 2012-13 and 2013-14.
- Fifth SFC was to submit its report by April 2016. However, delay of 21 months in submitting report was due to non-receiving of primary data from ULBs. As a result, the SFC submitted IRs for the year 2017-18 and 2018-19 based on trend analysis of 4<sup>th</sup> FC by recommending 10 *per cent* enhancement.

Thus, there were delays in constitution of SFCs, submission of reports to the State Government and interim report of one SFC was given on the basis of previous SFC reports instead of recommendation of funds on the basis of actual analysis.

During the exit conference, the State Government assured that matter regarding timely release of mandated shares of the ULBs would be taken up with the Additional Chief Secretary (Finance), Government of Himachal Pradesh.

#### 4.2.5.2 Response of the State Government to SFC recommendations

The State Government may accept the recommendations of the SFC in totality or with certain modifications. It was observed that the State Government had accepted some recommendations with few modifications, and action had not been initiated on other recommendations.

##### • Financial Recommendations of SFCs:

The SFC-wise recommendations regarding transfer of funds and the amounts released by the State Government are given in **Table-4.5**.

**Table-4.5: SFC-wise recommended devolution of financial resources**

Tenure of State Finance Commission	Amount recommended by SFC	Amount released by the State Govt.	Excess(+)/ Short (-)
First State Finance Commission (1996-2001)	74.55	83.97	+9.42
Second State Finance Commission (2002-2007)	159.46	133.66	-25.80
Third State Finance Commission (2007-2012)	223.02	212.05	-10.97
Fourth State Finance Commission (2012-17)	382.44	382.51	+0.07
Fifth State Finance Commission (2017-22)	680.76	365.00 against recommended ₹ 369.10 (2017-2020)	-4.10

Source: Report of 5<sup>th</sup> State Finance Commission

It could be seen from the table above that there were variations in funds actually allocated and as recommended by the SFCs.

- **Other recommendations:**

Besides recommendations on financial devolution, the SFCs have also recommended several institutional measures for strengthening of ULBs in long term (**Appendix 4.2**). Some of the recommendations where action is yet to be taken are detailed below.

- 1. Recommendations of SFCs on revenue enhancements:**

- First SFC recommended that ULBs should mandatorily raise statutory resources by levying rates and taxes within their purview, as some of the ULBs were not levying statutory<sup>5</sup> rates and taxes.

It was observed in 14 test-checked ULBs, two ULBs (Nerchowk and Solan) were not levying the statutory property tax as discussed in detail in the **Para 5.4.1**.

- Third SFC recommended for differential taxation for urban properties according to their geographical location.

It was observed that the recommendation has been partially implemented as only 17 out of 54 ULBs were levying property tax as per Unit Area Method, which is differential taxation of property based on geographical location. (Detail in the **Para 5.4.1**.)

- 2. Recommendation of SFC on creation of institutional mechanism:**

- Third SFC as well as 13<sup>th</sup> FC recommended for setting up of permanent institutional arrangement for collection and compilation of financial data of Local Bodies on regular basis and to track implementation of the recommendation of SFCs and CFCs.

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<sup>5</sup> The HPMC and HPM Act, Section 84 and 65 mandatorily provide for levy of property tax on land and building, other taxes, user charges and fees are optional for the ULBs.

It was observed that the recommendation has not been implemented. Non setting up of permanent institutional arrangement has resulted in delayed constitution of the State Finance Commission and implementation of recommendations as discussed in **Para 4.2.5**.

- Fifth SFC recommended for creation of a Centralized Pension Fund to meet out pensionary liabilities of ULBs' employees.

It was noticed that Centralized Pension Fund was not constituted.

### **3. General recommendation:**

- The first SFC recommended for resorting to negotiated loans from the national funding agencies by the ULBs.

It was noticed in Audit that HPM Act 1994 was not amended to provide for raising of loans from the national funding agencies. Thus, the Municipal Councils and Nagar Panchayats are not in position to raise loans from the national funding agencies.

Implementation of the above recommendations would have contributed significantly in realisation of objectives of the 74<sup>th</sup> CAA and decentralization in real sense.

#### **4.2.6 Property Tax Board**

The 13<sup>th</sup> Finance Commission mandated constitution of a Property Tax Board (Board) for availing Performance Grant, on the lines of West Bengal Valuation Board constituted in 1980. The State Level Property Tax Board<sup>6</sup> (Board) was constituted (March 2011) by the State Government to assist the ULBs to put in place an independent and transparent mechanism for assessing property tax. Further, the Board was to make suitable recommendations on Property Tax for at least 25 *per cent* of the aggregate number of estimated properties across all Municipal Corporations and municipalities in the State by 31 March, 2015 and to make a work plan indicating how the targets would be covered.

The following were observed during audit:

- The board was initially constituted for a period of five years, however, it was observed that the Board was not reconstituted till date.
- Property Tax Board had prepared and notified work plan (March 2011) in which timelines were fixed for putting in place an independent and transparent mechanism for assessing Property Tax. Four meetings were held till 2013. No meeting was held after 2013. Neither the recommendations nor the records relating to recommendations provided by the Board to the ULBs were produced to Audit.

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<sup>6</sup> (1) Principal Secretary (UD) to the Govt. of HP: Chairman, (2) Director, Land Record: Member, (3) Director, UD H.P: Member Secretary (4) Any other Consultant/Expert/Special invitee to be co-opted as per need.

Therefore, in the absence of assistance and recommendations by the Board, ULBs lacked technical guidance for assessment and revision of property tax. It was noted that a uniform system for assessment of property tax has not been implemented across all the ULBs. Findings regarding the lack of uniformity in assessing property tax in the various test-checked ULBs are discussed in **Para 5.4.1**.

In the absence of the Board, the Urban Development Department decided to prepare Request for Proposal (RFP) documents for inviting proposals from eligible consultancy firms for preparation of GIS based Property Tax Management System. This RFP document was circulated (2015) to all the ULBs to invite the tenders for preparation of GIS based Property Tax Management System for their municipality.

Director, UDD stated (April 2021) that at present 17 ULBs have implemented unit area method for collection of property tax and in the remaining ULBs process of inviting tender is in progress.

During the exit conference, the State Government assured that the efforts would be made to reconstitute the Property Tax Board, to give recommendations for improvement in the Property Tax Management System.

### **4.3 Powers of the State Government over ULBs**

Audit observed that the State Government had overriding powers over ULBs, which was against the spirit of the 74<sup>th</sup> Constitutional Amendment. A few provisions are indicated in **Table-4.6**.

**Table-4.6: Statement showing overriding powers of the State Government over ULBs**

<b>Sl. No.</b>	<b>Subject</b>	<b>Provisions</b>
1.	Power to frame Rules	The State Government may by notification in the Gazette, frame rules for the HPMC/HPM after approval of the State Legislature (Section 393(2) of HPMC Act and Section 279 of HPM Act).
2.	Power to cancel and suspend a resolution or decision taken by ULBs	Section 418 of HPMC Act provides that the State Government may cancel a resolution or decision taken by ULBs, if the State Government is of the opinion that it is in contravention of or in excess of powers conferred by the Act or of any other law for the time being in force or is likely to lead to breach of peace or cause injury and/or annoyance to the public or any class or body of persons. The Government or the Director under intimation to the Government, may, suspend execution of such resolution or order, or prohibit the doing of any such act. Section 263 of HPM Act also provides for the same.
3.	Power to dissolve ULBs	Section 404 of the HPMC Act and section 271 of HPM Act provide that the State Government shall, by notification in the Gazette, dissolve the ULBs, if ULBs fail to perform or default in the performance of any of the duties imposed on them, after giving reasonable opportunity. The order of dissolution of ULBs shall be laid before the House of State Legislature with a statement of reasons thereof.
4.	Cancellation of bye laws by Government	Section 397 of HPMC Act and section 217 of HPM Act provide that any power to make bye-laws conferred by this Act is conferred, after having been published in Official Gazette for inviting public objections

<b>Sl. No.</b>	<b>Subject</b>	<b>Provisions</b>
		provided that State Government may cancel any such bye-law if found contrary to the provisions of the Act or the rules made there under and thereupon the bye-law shall cease to have effect.
5.	Sanction to borrow money	Section 144 of HPMC Act allowed municipal corporations to borrow money, but only after prior sanction from the Government. No corresponding provision available in HPM Act.
6.	Sanction of Regulations by Government	Section 394 of HPMC Act provides that any regulation which the Corporation under this Act, may make with the approval of Government, may be altered, or rescinded by the Corporation with the approval of the Government in the exercise of its powers under this Act. No regulation made by the Corporation under this Act shall have effect until it has been published in the Official Gazette by the Government. No corresponding provision available in HPM Act.
7.	Power of State Government to give directions for compounding deviations from sanctioned plan	The Government may, from time to time, give such special or general directions in the matters of policy in relation to the compounding of the cases involving deviations from the sanctioned plans as in its opinion are required to be followed by the Commissioner for compounding such cases (Section 255 of HPMC Act & Sec 211 (3) of HPM Act).
8.	Budget Estimates	The Budget estimates received by the Govt. under sub-section (2) of Section 80 of HPMC Act are to be returned to the Corporation before 31 <sup>st</sup> March after approval without any modification or with such modification 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 81 of HPMC Act 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. In the case of Municipal Councils and Nagar Panchayats the budget as passed by the municipality is sent, through the Deputy Commissioner to the Director UDD, beside such may be fixed by the Director UDD. The Director shall approve the budget with or without any modification (Section 249(2) & (5) of HPM Act).
9.	Taxes etc. to be imposed by Corporation / Municipality under this Act and arrangement of certain taxes collected by Government	The Corporation / Municipality shall, for the purposes of this Act, levy the following taxes:- (a) taxes on buildings and lands; (b) such other taxes, at such rates as the State Government may, by notification, in each case direct: (Section 84(1) of HPMC and section 65 of HPM Act)
10.	Power of Government in regard to taxes	The Government may by order exempt in whole or in part from the payment of any tax any person or class of persons or any property or description of property. (Section 143 of HPMC Act & section 80 of HPM Act)

From the above it is clear that the State Government had overriding powers over ULBs.

#### 4.4 Parastatals, their functions and impact on Urban Local Bodies

The objective of the 74<sup>th</sup> CAA was to entrust delivery of major civic functions to ULBs. However, services such as water supply & sanitation and development of housing colonies, continue to be delivered by parastatals as indicated in **Table 4.1**.

These parastatals were controlled by the State Government and have their own governing bodies which do not include adequate elected representatives of ULBs. These parastatals are directly accountable to the State Government rather than ULBs. The role of parastatals and their impact on the devolved functions is discussed in the subsequent paragraphs.

##### 4.4.1 Shimla Jal Prabandhan Nigam Limited

Shimla Jal Prabandhan Nigam Limited (SJPNL) was constituted in Shimla for management of water supply and sewerage system for Greater Shimla Planning Area only, whereas in the State these functions were performed by the Jal Shakti Vibhag of State Government.

Shimla Jal Prabandhan Nigam Limited (SJPNL) has been incorporated as public limited company on 19 June 2018. The shareholding of the company is distributed between the Municipal Corporation, Shimla (SMC) and the State Government in the ratio of 51:49 respectively. The objective of the company is to carry out water and wastewater management in Greater Shimla Planning Area.

The company has been set up by the SMC and State Government to work as a single nodal agency for undertaking all water and sewerage activities in Shimla, from the funds to be provided by the State Government.

The function of 'Water Supply and Sewage Management' was stated to be devolved to ULBs. However, it was noticed that:

- In 14 test-checked ULBs the function of Water Supply and Sewage Management was vested with Jal Shakti Vibhag except Shimla MC where SJPNL was responsible for execution of Water Supply and Sewage Management and MC Solan where the function of distribution of water is being performed by the MC.
- The SMC had 51 *per cent* share in the company, however out of 09 Board of Directors (BoD) the SMC had only three representatives.
- As per the notification (June 2018) issued by the SMC, SJPNL was to submit quarterly reports with regard to works/steps taken by the Company. However, it was noted that the company is not submitting its status/progress report of working to the SMC.
- Control over MD-cum-CEO of the company had been kept out of the purview of the SMC by the BoD.

From the above, it is evident that the SMC had limited control over the functioning of the SJPNL thereby defeating the purpose of devolution of functions.

During the exit conference, the State Government stated that SJPNL is created to avail the World Bank loan for water and sewerage system amounting to ₹ 1,100 crore. Due to limited capacity of the MC Shimla to handle large projects, and involvement of multiple agencies, the separate company was created for timely completion of the project. However, proper representation in the BoD and accountability towards MC Shimla will be ensured by directing officials of SJPNL to attend House meetings and address the concerns of the councilors. Further accountability regarding quality control and distribution of water issues will be strengthened.

#### **4.4.2 Himachal Pradesh Housing and Urban Development Authority (HIMUDA)**

HIMUDA was established under HP Housing and Urban Development Authority Act, 2004 to plan and develop land and create infrastructure, to meet with the housing needs of different income groups. The HIMUDA had notified its own regulations, after the approval of State Government, and have prepared bye-laws for construction of buildings and collects development fee, license fees to undertake a scheme etc. HIMUDA creates the infrastructure such as development of plots and construction of colonies for lease and sale to the public. It was noticed that the power regarding approval of building construction plan was being discharged by HIMUDA for development of housing colonies without any involvement of ULBs except seeking NOC for use of land. Further, there is no representation of ULBs in the Governing Body of HIMUDA. This is indicative of the fact that the transfer of function was only in letter and not in spirit.

Senior Architect, HIMUDA stated (June 2021) that before implementing any Housing Scheme, HIMUDA obtained approval of the Town and Country Planning Department and Municipality concerned. It was further stated that elected representatives were not involved during the construction/improvement/creating infrastructure.

During the exit conference, the State Government stated that NOC is obtained by these Authorities for the development of housing colonies and industrial units and thereafter these areas are developed by these authorities at their own. The reply is not tenable as the ULBs have no other role except to issue NOC, impacting the autonomy of ULBs as this is a devolved function.

#### **4.4.3 Himachal Pradesh State Industrial Development Corporation Limited (HPSIDC)**

The function of ‘Urban planning including town planning’ and ‘Regulation of land-use and construction of buildings’ within industrial areas is being performed by HPSIDC. It is the major agency in the State to promote setting up of small, medium and large-scale industrial units. It is also a major State level financial institution and provides long terms loans for industrial projects.

It was observed that even after devolution of the function to ULBs vide notification of State Government in August 1994, the same is being executed by HPSIDC within the

industrial area falling within jurisdiction of the ULBs. Hence, the transfer of the function was only in letter and not in spirit.

The Corporation stated (July 2021) that ULBs had no role in the development of Industrial area (IA) and further stated after development of IA, the Industrial Area Development Agency looks after the O&M of civic amenities.

#### **4.4.4 Smart City Mission**

The Ministry of Urban Development (MoUD), GoI launched (June 2015) Smart Cities Mission (SCM) with aim to cover 100 cities during the period of five years i.e., up to June 2020. The objective of the Mission is to promote cities that provide core infrastructure and give a decent quality of life to its citizens, a clean and sustainable environment and application of 'Smart' Solutions. The focus is on sustainable and inclusive development and the idea is to look at compact areas, create a replicable model, which will act like a light house to other aspiring cities. The implementation of Mission at city level would be done by Special Purpose Vehicle (SPV) promoted by the State Government.

The SPV will be a limited Company incorporated under Company Act 2013. The resolution will be passed by casting votes in the Board of Directors.

Section 03 of Annexure-5 of Mission Statement & Guidelines of Smart City provides that the Board of Directors will have representatives of Central Government, State Government, ULB and Independent Directors, in addition to the Chief Executive Officer (CEO) and Functional Directors. Additional Directors (such as representative of parastatal) may be taken on the Board, as considered necessary. The Company and shareholders will voluntarily comply with the provision of the Companies Act 2013 with respect to induction of independent directors. Below, are given the broad terms of appointment and role of the SPV Board:

1. The Chairperson of the SPV will be the Divisional Commissioner/Collector/Municipal Commissioner/Chief Executive of the Urban Development Authority as decided by the State Government.
2. The representative of the Central Government will be a Director on the Board of the SPV and will be appointed by the MoUD.
3. The CEO of the SPV will be appointed with the approval of the MoUD.
4. The Independent Directors will be selected from the data bank(s) maintained by the Ministry of Corporate Affairs and preference will be given to those who have served as independent directors in the Board of Companies fulfilling Clause 49 of the listing agreement of Securities and Exchange Board of India (SEBI).

In Himachal Pradesh, two cities viz., Dharamshala and Shimla were selected to be covered under the Mission and two companies (SPVs) were constituted under Company Act 2013 for Smart City Dharamshala and Shimla.

However, it was noticed that in Dharamshala Smart City Limited (DSCL), 03 out of 12 members of BoD were from MC Dharamshala and in Shimla Smart City Limited

(SSCL), 02 out of 12 members of BoD were from MC Shimla. Thus, representation of Municipal Corporations in the BoDs of these two SPVs varied between 25 per cent (DSCL) and 17 per cent (SSCL), however, the stake holding power was 50:50 between State Government and ULB (share given by GoI).

The Status of projects under the Smart City Mission as of March 2021 is given below:

(₹ in crore)

Status of Project	DSCL		SSCL		Total	
	Projects	Cost	Projects	Cost	Project	Cost
Total Projects sanctioned	68	561.38	137	542.50	205	1103.88
Completed	19	115.64	07	8.84	26	124.48
Under progress	32	200.23	56	198.31	88	398.54
Yet to be started	07	39.95	25	54.69	32	94.64
Projects at planning stage	10	205.56	49	280.66	59	486.22

In Smart City Mission, the Special Purpose Vehicle (**Dharamshala Smart City Limited (DSCL) & Shimla Smart City Limited (SSCL)**) was preparing the plans for retrofitting, redevelopment, Greenfield Development and Pan City initiative, which were being either executed by themselves or through the line departments of the State Government / agencies. In this process, some of the devolved functions/works such as upgradations and maintenance of roads, streets, Skill Development Centre, underground bins, e-toilets of the Municipal Corporations were being executed by the line departments or other agencies instead of Municipal Corporations.

These SPVs were directly accountable to State Government than to ULBs, and the representatives of ULBs had only 25 per cent (DSCL) and 17 per cent (SSCL) representation in the Board of Director. Further, the functions devolved to ULB were being executed by other agencies on direction of SPV.

During the exit conference, the State Government stated that projects under Smart City Mission in Dharamshala and Shimla were entrusted to Special Purpose Vehicles created under the Chairmanship of Chief Secretary for proper coordination with various Departments to complete projects in mission mode. The execution by the ULBs is not possible due to involvement of multiple agencies and the limited capacity of the ULB. The reply is not tenable because the capacity building of ULBs had to be done by transferring funds and functionaries in order to execute the functions devolved to them with complete autonomy. Moreover, some of the work devolved to ULB was also being executed by the Special Purpose vehicles.

#### 4.5 Summary of Audit Findings

- Tenure of Mayor/Deputy Mayor in the MCs was 2 and ½ years which was not coterminous with the term of the Corporation affecting long term planning.
- Ward Committees were not constituted in any of the ULBs except SMC. Even in SMC required meetings were not held leading to lack of participation of the public in development works.

- District Planning Committees (DPC) were constituted in all the Districts of test-checked ULBs, however envisaged functions were not carried out by them in the absence of receipt of DDPs from the ULBs concerned. This had resulted in non-preparation of district plans and non-integration of the same in the State plan.
- Delay in constitution of SFCs and subsequent delay in submission of final reports to the State Government had led to submission of interim reports based on trend of previous reports.
- Existence of parastatals had significantly eroded autonomy of the ULBs in implementation of functions such as urban planning and regulation of land use and water supply and sanitation.

#### **4.6 Recommendations**

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

- (i) taking decisive action in order to translate the vision of decentralisation into reality, besides providing adequate degree of autonomy to ULBs in respect of functions assigned to them in line with the Constitutional provisions;
- (ii) constituting requisite committees for effective planning and better execution at ULBs' level; and
- (iii) involving greater participation of ULBs in the functioning of various parastatals in the State.



**Chapter-V**  
**Financial Resources of ULBs**



Sustainable financing is paramount to ensure discharge of any function. The devolved functions can be carried out effectively by 14ULBs only when they are supported with sufficient financial resources. Such financial resources could take the form of predictable fiscal transfers or access to own revenue streams that are buoyant and commensurate with the expenditure obligations, accompanied by appropriate expenditure powers. Predictable fiscal transfers to ULBs need to be ensured through a robust State Finance Commission mechanism and compliance with State and Central Finance Commission recommendations. Access to own sources of revenue would include both the power to levy and collect from specific revenue streams. Expenditure powers refer to reasonable delegation limits that allow the ULB to utilise their financial resources.

### 5.1 Sources of revenue

The details of revenues of ULBs in the State during the period 2015-16 to 2019-20 are indicated in **Table-5.1**.

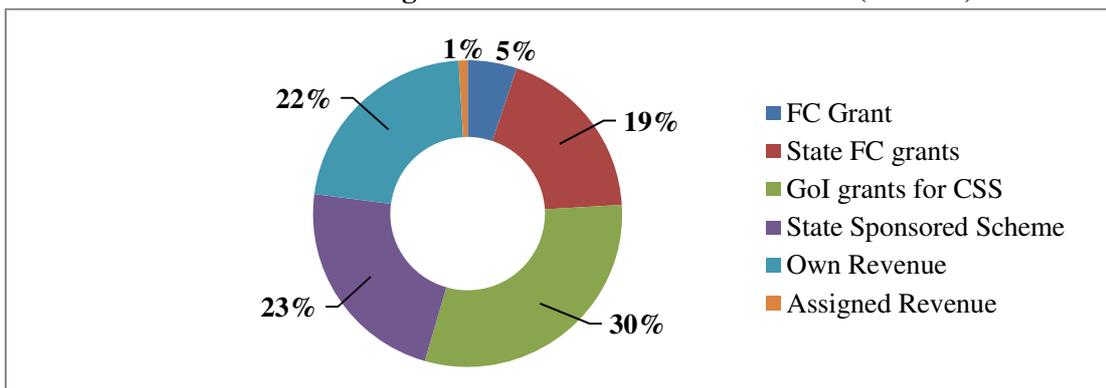
**Table 5.1: Details of revenues of all the ULBs during the period 2015-16 to 2019-20**

Particulars	(₹ in crore)					
	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Central Government (Central FC)	24.55	34.87	30.98	17.92	42.13	150.45
Finance Commission (FC) grants (State Government (State FC))	85.51	99.45	111.36	120.74	132.90	549.96
GoI grants for CSS	159.64	372.98	53.38	145.62	150.85	882.47
State Government grants for State scheme	67.15	75.08	76.62	221.94	216.44	657.23
Own Revenue	114.50	143.83	128.26	130.85	122.96	640.40
Assigned Revenue	5.17	3.81	5.77	5.84	6.08	26.67
<b>Total Revenue</b>	<b>456.52</b>	<b>730.02</b>	<b>406.37</b>	<b>642.91</b>	<b>671.36</b>	<b>2,907.18</b>
<b>Percentage of own revenue to total revenue</b>	<b>25</b>	<b>20</b>	<b>32</b>	<b>20</b>	<b>18</b>	<b>22</b>

Source: Information provided by UDD of all 54 ULBs in HP

Shares of various sources of funds of ULBs for the period 2015-20 in percentage are shown in the **Chart 5.1**.

**Chart-5.1: Percentage share of various sources of funds (2015-20)**



As depicted above, percentage of own revenue to total revenue for the period 2015-16 to 2019-20 varied between 18 per cent to 32 per cent and overall percentage was only 22 per cent of total income. The major share of income is being met through SFC Grants, Centrally Sponsored Schemes and State Sponsored Schemes.

During the exit conference, the State Government assured to take effective steps for the improvement and generation of own revenue of the ULBs.

## 5.2 Fiscal transfers to Urban Local Bodies

Funds were devolved to ULBs through transfer by the Central and State Government in the form of grants (**Table 5.1**). Fiscal transfers from Government formed the major portion of the revenue (averaging 78 per cent) of ULBs in the State during the period 2015-16 to 2019-20.

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

### 5.2.1 State Finance Commission grants

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

#### Short release of funds under SFC

The details of funds recommended by SFC and actually released by the State Government to ULBs during the period 2015-16 to 2019-20 are given in **Table-5.2**.

**Table-5.2: Details of grants due and released under SFC during 2015-16 to 2019-20**

(₹ in crore)

Year	Recommendation by the SFC	Actual release by the State Govt.	Excess/ short release
2015-16	81.43	85.51	+4.08
2016-17	101.41	99.45	-1.96
2017-18	111.55	111.35	-0.20
2018-19	122.65	120.74	-1.91
2019-20	134.90	132.90	-2.00
<b>TOTAL</b>	<b>551.94</b>	<b>549.95</b>	<b>-1.99</b>

Source: Figures furnished by the UDD

Audit observed that during the period 2015-16 to 2019-20, an amount of ₹ 549.95 crore was released against the mandated devolution of ₹ 551.94 crore. It was further noted that except for the year 2015-16, there was a shortfall in the amounts released for the period 2016-17 to 2019-20. During 2015-16, funds of ₹ 4.08 crore were released in excess of the mandated devolution, whereas there was a shortfall in funds released to ULBs against the mandated devolution by an extent of ₹ 6.07 crore during 2016-17 to 2019-20.

## 5.2.2 Central Finance Commission grants

Article 280(3)(C) of the Constitution mandates the Central Finance Commission (CFC) to recommend measures to augment the Consolidated Fund of a State to supplement the resource of Municipalities based on the recommendations of the respective SFCs. The 13<sup>th</sup> Finance Commission and 14<sup>th</sup> Finance Commission recommended basic grant and performance grant to ULBs as a percentage of divisible pool account. The grant was divided in basic and performance grant in the ratio 80:20.

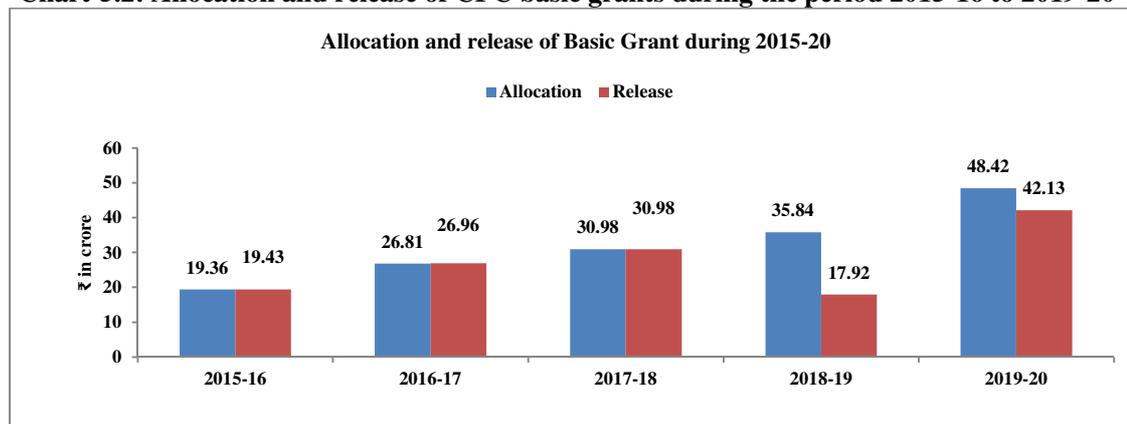
### 5.2.2.1 Allocation and release of CFC grants

Fourteenth Finance Commission (CFC) recommended a total allocation of ₹ 201.76 crore. Out of which ₹ 161.41 crore under basic grants for the period 2015-20 and ₹ 40.35 crore under performance grants for the period 2016-20 for the State of Himachal Pradesh.

#### Basic Grant

The **Chart-5.2** depicts the allocation and release of CFC basic grant during the period 2015-16 to 2019-20.

**Chart-5.2: Allocation and release of CFC basic grants during the period 2015-16 to 2019-20**



Source: Allocation/release of basic grant (14<sup>th</sup> FC)

The above chart shows that CFC had allocated basic grant of ₹ 161.41 crore to the ULBs of the State of HP for the period 2015-20. Against the allocated basic grant, an amount of ₹ 137.20 crore was released, besides interest of ₹ 0.22 crore (2015-16: ₹ 0.07 crore and 2016-17: ₹ 0.15 crore) on delayed release of basic grant was also released.

The basic grant and performance grant is released in two installments. It was observed that there was delay in release of grant of ₹ 17.92 crore (2<sup>nd</sup> installment) for the year

2018-19, which was released during the year 2019-20. Similarly, the grant of ₹ 42.13 crore i.e., ₹ 17.92 crore (2<sup>nd</sup> installment of 2018-19) and ₹ 24.21 crore (1<sup>st</sup> installment of 2019-20) was released during 2019-20. The 2<sup>nd</sup> installment of basic grant of ₹ 24.21 crore for the year 2019-20 was released during the year 2020-21. Thus, there was delay in release of 2<sup>nd</sup> installment of basic grants for the year 2018-19 and 2019-20.

### **Performance Grant (PG)**

Performance grant was designed to serve the purpose of ensuring reliable audited accounts and data of receipts and expenditure, to encourage ULBs to generate own revenues and to improve the quality of basic services they deliver. The improvements in the quality of basic services are likely to lead to increase in the willingness of citizens to pay for the services.

### **The weightage for transformative urban reforms**

The 14<sup>th</sup> FC laid down three mandatory conditions for ULBs to avail the performance grants. The mandatory conditions and their weightage are given in the **Table 5.3**.

**Table 5.3: Detail of mandatory condition and their weightage**

<b>Sl. No.</b>	<b>Reform</b>	<b>Weightage</b>
1.	Audit of Annual Accounts	10
2.	Increase in Own Revenue Sources	40
3.	Publishing of Service Level Benchmarks	50
<b>Total (1+ 2 + 3)</b>		<b>100</b>

ULBs getting a score of 60 and above in a year (performance year) would be eligible for the Performance Grant to be released in the subsequent financial year (release year). The ULBs getting a score of less than 60 will not be eligible for the Performance Grant. In case of ULBs of Northeastern States and Hill States (Himachal Pradesh), a score of 50 and above would make them eligible for the Performance Grant.

### **Allocation and Release of Performance grant**

Audit observed that GoI had released performance grant of ₹ 7.91 crore unconditionally for the year 2016-17 (release year) and PG of ₹ 32.44 crore for the subsequent years (2017-20) was not released out of total allocation of ₹ 40.35 crore to the Govt. of HP for the period 2016-20.

In 14 test-checked ULBs, the records in respect of the achievement of three mandatory conditions for PG for performance year 2016-17 was not produced to audit. However, as per the records made available for the performance year 2017-18 and 2018-19, it was observed that seven out of 14 test-checked ULBs scored 50 marks during 2017-18 and nine scored 50 marks during 2018-19 for release year 2018-19 & 2019-20 respectively, as detailed in the **Appendix-5.1 (A & B)**.

Thus, as per benchmarks, the aforementioned test-checked ULBs were eligible for the performance grant for the release year 2018-19 and 2019-20. However, the correctness of the SLBs reported by ULBs was based on the data reported by ULBs. However,

Performance Grants for all the three years i.e., 2017-18 to 2019-20 was not released to State Government.

### **Role of State Government in release of Performance Grant**

Although, it was the duty of each ULB to self-evaluate and submit its claim for performance grant to the State Govt. not later than 30 September of each year for which the performance grant is being claimed in the prescribed format. As per prescribed guideline in the para 04 of the Toolkit of Performance Grant, the State Governments are expected to send their consolidated report and claim of the performance grant after evaluation of performance of the ULBs and due verification, not later than 30<sup>th</sup> October of each year to Ministry of Housing and Urban Affairs (MoHUA) by uploading the data in SMARTNET, a website of MoHUA.

As per the claims submitted by State Government to MoHUA, it was noticed that 16, 12, 28 out of 54 ULBs had qualified for PG for release year 2017-18, 2018-19 & 2019-20, respectively. However, scrutiny of records on SMARTNET, revealed that data for all the years were not accessible, hence authenticity/correctness of the data and claims could not be verified.

The Director UDD stated (July 2021) that on receipt of necessary claims for the release of performance grant for the years 2017-18 to 2019-20, the same were submitted by the department to GoI online through SMARTNET. However, neither the PG amounting to ₹ 8.95 crore, ₹ 10.17 crore and ₹ 13.32 crore for the years 2017-18 to 2019-20 respectively, nor any clarification regarding non eligibility of ULBs of HP for the performance grant was received from the MoHUA.

The reply is not tenable as according to the letter from Secretary to GoI, MoHUA (12 June 2018), it was stated that even though the State of Himachal Pradesh had submitted claims for 16 ULBs for the year 2017-18 (eligible as per State Govt), these ULBs did not fulfil the mandatory conditions for the PG for the release year 2017-18. Thus, the PG for the year 2017-18 could not be released to the State Government. However, correspondences from MoHUA to State Government regarding release year 2018-19 and 2019-20 were not produced to audit.

The State Government should have made necessary efforts to pursue the proposal for the release of Performance Grants for eligible ULBs.

During the exit conference, the Government confirmed the facts and stated that the delayed receipt of Basic grant will be looked into and action for timely/ mandated release of share will be initiated and further, assured to inquire about the issue of non-release of Performance Grant and take it up with the Central Government.

### **5.3 Assigned Revenue**

The term “assigned revenue” is used to refer to various tax/duty/cess/surcharge/levy etc. proceeds of which are collected by State Government on behalf of ULBs and subsequently assigned to ULBs.

Section 69 of HPM Act, provides that State Government may, by notification, determine a tax on consumption of electricity at the rate not exceeding twenty paise per unit, for electricity consumed by any person within the limits of the municipal area, which shall be collected by the Himachal Pradesh State Electricity Board. Although analogous provision of HPMC Act 1994 was omitted by the State Government, vide HP Act No. 32 of 2011, the tax was being collected by the HPSEB and provided to Municipal Corporations.

The State Government notifies Excise Policy every year. HP Excise Policy for the year 2015-16 to 2019-20 provides that out of additional retail excise duty on liquor an amount of ₹ 2 per bottle sold within MC area shall be allocated to ULBs.

The position of assigned revenue in the test-checked ULBs and in all the ULBs of the State is as per **Table-5.4**.

**Table-5.4: Statement showing status of Assigned Revenue (AR)**

(₹ in crore)

Year	AR of Test-checked ULBs	AR of all the ULBs
2015-16	3.99	5.17
2016-17	2.27	3.81
2017-18	3.46	5.77
2018-19	4.45	5.84
2019-20	3.86	6.08

The following observations were made during audit:

- It was observed that HP State Electricity Board Ltd. (HPSEBL) levies and collects tax on consumption of energy at the rate 2 paise for every unit of electricity within the Municipality on behalf of ULBs. However, HPSEBL while making payments to Municipalities did not provide details of units of consumption of electricity to ULBs.
- Similarly, in case of Liquor Cess, the details of the units of bottles of liquor sold within the ULB was not provided and therefore, it cannot be ascertained that the releases of assigned revenue to ULBs were commensurate to sales made in the respective ULBs.

Commissioners/Executive Officers/Secretaries stated (September 2020 – March 2021) that units of consumption of electricity and number of bottles sold would be asked from the Board and Department.

During the exit conference, the Government assured that instructions will be issued for providing records pertaining to assigned revenue from the HPSEBL and State Excise & Taxation Department to ULBs.

#### **5.4 Own Revenue of Urban Local Bodies**

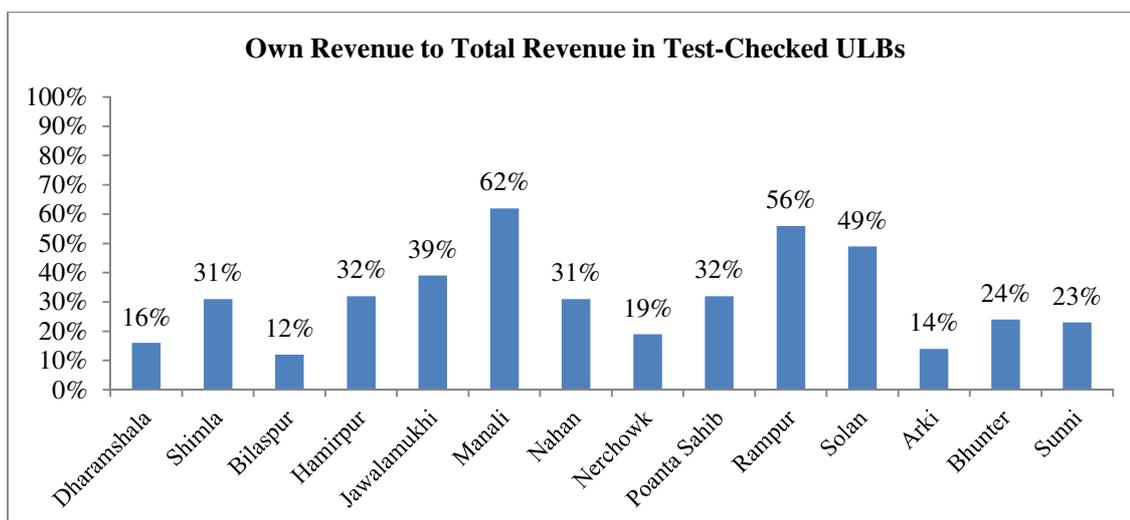
ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstay of ULB's own revenue. The own non-tax revenue of ULBs

comprises water charges, rent from commercial establishments, trade license, fee for sanction of plans/mutations, etc.

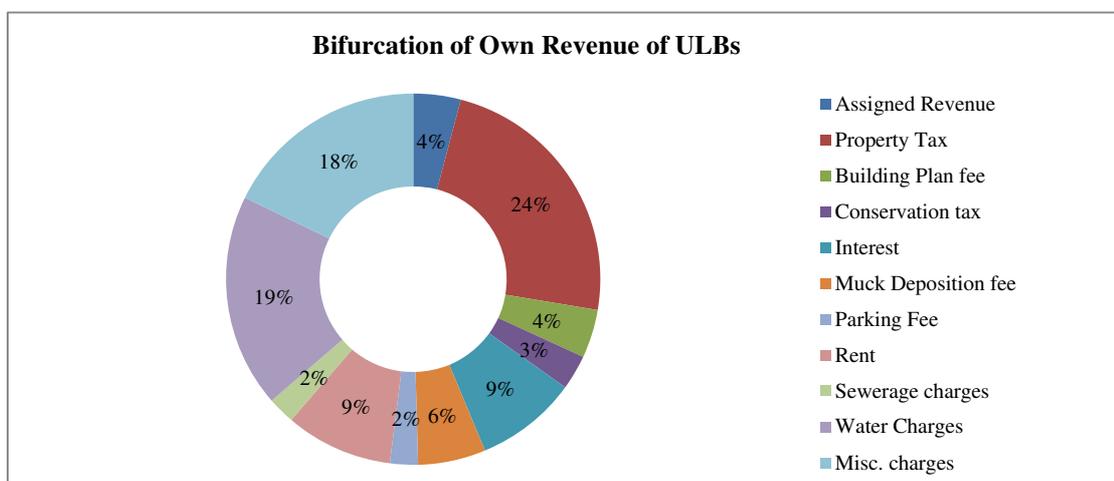
The State laws revealed that while the authority to collect certain taxes like property tax, advertisement fee vested with ULBs, the powers pertaining to the rates and revision thereof (advertisement fee), procedure of collection (property tax), method of assessment, exemptions, concessions (property tax, advertisement fee) etc., vested with the State Government.

The ULBs, thus, lacked complete autonomy in generating own revenue. The share of average own revenue (plus assigned revenue) to total revenue of all the ULBs for the period 2015-16 to 2019-20 was only 23 per cent as depicted in the **Chart 5.1**. Details of total revenue and its various components of test-checked ULBs is given in **Appendix-5.2**. Further, percentage of own revenue to the total revenue in test-checked ULBs for the period 2015-20 is given in the **Chart 5.3** and bifurcation of own revenue of test-checked ULBs is given in the **Chart 5.4**.

**Chart-5.3: Percentage of own revenue to total revenue in test-checked ULBs(2015-20)**



**Chart-5.4: Position of different sources of Own Revenue in the test-checked ULBs**



The constraints/deficiencies in realisation of own revenue in the test-checked 14 ULBs are discussed in the following paragraphs:

#### 5.4.1 Property Tax (01 of 05 selected areas)

The ULBs were empowered to levy property tax every year on all buildings or lands or both situated within their jurisdiction under Sections 84 and 65 of HPMC/HPM Acts. This shall be between one *per cent* to 25 *per cent* of the rateable value of land and building, as may be determined by the municipality from time to time. The range of rates of Property Tax is decided by the State Government through statute. Further, the rate of Property Tax is decided by the ULBs. Property Tax is one of the major sources of own revenue to ULBs as depicted in the **Table 5.5**.

**Table-5.5: Percentage of Property tax to own revenue and total revenue in test-checked ULBs**  
(₹ in crore)

Year	Property tax collection made during the year	Own Revenue	% of property Tax to own revenue
2015-16	30.54	81.55	37
2016-17	16.94	93.95	18
2017-18	19.00	85.80	22
2018-19	19.88	83.25	24
2019-20	16.90	75.96	22
<b>Total</b>	<b>103.26</b>	<b>420.51</b>	<b>25</b>

As can be seen from above table the share of property tax revenue in own revenue of the test-checked ULBs was 25 *per cent* during the period 2015-20.

##### 5.4.1.1 Methods of calculating Property Tax in the Himachal Pradesh

In Himachal Pradesh, prior to amendment in HPMC/HPM Acts, 1994 (2011), ULBs followed Annual Rental Value System or Rateable Value System (ARV). After the amendment (2011) in the HPMC/HPM Act, 1994 Unit Area Value Method (UAV) was to be followed. The determination of rateable value of lands and buildings assessable to property tax under ARV method and UAV method is given in the **Appendix-5.3**.

The Unit Area Value method is based on the expected returns from the property depending on the five factors i.e., location, age, use, structure and occupancy of the property. The ARV of a property is gross annual rent at which the building or land may reasonably be expected to let. This assessment process was unscientific as there were no firm factors/guidelines to reach at reasonable rental value and brings in considerable discretion in the assessment of property tax. Thus, there are more chances of under reporting or under assessing of market rates in ARV Method. Status of methods adopted for determination of rateable value of property and assessment of property tax in 14 test-checked ULBs is as under:

ARV Method	UAV Method	Other than ARV & UAV Method
Arki, Bhuntar, Dharamshala, Hamirpur, Manali, Poanta Sahib, Rampur & Sunni	Bilaspur, Jawalamukhi & Shimla	Nahan

- Property tax was not being levied in two test-checked ULBs i.e., MC Solan and MC Nerchowk.
- As can be seen from the above table there is no uniformity among the ULBs in adopting the methods for calculating property tax. Out of 14 test-checked ULBs, eight ULBs followed Annual Rental Value Method (ARV), three ULBs followed Unit Area Value Method (UAV), MC Nahan followed a separate method other than these methods and two ULBs have not levied property tax. Whereas, as per the provisions contained in the Section 65 and 88 of HPM & HPMC Act, 1994 (Amendment Act 2011) made it mandatory for all ULBs to levy and collect property tax under Unit Area Value Method.
- In MC Nahan, instead of deriving the property tax as per the provision of the HPM Act, the property tax was being derived by just multiplying the covered area with prescribed rate of property tax. Thus, MC Nahan was following its own method instead of UAV method prescribed in the provisions of HPM Act 1994.
- In NP Sunni, *ausat* rate<sup>1</sup> of land fixed by revenue department was taken for calculating Annual Rental Value of the land, against the new provision of circle rates adopted after 2011, which is revised on yearly basis by the Deputy Commissioner of District. Further, the cost of erection of building was arrived at simple estimation of cost erection. Thus, NP Sunni was following ARV method using *ausat* rate instead of UAV method, which was prescribed in the provisions of HPM Act 1994.

#### 5.4.1.2 Assessment of Property Tax

Section 77 of the HPM Act and Section 97 of the HPMC Act provide that it shall be in the discretion of the ULB to prepare new assessment list every year or to adopt the valuation and assessment contained in the list for any year, and it shall not be adopted for a period exceeding five years.

- Para 03 of Municipal Corporation Shimla (Property Taxation) bye-laws 2015 provides that Commissioner shall keep a book to be called as the "**Assessment List**" in which the following shall be entered in 'Form-A: (i) A list of all units of the lands and Buildings, distinguishing each, either by name or number and containing such particulars regarding the location or nature of each, which shall be sufficient for identification thereof. (ii) The rateable value of each unit of the lands and Buildings. (iii) The name of the person primarily liable for payment of property tax and rateable value as well as property tax demand on his/her unit of land or Building. (iv) Other details; if any.
- In MC Shimla, assessment of properties for the property tax, were based on returns filed by the owners in form E (as prescribed in bye-laws for Self-assessment of Property Tax). Based on number of Form E received, Form-A

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<sup>1</sup> *Ausat* rate is the average rate of sale consideration (annually) of all the land within the NP Area.

(Assessment list) was prepared by MC Shimla, without doing physical surveys. Further, register containing assessment of properties was also not maintained.

The Corporation stated (October 2020) that Form A was being prepared by conducting regular inspections of the properties and 30 *per cent* of the assessment of properties on Form-A had been prepared and will be completed within two years.

- The details about year of last surveys conducted to maintain ‘**Assessment List**’ in the 14 test-checked ULBs is given below:

Sr. No.	Name of ULBs	Year of last survey for PT
1.	Bhunter, Dharamshala, Manali, Nahan, Poanta Sahib & Sunni (6 ULBs)	1964 to 2013
2.	Arki, Bilaspur, Jawalamukhi, Hamirpur & Rampur (5 ULBs)	Survey was conducted in recent past after 2015
3.	Nerchowk & Solan	Property Tax was not levied in both ULBs
4.	MC Shimla	Date of survey was not made available to audit further; the UAV was being implemented without conducting GIS survey as Property Tax was being levied on basis of self-assessment of property submitted by the owner as discussed in above paragraph.

- No regular updation of assessment list was being done by these ULBs.

As the assessment list was not regularly updated, the levy of property tax was being done on old-assessed value of properties, which entails the risk of short levy of property tax.

- **Digitizing property database using Geographic Information System (GIS) and automating property tax calculations:**

The 13<sup>th</sup> Finance Commission in its report stated that absence of a formal count of properties in municipalities is one of the major handicaps in exploiting the true potential of property tax in India. The States should institute a GIS system for mapping all properties in cities, which will result in increased coverage.

GIS was also a mandatory reform under Jawaharlal Nehru National Urban Renewal Mission scheme of Central Government wherein the ULBs and Parastatal agencies would undertake a proper mapping of properties using GIS, so that collection efficiency reaches at least 85 *per cent* of property tax demand.

It was observed that the GIS survey was conducted or was being conducted in six<sup>2</sup> out of 14 test-checked ULBs. The status of GIS surveys and use of the surveyed data for assessment of property tax is as given below:

- In MC Dharamshala final report from the firm was awaited and in MC Paonta Sahib the final approval of Director UDD on the report was awaited.

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<sup>2</sup> Bilaspur, Dharamshala, Jawalamukhi, Nahan, Paonta Sahib and Rampur.

- In two ULBs (Jawalamukhi & Nahan) final report of GIS survey was prepared and submitted but surveyed data was not being used for assessing of property tax.
- In MC Bilaspur the report was being used for assessment of property tax.
- In MC Rampur the GIS survey was completed and demand notices of property tax, on the basis of survey, for 2020-21 was issued.
- In MC Nahan, GIS based survey and development of software/application for assessment of Property Tax was prepared for MC Nahan in 2019. The software/application generated a demand of ₹ 121.25 lakh on account of property tax for 2019-20. But due to non-adoption of GIS survey report by the Municipality, a manual demand of ₹ 37.71 lakh (2019-20) based on the assessment register could only be raised against the ₹ 121.25 lakh, resulting in short assessment of ₹ 83.54 lakh (₹ 121.25 lakh - ₹ 37.71 lakh). However, reasons for non-adoption of GIS survey report were not furnished to the audit.

Director UDD stated (April 2021) that an online GIS-based property tax management system under the Urban Development Department has been made functional for 17 municipalities out of 54 ULBs.

#### 5.4.1.3 Collection and Arrears of Property Tax

Property tax was not being levied in two test-checked ULBs i.e., MC Solan and MC Nerchowk. In case of MC Paonta Sahib, no records of demand and collection of property tax were being maintained by the ULB.

The Collection and Arrears of Property Tax of the 14 test-checked ULBs are shown in **Table 5.6**.

**Table 5.6: Detail of collection and arrears of property tax of 14 test-checked ULBs during period 2015-20**

(₹ in lakh)

Name of ULBs	Demand	Collection	Rebate	Arrear	% of collection*
NP Arki	71.00	32.96	0	38.04	46
NP Bhutar	95.16	51.99	0	43.17	55
NP Sunni	97.07	34.72	0	62.35	36
MC Bilaspur	157.58	38.36	0	119.22	24
MC Jawalamukhi	192.38	52.65	0	139.73	27
MC Hamirpur	673.96	539.74	0	134.22	80
MC Manali	506.15	421.39	0	84.76	83
MC Nahan	381.81	195.84	0	185.97	51
MC Rampur	361.16	260.34	1.97	98.85	73
M Corp. Dharamshala	1,125.48	878.30	0	247.18	78
M Corp. Shimla	8,691.95	7,821.61	554.91	315.43	96
MC Solan	NA	NA	NA	NA	NA
MC Nerchowk	NA	NA	NA	NA	NA
MC Paonta Sahib	NA	NA	NA	NA	NA
<b>Total</b>	<b>12,353.70</b>	<b>10,327.90</b>	<b>556.88</b>	<b>1,468.92</b>	

\*-inclusive of rebate

- As can be seen from the above chart, the collection of property tax for 14 test-checked ULBs was ₹ 108.85 crore (including rebate of ₹ 5.57 crore) against the demand of ₹ 123.54 crore (including opening balance of 2015-16), thereby resulting in total property tax arrears of ₹ 14.69 crore during 2015-20.

- In 11 ULBs<sup>3</sup>, the *per cent* of collection to demand raised ranged between 24 *per cent* (MC Bilaspur) and 96 *per cent* (MC Shimla).
- The recovery of arrears had been marred by the non-sanctioning of post of Tax Inspectors who could have helped in better realization of Property Tax.
- MC Bilaspur had not imposed property tax prior to 2017-18, however during 2017-18 & 2018-19 they had raised a demand of ₹ 50.49 lakh annually.

During the exit conference, the State Government assured for adoption of Unit Area Method for assessment of property tax in remaining ULBs and assured that all other observations regarding property tax will be looked into.

#### **5.4.1.4 Conservancy Tax**

In pursuance of notification (July 1964) based on provision of sub section (6a) of section 62 of Punjab Municipal Act, 1911, as applied to HP, MC Solan imposed conservancy tax at the rate of five *per cent* on the assessed annual rental value of the property with effect from 1<sup>st</sup> November 1964. Subsequently, the State Government had ordered (2003) all the ULBs to impose Property tax within their jurisdiction. The matter was discussed in the House of MC Solan, but the same was rejected, with the plea that conservancy charges / sanitary tax at the rate of five *per cent* of annual rateable value was already being charged in pursuance to the notification issued in July 1964.

However, all resolutions passed for imposing conservancy tax against property tax by the House were rejected by the Director (UD) with the direction to impose Property tax as, it was binding on ULBs as per HPM Act, 1994.

#### **Method of calculation of property tax and conservancy tax is as under:**

<b>Property tax-</b> (10 <i>per cent</i> of cost of construction of Building and Land – 10 <i>per cent</i> rebate on repair & maintenance of building) * Rate (7.5 to 12.5 <i>per cent</i> )	<b>Conservancy tax-</b> (10 <i>per cent</i> of cost of construction of Building and Land – 10 <i>per cent</i> rebate by Municipality) * Rate (five <i>per cent</i> )
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#### **1. Short levy of tax due to difference in rates of property and conservancy tax:**

The rate of property tax for ARV method varied between 7.5 to 12.5 *per cent* and rate of conservancy tax was five *per cent*, thus there was a difference of 2.5 *per cent* to 7.5 *per cent* in the rates of property tax and conservancy tax. Even after calculating the property tax at the minimum rate of 7.5 *per cent* of the annual rental value of properties, and comparing the same with rate of conservancy tax at rate of five *per cent*, it was noticed that there was revenue loss of ₹ 9.51 crore during 2015-20 due to non-imposition of property tax. The calculation of revenue loss on account of non-levy of property tax is depicted in **Table 5.7**.

<sup>3</sup> Arki, Bhunter, Bilaspur, Dharamshala, Hamirpur, Jawalamukhi, Manali, Nahan, Rampur, Shimla & Sunni.

**Table-5.7: Detail showing short levy of tax due to difference in rates**

(₹ in lakh)

Year	No. of household	Conservancy tax demand raised	Probable demand of Property tax	Difference
1	2	3	4	(4-3)
2015-16	9,230	338.90	508.35	169.45
2016-17	9,310	385.34	578.01	192.67
2017-18	9,782	390.08	585.12	195.04
2018-19	10,023	392.25	588.37	196.12
2019-20	10,273	395.10	592.65	197.55
<b>Total</b>		<b>1,901.67</b>	<b>2,852.50</b>	<b>950.83</b>

Calculation of probable property tax = Demand \* 100/5(conservancy rate)\*7.5/100(minimum rate of property tax).

## 2. Non-recovery of arrears of ₹ 3.82 crore:

The status of conservancy tax collection and arrears during 2015-16 to 2019-20 is given in the **Table 5.8**:

**Table-5.8: Status of conservancy tax collected and arrears of MC, Solan**

(₹ in lakh)

Year	No. of households	Opening Balance	Demand raised	Total demand	Collection	Arrear
1	2	3	4	5	6	7
<b>2015-16</b>	9,230	103.37	338.90	442.26	236.13	206.13
<b>2016-17</b>	9,310	206.13	385.34	591.49	325.44	266.04
<b>2017-18</b>	9,782	266.04	390.08	656.12	336.93	319.19
<b>2018-19</b>	10,023	319.19	392.25	711.44	351.08	360.36
<b>2019-20</b>	10,273	360.36	395.10	755.46	373.19	382.27
<b>Total</b>			<b>1,901.67</b>		<b>1,622.77</b>	

- The total arrears as of March 2020 was ₹ 382.27 lakh. Further, as can be seen from the above table, there is increasing trend in the arrears of conservancy tax to be collected, which is clearly indicative of ineffectiveness of the Municipality in collecting their own revenue.

### 5.4.2 Rent from commercial establishments

The ULBs were empowered to collect rent from own buildings let out to private agencies and the rent was to be revised periodically.

The following observations were made during audit:

- Rent amounting to ₹ 32.20 crore were collected by the 14 test-checked ULBs (2015-20) and ₹ 10.66 crore was in arrears at the end of March 2020.
- Audit observed that there was no standard protocol for entering into agreements with the tenants stipulating the terms and conditions including revision of rent. The rates of revision of rent varied amongst the different test-checked ULBs i.e.,

rent to be increased either five *per cent* per annum, 10 *per cent* after three years, 10 *per cent* after five years etc.

During the exit conference, the State Government assured to take requisite action for adoption of standard protocol in respect of rent from commercial establishment and take initiatives for collection of arrears.

#### **5.4.3 Trade License Fee<sup>4</sup>**

Section 324 of the HPMC Act provides that (1) No person shall use or permit to be used any premises for any of the following purposes without or otherwise than in conformity with the terms of a license issued by the Commissioner in this behalf, namely:- (a) any of the purposes specified in Part-I of the Schedule I;(b) any purpose which is, in the opinion of the Commissioner, dangerous to life, health or property or is likely to create a nuisance; (c) keeping horses, cattle or other quadruped animals or birds for transportation, sale or hire or for sale of the produce there of; or (d) storing any of the articles specified in Part II of the Schedule-I except for domestic use of those articles. Similarly, provisions<sup>5</sup> of HPM Act provide that no place within a municipal area shall be used for offensive & dangerous trade, establishing new factories/workshops and cinematographs and dramatic performances except under a license, obtained by the owner or occupier from the municipality which shall be renewable annually.

Section 85 of the HPMC and Section 66 of the HPM Act provide that the Municipality may levy a fee and user charges for the services provided by it at such rates and in such manner as may be determined by the municipality from time to time.

The following observations were made during audit:

- Survey regarding trade license had not been conducted by any of the test-checked ULBs, hence, data regarding number of people running trade within the ULB was not available, hence, outstanding amount could not be ascertained.
- Seven<sup>6</sup> out of 14 test-checked ULBs had collected amount of ₹ 21.74 lakh during 2015-20, which was due to *suo moto* registration of trader and thereafter deposition of the trade license fee. Further, ULBs had no control over registration and renewal of licenses of traders. Even in these seven ULBs, records relating to total number of assesseees were not maintained. This entails a risk of business establishments functioning without valid licenses.

The Commissioners/Executive Officers/Secretaries stated that the survey regarding running of commercial establishments within Municipal area could not be conducted due to shortage of staff. The executing authorities further stated efforts are being made for the proper assessment and collection of trade license fee. Commissioner, Municipal Corporation, Dharamshala stated that since the bye-laws were not notified, hence fees could not be charged. The bye-laws have been notified now (April 2021).

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<sup>4</sup> A trade license is document / certificate that gives the permission to an applicant to commence a particular trade or business in particular area/locations.

<sup>5</sup> Section 125, 126 and 127 of HPM Act.

<sup>6</sup> Bhunter, Jawalaji, Hamirpur, Nahan, Paonta Sahib, Shimla and Solan.

During the exit conference, the State Government assured to take proper action in the matter and to devise mechanism to monitor the registration and renewal of Trade License fee.

#### 5.4.4 Advertisement Fee

Section 115 of HPMC Act provides for fees on advertisements. Every person, who erects, exhibits, fixes any advertisement, shall pay for every advertisement a fee calculated at such rates, as may from time to time, be specified by the Corporation. No similar provision has been incorporated in the HPM Act. However, Section 66 of HPM Act provides that municipality may impose fee, tolls and user charges for the services provided by it at such rate and in such manner as may be determined by the municipality from time to time.

The following observations were made during audit:

- Out of two<sup>7</sup> test-checked Municipal Corporations, MC Shimla had collected ₹ 496.33 lakh by letting out the Advertisement sites during 2015-20. However, MC Dharamshala has neither levied nor collected advertisement fee during the audit period.
- Further, seven<sup>8</sup> test-checked Municipalities had also allocated advertisement sites, for which fee of ₹ 57.82 lakh was collected during 2015-20.
- However, none of the above test-checked ULBs conducted any new survey for levy of advertisement fee. Therefore, potential earning of revenue could not be quantified.

During the exit conference, the State Government agreed with the observation and assured to conduct survey and levy Advertisement fee for increasing potential earnings and revenue of the ULBs.

#### 5.5 Water Supply (02 of 05 selected areas)

As per Article 243W of the 74<sup>th</sup> Constitutional Amendment the function of providing water supply for domestic, industrial and commercial purposes was one of the functions mandated to be performed by the ULBs. However, in the State function of water supply is carried out pre-dominantly by other executing bodies, as given below:

Functions	Body executing	No. of ULBs
Work of execution, augmentation and further distribution of water, Operation & Maintenance and collection of user charges	Jal Shakti Vibhag (JSV)	51 ULBs
Distribution of water, Operation & Maintenance and collection of user charges	MC Solan and Palampur	2 ULBs
Work of execution, augmentation and further distribution of water, Operation & Maintenance and collection of user charges	SJPNL	MC Shimla
Besides, several projects of Water supply approved under AMRUT are being executed by SJPNL and Jal Shakti Vibhag in respect of MC Shimla and MC Kullu (non-selected), respectively. Thus, both the ULBs are only providing the funds received under AMRUT to these agencies for execution of capital works within their jurisdiction.		
Similarly, some projects of water supply approved under smart city mission in MC Dharmashala are being executed by Dharamshala Smart City Limited.		

<sup>7</sup> MC Dharamshala and Shimla.

<sup>8</sup> Bilaspur, Hamirpur, Manali, Nahan, Poanta Sahib, Rampur & Solan.

## 5.6 Water Tax/Charges (03 of 05 selected areas)

Section 5 of Himachal Pradesh Water Supply Act 1968, (HPWS) provides that the State Government shall levy a charge for water supplied to a consumer, by a water supply scheme managed directly by the Government or by the beneficiary to whom the scheme may be entrusted, at such rates as may be specified by the State Government, by notification published in the Official Gazette, from time to time.

In exercise of powers vested under Section 5 of HPWS Act 1968, the State Government notified (June 2005) the rates of Water Supply by the Irrigation and Public Health Department, (Now Jal Shakti Vibhag) to the rural areas, all the Nagar Panchayats and Municipalities except Municipal Corporation Shimla, MC Solan & Palampur. Similarly, for the Municipalities i.e., Municipal Corporation Shimla, Municipal Council, Solan & Palampur where the powers of JSV has been delegated completely/partially to these ULBs as stated in the **Para 5.5**, the rates for bulk water supply to these ULBs got notified (June 2005).

The notification further states that rates will increase by 10 *per cent* on the 1<sup>st</sup> of April every year. In pursuance of this notification the JSV prescribes the rates of water supply every year by enhancing it 10 *per cent* every year.

Similarly, the ULBs to which bulk water is supplied by JSV, decide and revise the rates of water supply by passing it in their General House. These ULBs were also enhancing the rates of water supply by 10 *per cent* each year.

The following audit observation was made during the audit of the test-checked ULBs.

### 1. MC Solan:

#### a. Charging of domestic/commercial rates for the commercial bulk water supplied by JSV resulting in accrued liability

As stated above, in MC Solan, the distribution of water, operation and maintenance, and collection of user charges was delegated to MC Solan by Jal Shakti Vibhag. It was noticed that Jal Shakti Division, Solan provided bulk water supply to MC Solan at the rates between ₹ 20.82<sup>9</sup> and ₹ 30.48 per kilolitre (KL) during 2015-16 to 2019-20, for which JSV (Solan Division) raised total bill of ₹ 41.76 crore. However, MC Solan made distribution of water to consumers at two different rates i.e., domestic ₹ 13.50 to 20.00 per KL and commercial ₹ 19.97 to 29.24 per KL during 2015-16 to 2019-20. Majority of the connections (90 *per cent*) were domestic<sup>10</sup>. MC Solan had raised a demand of ₹ 15.47 crore from the consumers, thus leading to accrued liability of ₹ 26.29 crore (₹ 41.76 crore - ₹ 15.47 crore) towards JS Division, Solan (March 2020). The charging of domestic rates from the consumers, where the supply was at

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<sup>9</sup> ₹ 20.82, ₹ 22.90, ₹ 25.19, ₹ 27.71, and ₹ 30.48 per kilolitre for the years 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20.

<sup>10</sup> Information provided by MC Solan.

commercial rates, will eventually lead to unsound financial health of Municipal Council Solan.

It was also noticed that even the commercial rates charged by the MC Solan from the commercial consumers was charged were approximately less by one rupee and was not commensurate with the rates of Jal Shakti Division.

**b. Loss due to lack of active leakage control in MC Solan**

The Jal Shakti Vibhag supplied bulk water to three main water storage tanks of MC Solan from two sources i.e., Ashwani Khad and Giripul during the period 2015-20 which was further distributed to the households within the MC area by Municipality.

Audit observed that there was huge difference between water received from the JSV and further distributed to the households by the Municipality. The bulk water supply bills generated by JSV and the consumers ledger (water) maintained by the MC Solan revealed difference between water supplied by JSV and actual distribution made by MC Solan to consumers, which ranged between 34.05 per cent and 47.33 per cent. As per the manual of Water Supply and Treatment of Central Public Health and Environmental Engineering Organisation (CPHEEO), as followed by both the Jal Shakti Vibhag and ULB, wastage upto 10 per cent in water supply is considered as low and remedial action is needed when wastage is above 10 per cent. Details of non-revenue water after allowing deduction of 10 per cent leakage in water supply for calculation of revenue loss is depicted in **Table 5.9**.

**Table-5.9: Status of water received and distributed and percentage of non-revenue water**

Year	Water supplied by the Jal Shakti Vibhag (ML)	Quantity after relaxation of 10 per cent distribution loss (ML)*	Water supplied to users by MC (ML)	Difference (ML)	Minimum rates of water (KL)	Amount calculated (in Rs. lakh)	Per cent
	A	B	C	D=B-C	E	F=D*E/100	G=(A-C)/A
2015-16	2,826.61	2,543.95	1,488.67	1,055.28	13.5	142.46	47.33
2016-17	2,732.47	2,459.22	1,553.77	905.45	15	135.82	43.14
2017-18	2,648.72	2,383.85	1,746.92	636.93	16.5	105.09	34.05
2018-19	3,192.26	2,873.03	1,776.89	1,096.14	18.5	202.79	44.34
2019-20	3,408.75	3,067.88	1,832.74	1,235.14	20	247.03	46.23
	<b>14,808.81</b>	<b>13,327.93</b>	<b>8,398.99</b>	<b>4,928.94</b>		<b>833.19</b>	<b>43.28</b>

Note: ML (Million Litres) & KL (Kilo Litres).

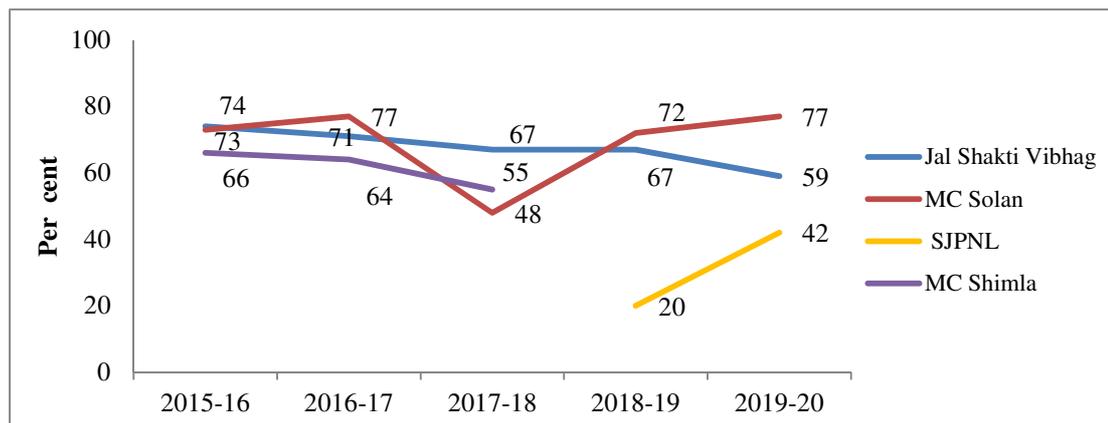
\* As per sec 10.10.2 (a) of CPHEEO in respect to Water Supply and Treatment provides that 10 per cent of leakage in water supply is satisfactory.

Even considering the lowest rate of water charges (domestic water charges) on yearly basis for the quantities of Non-Revenue Water, it was noticed that the Municipality had incurred probable revenue loss of at least ₹ 8.33 crore (2015-20).

## 2. Comparative analysis of revenue collection against the water charges demand raised by MC Solan, SJPNL & Jal Shakti Divisions

The comparative analysis of revenue collection against the demand made by the MC Solan, SJPNL & Jal Shakti Divisions is given in the **Chart 5.5**.

**Chart-5.5 Comparative analysis of collection made against the demand raised**



As can be seen from above, the effectiveness of collection of Water charges against total demand raised by the MC Solan was 93 per cent, MC Shimla was 79 per cent, SJPNL was 49 per cent and Jal Shakti Divisions, it was 87 per cent during 2015-16 to 2019-20. The year-wise details of water charges demand raised, and collection made during 2015-20 are given in **Appendix-5.4**. Thus, collection efficiency of water charges was better in MC Solan in comparison to the line department/corporation.

## 3. Liability of ULBs to Jal Shakti Vibhag

Audit further observed that there was huge liability on account of bulk water supply payment to be paid to the JSV by ULBs as detailed below:

Name of ULB	Liability to Department	Liability on account off	Amount in crore
MC Shimla	Jal Shakti Vibhag	Bulk water supply	₹ 229.64
MC Solan	Jal Shakti Vibhag	Bulk water supply	₹ 78.67

As evident from above table liability of ₹ 308.31 crore on account of bulk water supply is lying pending to be paid to JSV by these ULBs as of date. The liability was due to charging of commercial rates on bulk water supply made by the JSV from ULBs, whereas the ULBs were charging two different traffic rates of water i.e., domestic and commercial.

## 5.7 Public Health, Sanitation (04 of 05 selected areas) Conservancy and Solid Waste Management

The function “Public Health, Sanitation Conservancy and Solid Waste Management” is divided into six sub-activities. In two i.e., Maintaining Hospitals, Dispensaries & Immunization/Vaccination the ULBs had no role, in two i.e., Registration of birth and

death & Sewerage management it had partial/dual role and in two i.e., cleaning and disinfection of localities effected by infectious diseases and Solid waste management ULBs were solely responsible.

In Sewerage Management, JSV was planning and executing new schemes, undertaking operation and maintenance of existing schemes and collecting sewerage charges except ULBs Shimla, where this function is being discharged by Shimla Jal Prabhandan Nigam Ltd. and MC Solan where collection of sewerage charges was the responsibility of MC, which are discussed in succeeding paragraphs.

### 5.7.1 Sewerage Management

As discussed in preceding paragraphs the distribution of water and collection of water charges were vested with MC Solan, therefore, the levying and collection of sewerage charges along with the water charges at the rate of 50 *per cent* of water bills was to be discharged by MC Solan.

#### **Non levy of sewerage charges resulting in revenue loss ₹ 38.30 lakh**

Under section 5 of Himachal Pradesh Water Supply Act, 1968, the State Government notified (June 2005), the tariff structure for sewerage disposal effective from 01.06.2005. According to the above Act, monthly sewerage charges at the rate of 50 *per cent* of water billing per month were recoverable from the domestic and commercial consumers.

The following observations were made during the audit of MC Solan:

- MC Solan had not levied sewerage charges since commissioning of the sewerage scheme (December 2009), thus depriving itself of an important source of revenue.
- Further, resolution on non-levying of sewerage charges had not been passed by the House of MC Solan.
- JSV (Solan Division) had released connection to 456 number of users, out of which MC Solan had provided NOC to 303 connections, however, water charges were being charged from 241 connection by the MC Solan and thus, sewerage charges were also to be collected from these connections.
- After working out the amount of sewerage charges to be collected against eligible connections at the rate of 50 *per cent* of water charges made available by MC Solan (01 April 2016), it was noticed that an amount of ₹ 38.03 lakh was due to be collected.

Collection of charges was commented upon in previous report<sup>11</sup> of C&AG of India, however, the State Government had not taken any remedial action in this regard as irregularities were persisting in MC Solan.

<sup>11</sup> Para 2.2.6.6 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2018 (Report No. 4 of the year 2019), Government of Himachal Pradesh.

## **5.8 Solid Waste Management (05 of 05 selected areas)**

Solid Waste Management is sub-activity of the function 'Public Health, Sanitation, Conservancy and Solid Waste Management' under section 42 (b (vi)) of HPMC and 48 (ii (6)) of HPM Act. The sub-activity was devolved fully (August 1994) to ULBs in the State. The ULBs are involved in planning and execution of Municipal Solid Waste Management.

The sub-activity had been outsourced by the ULBs mainly due to shortage in manpower and machineries, further the ULBs are monitoring and providing technical assistance through some of its technical staffs.

### **5.8.1 Financial Management of Solid Waste Management**

The recurring expenditure for management of Solid Waste is being done from the grants received from the Finance Commission and State Finance Commission. The Basic Grant in 14<sup>th</sup> FC recommends utilization of grant for support and strengthening the delivery of basic civic services including solid waste management and storm water drainage. Similarly, the State Finance Commission grants were also released with same condition of expenditure as in 14<sup>th</sup> FC.

During 2015-16 to 2019-20 the ULBs (Hamirpur & Solan), had raised demand for cost extensive machineries and equipment needed for management of Solid waste such as Trammel, Shedder etc. In response to demand the State Government released (July 2019) an amount of ₹ 468.30 lakh to all ULBs for construction of compost pits, Material Recovery Facility Centre, Kiosks for Domestic Hazardous waste & e-waste and management of Legacy Waste within the jurisdiction.

### **5.8.2 Collection of user charges**

The bye-laws provide that primary collection of Municipal Solid Waste from each and every house in the city/town should be done through door to door collection of waste. For the services rendered, user charges have been defined in the bye-laws. The rates of user charges have been defined according to size of property, usability of properties etc. which varied between ₹ 50 and ₹ 15,000.

#### **Methodology adopted for arriving at Collectible amount**

Various categories of properties are multiplied by the rates as specified in the bye-laws, which is multiplied by the number of months for calculation of applicable charges. The data regarding various categories of properties were collated by Audit from Solid waste Action Plan of ULBs, GIS surveys conducted by ULBs for property tax, Electricity Department records, Tourism Department.

The following observation was made during the audit:

- The collection of user charges by test-checked ULBs varied between 1 *per cent* and 60 *per cent* of amount collectible i.e., amount collected ₹ 21.85 crore (36 *per cent*), against amount collectible ₹ 60.43 crore.
- Collection was between 01 *per cent* and 58 *per cent* of the revenue expenditure on the Door-to-Door Collection of Solid Waste.

- The main reason was non-survey of properties/households within the jurisdiction of ULBs and non-maintenance of database/Individual ledgers of users.

Details of collection of user charges and revenue expenditure incurred on Solid Waste Management are given in the **Appendix-5.5**.

Other observation noticed in the test-checked ULBs are as under:

- Seven<sup>12</sup> out of 14 test-checked ULBs were unaware of number of service users within their jurisdiction as they had not conducted any survey which resulted in collection of user charges from few of the households/service users.
- 13<sup>13</sup> out of 14 test-checked ULBs had not maintained any record/register/individual ledger for collection of user charges.

- **Good practices:**

Nagar Panchayat, Sunni had conducted house to house survey and prepared register/records and prepared ledger for collection of user charges with effect from January 2019 and raised demand for the year 2019-20 amounting to ₹ 11.56 lakh against which an amount of ₹ 2.78 lakh had been collected. Thus, it was the only ULB out of the 14 test-checked ULBs, where exact amount of user charges applicable and the arrears of user charges could be worked out.

The Commissioners/Executive Officers/Secretaries of the ULBs<sup>14</sup> accepted the facts and stated that shortage of collection of user charges was mainly due to non-support of public, not knowing of households which were handing over the waste and because of pandemic situation created by the Covid-19. The ULBs attributed non-preparation of individual ledger for user charges of door-to-door collection to shortage of staff.

During the exit conference, the State Government assured that the matter would be looked into and all the observations raised would be considered on priority basis.

## 5.9 Preparation of Budget

In accordance with the provisions of Sections 80 of HPMC Act and 249 of HPM Act, the Corporation/Finance, Audit and Planning Committee of the Council shall prepare the budget estimates indicating the receipt of funds from various sources and allocate the resources to various activities undertaken by it and present it to the Governing Council for approval. After the approval by the Governing Council, ULBs have to forward the budget through the Deputy Commissioner to the Government (in respect of Corporation) and Director (in respect of Municipal Councils & Nagar Panchayats), Urban Development for approval. This shows that the HPMC and HPM Acts, are not in consonance with the provisions of the 74<sup>th</sup> CAA, as the Constitution provisions are

<sup>12</sup> Arki, Bilaspur, Jawalamukhi, Manali, Nerchowk, Shimla and Solan.

<sup>13</sup> Arki, Bhunter, Bilaspur, Dharamshala, Hamirpur, Jawalamukhi, Manali, Nahan Nerchowk, Poanta Sahib, Rampur, Shimla & Solan.

<sup>14</sup> Arki, Bhunter, Bilaspur, Dharamshala, Hamirpur, Jawalamukhi, Manali, Nerchowk, Poanta Sahib, Rampur, Solan, Sunni.

silent about the approval of the budget, while both the Acts specifically mention role of the State Government in sanctioning/modifying the budget.

### **5.9.1 Unrealistic budget exercise**

Expenditure estimation depends on services to be provided by the local government and the costs associated with the provision of these services. Para 33.4 of National Municipal Accounts Manual prepared by Ministry of Urban Development in November 2004 provide that “the objective of the budgeting system of an ULB is to arrive at a scientific basis for building linkage between the nature of receipt or payment with the functions / services or other Budget control centres”. Budget shall reflect the principles and programmes of the ULB. The details of budget estimates *vis-à-vis* actuals in respect of receipts and expenditure of the 14 test-checked ULBs is depicted in the **Appendix-5.6**.

- Audit observed that in two<sup>15</sup> test-checked Municipal Corporations, the variation in actual receipts *vis-à-vis* budget estimate ranged between 28 and 403 *per cent* during the period 2015-20. On the other hand, variation in expenditure *vis-à-vis* budget estimate ranged between 25 and 274 *per cent* during the period 2015-20.
- Similarly, in eight<sup>16</sup> test-checked Municipal Councils, variation in actual receipts *vis-à-vis* budget estimates ranged between 21 and 260 *per cent* during the period 2015-20 whereas variation in actual expenditure *vis-à-vis* budget estimate ranged between 22 and 189 *per cent*.
- In two<sup>17</sup> test-checked Nagar Panchayats, variation in actual receipts *vis-à-vis* budget estimate ranged between 76 and 146 *per cent* during the period 2015-20 whereas variation in actual expenditure *vis-à-vis* budget estimate ranged between 57 and 112 *per cent*.

### **5.9.2 Non-preparation, non-presentation of budget and accounts**

The following observations were made during the course of audit in the test-checked ULBs’ budget documents:

- Two ULBs Nerchowk and Bhuntar had not prepared budget for the years 2015-16 to 2020-21. In the absence of Budget it could not be ascertained whether there were adequate and suitable provisions for such services, as required for the fulfillment of the several duties imposed on the municipality by the HPM Act.

The Section 161 of HPMC and Section 252 & 255 of HPM Act provides for maintenance of accounts by the Municipalities and auditing of such accounts.

- Audit observed that none of test-checked ULBs (except MC Shimla till the year 2017-18) had prepared annual accounts i.e., Receipt and Payment Accounts, Income and Expenditure Account and Balance Sheet for any of the financial years.

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<sup>15</sup> Municipal Corporation Dharmashala & Shimla.

<sup>16</sup> Bilaspur, Jawalamukhi, Hamirpur, Manali, Nahan, Paonta Sahib, Rampur & Solan.

<sup>17</sup> Arki and Sunni.

- There was no institutional arrangement for certification of accounts of ULBs.

The Executive Officer, Nerchowk stated (January 2021) that Nerchowk was a newly constituted Council and it lacked staff whereas Secretary Bhunter stated (February 2021) that there was no expert staff dealing with accounts, hence annual budget could not be prepared.

During the exit conference, the State Government assured that instructions would be issued to the ULBs that budget would be vetted from the Standing Committee and the proceeding of the Committee would be enclosed with the budget. Instructions would be issued to ULBs for the preparation of accounts as per accounting system as well.

### 5.10 Expenditure of Urban Local Bodies

The expenditure of ULBs can be categorised into five major categories such as programme expenses, operations and maintenance, general expenses, human resource expenses and interest and finance charges. The detail of expenditure incurred by ULBs in the State for the period 2015-16 to 2019-20 is exhibited in **Table-5.10**.

**Table-5.10: Details of expenditure incurred by all the ULBs**

(₹ in crore)

Year	Human Resources Expenses	General Expenses	Operation & maintenance	Interest/finance charges	Programmes/scheme/Grants expenses	Total expenditure
2015-16	104.94	11.62	22.65	3.93	127.69	270.83
2016-17	128.42	19.30	72.36	2.04	159.12	381.24
2017-18	133.61	14.45	79.38	1.73	176.10	405.27
2018-19	132.19	17.50	61.97	1.89	152.64	366.19
2019-20	127.79	17.42	79.68	0.32	171.04	396.25
<b>Total</b>	<b>626.95</b>	<b>80.29</b>	<b>316.04</b>	<b>9.91</b>	<b>786.59</b>	<b>1,819.78</b>
<b>Per cent of Total Expenditure</b>	<b>35</b>	<b>4</b>	<b>17</b>	<b>1</b>	<b>43</b>	

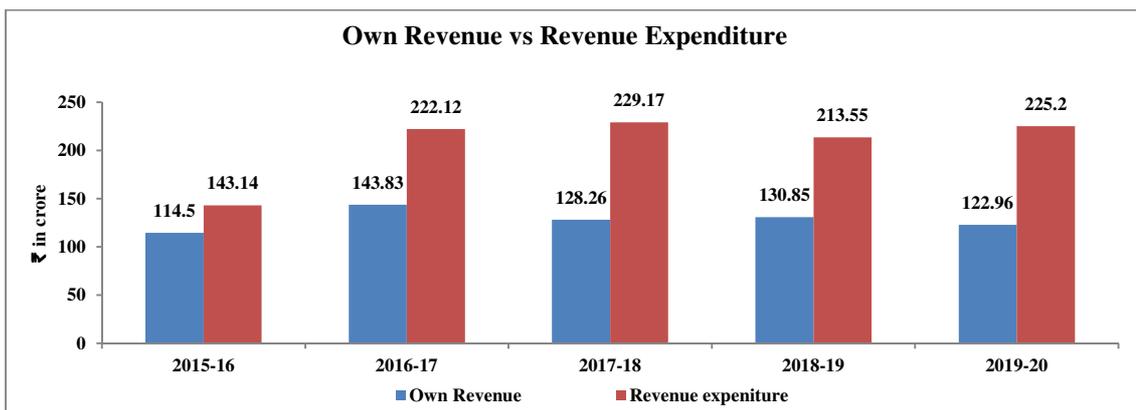
Source: Information furnished by UDD for all ULBs

The capital expenditure i.e., programme expenses and expenses out of grants incurred by ULBs constituted about 43 *per cent* of the total expenditure followed by revenue expenditure i.e., human resource expenses, General expenses and Operation & maintenance and finance charges, which was about 57 *per cent* of all ULBs.

### 5.11 Resource-expenditure gap

During the period 2015-16 to 2019-20, the ULBs were able to meet only about 62 *per cent* of the revenue expenditure from its own revenue resources. A comparison of the own revenue to revenue expenditure showed large gaps as depicted in **Chart 5.6** which needs to be addressed by ULBs.

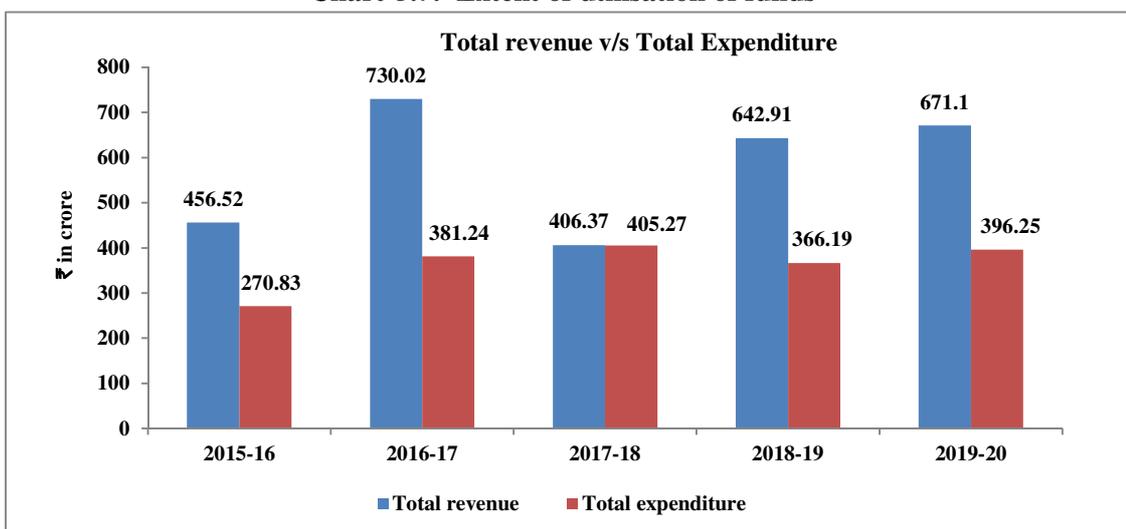
**Chart 5.6: Resource-Expenditure gap in all the ULBs**



### 5.12 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 63 per cent of the available funds each year as depicted in **Chart 5.7**.

**Chart-5.7: Extent of utilisation of funds**



The constraints in utilisation of funds could be attributed to the following:

- ✓ The restrictions/limitations on financial and administrative powers of ULBs as discussed subsequently in **Para 5.14**.
- ✓ The large number of vacancies in various cadres, as discussed in the **Para 6.4**.

### 5.13 Analysis of financial data of Urban Local Bodies

The revenue and expenditure of the test-checked ULBs for the period 2015-16 to 2019-20 were analysed to study the fiscal autonomy in the ULBs.

The following four ratios were considered to establish the fiscal autonomy in ULBs.

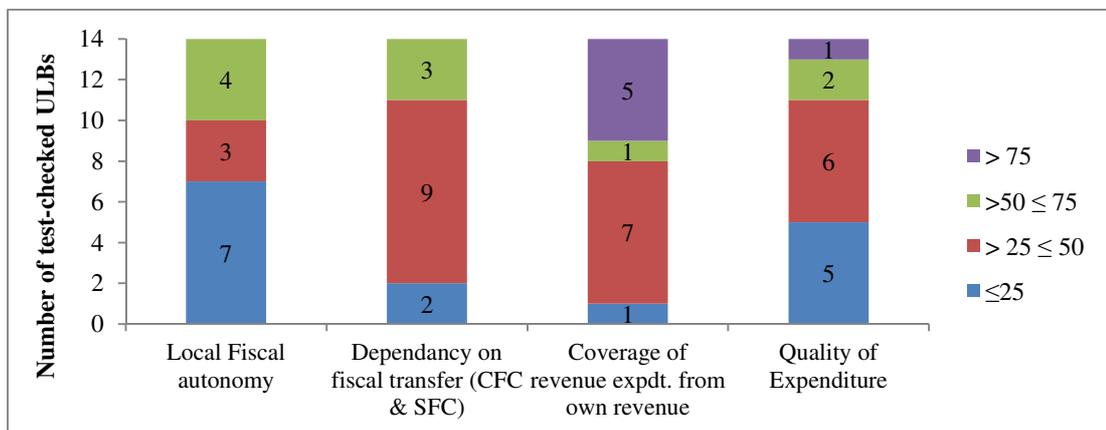
- 1. Local fiscal autonomy:** This is the share of own revenue to the total revenue of the ULB.

2. **Local dependency on fiscal transfer:** This is the share of Central Finance Commission (CFC) and State Finance Commission (SFC) grants to the total revenue of the ULBs.
3. **Coverage of revenue expenditure from own revenue sources (self-reliance):** This is the proportion of revenue expenditures that are covered through the own revenue sources.
4. **Quality of expenditure:** This is the share of Operation and Maintenance (O&M) expenditure in total revenue expenditure.

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

The ratio-wise performance of ULBs for the year 2019-20 has been depicted in **Chart-5.8:**

**Chart-5.8: Ratio-wise performance of ULBs for 2019-20**



- As can be seen from above chart, in four<sup>18</sup> ULBs the share of own revenue was 50 to 75 per cent of the total revenue. They therefore, were less dependent on fiscal transfers. In seven<sup>19</sup> ULBs the share of own revenue to total revenue was less than 25 per cent Therefore, these were heavily dependent on fiscal transfers.
- In nine<sup>20</sup> ULBs the dependency on Central Finance Commission (CFC) and State Finance Commission (SFC) grants ranged between 25 per cent and 50 per cent and in three<sup>21</sup> ULBs the dependency was 50 to 75 per cent.
- In five<sup>22</sup> ULBs, the coverage of revenue expenditure from own revenue sources was above 75 per cent, MC Nahan had coverage between 50 per cent and 75 per cent, seven<sup>23</sup> ULBs had coverage between 25 per cent and 50 per cent and Bilaspur ULB had coverage of less than 25 per cent.

<sup>18</sup> Jawalmukhi, Hamirpur, Manali, and Solan.

<sup>19</sup> Arki, Bilaspur, Bhuntar, Dharamshala, Nerchowk, Shimla and Sunni.

<sup>20</sup> Arki, Bhuntar, Dharamshala, Hamirpur, Nahan, Rampur, Shimla, Solan and Sunni.

<sup>21</sup> Bilaspur, Nerchowk and Paonta Sahib.

<sup>22</sup> Jawalamukhi, Hamirpur, Manali, Rampur and Solan.

<sup>23</sup> Arki, Bhuntar, Dharamshala, Nerchowk, Paonta Sahib, Shimla and Sunni.

- In three<sup>24</sup> ULBs the quality of expenditure i.e., expenditure on O&M, was above 50 per cent, in six<sup>25</sup> ULBs the expenditure was between 25 per cent and 50 per cent and in five<sup>26</sup> ULBs less than or equal to 25 per cent.

#### 5.14 Financial powers of Urban Local Bodies

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

- ✓ Creating an efficient and reliable administration,
- ✓ Intensify and improve local governance,
- ✓ Enhances accountability and responsiveness.

The administrative approval powers for undertaking basic infrastructure works are as per **Table 5.11**.

**Table-5.11: Statement showing administrative approval powers for ULBs**

(₹ in Lakh)

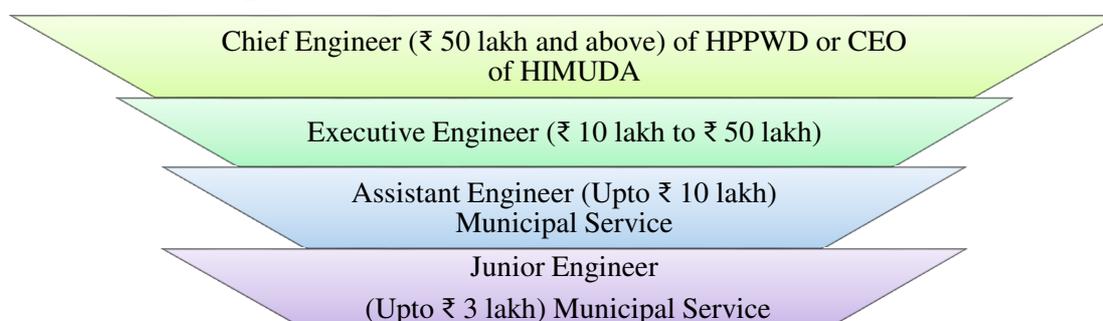
Category of ULB	Commissioner/ Executive Officer/ Secretary	House	Director UDD	State Government
Municipal Corporation	<10.00	>10.00	--	--
Municipal Council	--	<5.00	>5.00 and <100.00	>100.00
Nagar Panchayat	--			

- The administrative approval for work costing ₹ 10 lakh is accorded by the Commissioner and above ₹ 10 lakh is accorded by House for Municipal Corporation.
- The administrative approval for work costing upto ₹ 5 lakh is accorded by the Council, between ₹ 5 lakh to ₹ 100 lakh is accorded by Director, UDD and above ₹ 100 lakh is accorded by State Government for Municipal Council & Nagar Panchayat.

##### 5.14.1 Powers to accord Technical Sanction

As regards the powers for according to technical sanction to estimates the powers are given **Figure 2**.

**Figure-2: Powers to accord technical sanction in ULBs**



<sup>24</sup> Dharamshala, Nerchowk and Sunni.

<sup>25</sup> Bhuntar, Jawalamukhi, Hamirpur, Manali, Paonta Sahib and Shimla.

<sup>26</sup> Arki, Bilaspur, Nahan, Rampur, and Solan.

The technical sanction for work costing up to ₹ 3 lakh is accorded by the Junior Engineer of Municipality, up to ₹ 10 lakh is accorded by the Assistant Engineer of Municipality, between ₹ 10 lakh to ₹ 50 lakh is accorded by the Executive Engineer and above ₹ 50 lakh is accorded by Chief Engineer of HPPWD or CEO of HIMUDA.

### 5.15 Summary of Audit Findings

- ULBs were largely dependent on fiscal transfers, which constituted about 78 *per cent* of their total revenue.
- There was a shortfall of ₹ 1.99 crore in fiscal transfers during the period 2015-16 to 2019-20 *vis-à-vis* the recommendations of the SFC.
- Allocation of performance grants of ₹ 32.44 crore for the year 2017-18, 2018-19 & 2019-20 was yet to be received, the reasons for which was mainly due to non-achievement of the target fixed by the ULBs.
- Adhoc payment of assigned revenue had been noticed in all test-checked ULBs.
- Own revenue of ULBs constituted only 22 *per cent* of their total revenue.
- The State laws did not provide complete autonomy to ULBs in generating their own revenue. Omissions attributable to ULBs such as absence of reliable database, non-revision of rates etc., also contributed to lesser revenue generation.
- Budget exercise was flawed and resulted in preparation of unrealistic and unscientific budgets.
- ULBs had spent on an average about 63 *per cent* of the funds available with them.
- The State Government limited the financial and administrative powers of ULBs which hampered the utilisation of funds.
- None of the ULBs except MC Palampur, Solan and Municipal Corporation, Shimla (SJPNL) had been devolved with function of water supply.
- Non-Revenue Water ranging between 34 *per cent* and 47 *per cent* in a test-checked unit i.e., MC Solan.
- Supplying of bulk water from source to ULB's tanks at the rate charged for commercial activity resulted in accrued liability on Municipalities.
- Sewerage management in the State totally performed by Jal Shakti Vibhag except MC Shimla (GWSSC/SJPNL) and MC Solan (where providing of sewerage connection and collection of user charge lies with the MC).
- Non-levy of sewerage charges (MC Solan) resulting in revenue loss of ₹ 38.30 lakh.
- Collection of user charges for door-to-door collection of garbage varied between 01 *per cent* and 60 *per cent* of amount collectible in test-checked ULBs.

- The powers of ULBs were limited in respect of administrative approvals and technical sanctions.

### **5.16 Recommendations**

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

- (i) ensuring release of mandated share to the ULBs as per the recommendations of State Finance Commission;
- (ii) initiating action for meeting mandatory provision prescribed for obtaining Performance Grant by the ULBs;
- (iii) placing an effective mechanism for the recovery of outstanding dues by the ULBs to augment their own revenue;
- (iv) GIS mapping of the properties within the jurisdiction of the Municipalities needs to be made mandatory so that property tax management can be improved;
- (v) removing limitations on the ability of the ULBs to raise revenues through sources such as property tax, advertisement fee, solid waste management cess etc.;
- (vi) ensuring preparation of realistic budget estimates by ULBs in a scientific manner taking into account requirements of capital expenditure as well as a realistic projection of funds expected to be mobilised; and,
- (vii) providing adequate powers and enhancing role of ULBs in administrative and executive spheres to enable them to function as an institution of self-government.

**Chapter-VI**  
**Human Resources of ULBs**



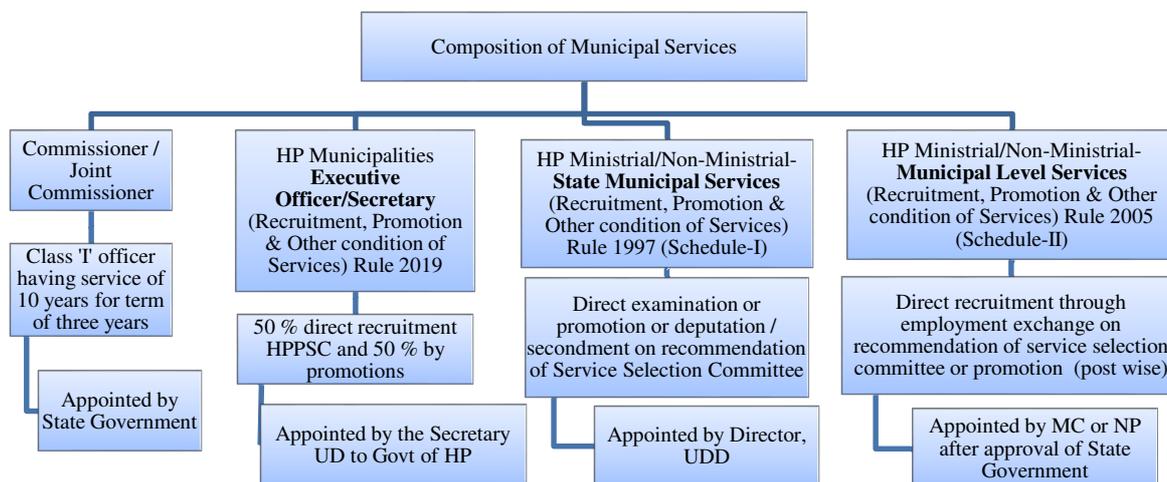
### 6.1 Recruitment of staff

The Himachal Pradesh Municipalities Executive Officer/Secretary (Recruitment, Promotion and other Condition of Services) Rules, 2019, Common Recruitment Rules, 2011, Department of Personnel, Govt. of HP, and Himachal Pradesh Ministerial/Non-Ministerial, Municipal Level Services Recruitment & Promotion and other conditions of Services Rules, 2005 list out the Appointing Authorities for various categories of posts as indicated below:

**Table 6.1: Statement showing the appointing authorities for recruitment**

Category of post	Authority
Group A	State Government
Group B (For Executive Officer and Secretary)	Secretary, (Urban Development) to the Govt. of HP
Group B, C & D	Schedule-I- On the recommendation of the service selection committee <sup>1</sup> constituted at the State level by the State Government. Schedule-II- Appointing Authority (Council) on the recommendation of selection committee <sup>2</sup> constituted by the Director of UDD.

The method of recruitment of official and staff of ULBs is as shown in the flow chart below:



- <sup>1</sup>
1. Director, Urban Bodies, Himachal Pradesh
  2. Representative of Secretary (LSG) to the Member. Chairman. Government of Himachal Pradesh.
  3. Joint Director/Deputy Director, Urban Local Bodies, Himachal Pradesh, Member.
- <sup>2</sup> Director shall from time to time constitute a selection committee consisting of at least three members with the approval of Government.

## 6.2 Limited powers over manpower

Adequate and qualified manpower is a *sine qua non* for the empowerment of ULBs. The broad framework of functions carried out by ULBs is depicted in **Table-6.2** below:

**Table-6.2: Status of wings/sections with functions in ULBs**

Municipal Corporation		
Sl. No.	Wing/Section	Functions
1.	Administration	General administration, including meetings of council and committees
2.	Revenue	Assessment and collection of various taxes, rent, advertisements and other property related activities
3.	Accounts	Preparation and maintenance of accounts, preparation of budget etc.
4.	Public health	Sanitation, street sweeping, solid waste management and other public health related activities
5.	Engineering	Construction / O & M of roads, drains, buildings, parks, playgrounds, water supply and street lighting etc.
6.	Town Planning	Town planning activities such as issue of sanctions to building plans and issue of 'No Objection Certificate' for the release of electricity, water and sewerage connections etc.
7.	Welfare	Implementation of schemes relating to Social and economic development

The State Government had following powers regarding manpower of ULBs:

- Schedule I & II of the HP Municipal Services Act, 1994 stipulates various categories<sup>3</sup> of employees required for execution of functions devolved by the State Government. However, the HP Municipal Service Act, 1994 did not define the wing/section wise category of employees. State Government may make rules for carrying out the purposes of this Act.
- As per Section 03 of HP Municipal Services Act, 1994, addition and deletion to Municipal State Level Services shall be as prescribed by the State Government.
- Further, the State Government had framed Rules like Himachal Pradesh Municipalities Executive Officer/ Secretary (Recruitment, Promotion and other Condition of Services) Rules, 2019, and Himachal Pradesh Ministerial/Non-Ministerial, Municipal Level Services Recruitment & Promotion and other conditions of Services Rules, 2005 to regulate conditions of service of Municipal Staff.

Thus, the ULBs had no powers to recruit the required staff.

## 6.3 Assessment of staff in ULBs

The 2<sup>nd</sup> Administrative Reforms Committee opined that the city government should have the power to appoint all officials including the Commissioner in accordance with

<sup>3</sup> **Schedule-I:-** Assistant Engineer, Junior Engineer; Superintendent Grade-II, Sanitary Inspectors.

**Schedule-II:-** Health Officer, Executive Engineers, Market Superintendents, Draughtsman, Asstt. Draughtsman, Patwaris, Divisional Forest Officers, Range Officers, Deputy Forest Rangers, Forest Guards, Asstt/Accountants, Tax Inspectors, Surveyors, Laboratory Technicians, Sanitary Supervisors & Clerks.

specified procedures and conditions of appointment. However, it was observed that ULBs had no power to recruit staff and all the recruitments are to be made only after obtaining the approval of the Government. It was also observed that approval of filling of posts/sanctioning new posts were made by Government without considering the actual assessments of ULBs.

The assessment of requirement of staff made by three out of 14 test-checked ULBs namely Municipal Corporation Shimla, Dharamshala and Municipal Council, Rampur and sanction accorded by the Government are discussed as below:

Sr. No.	Name of ULB	Staff demand raised by ULBs	Sanction received from State Govt.
1.	MC Shimla	212 vacant posts; 720 new posts	35 vacant posts; 20 new posts
2.	MC Dharamshala	10 additional posts	Nil
3.	MC Rampur	17 vacant posts	Nil

As is evident, the approval by the State Government for filling of posts/sanctioning new posts was not in consonance with the actual demands raised by MC, Shimla. Further, in case of Dharamshala and Rampur, the Government did not even respond to assessment of additional requirement made by ULBs. The non-filling up of required staff may have affected the basic services in the ULBs besides implementing various schemes and programmes of the Govt. effectively.

#### 6.4 Staff position in Urban Local Bodies of Himachal Pradesh

Sanctioned strength and persons-in-position of various categories in 54 ULBs of the State is given in Table below:

**Table-6.3: Staff position of ULBs in the State**

Category	Sanctioned Strength	Working Strength					Vacancy percentage
		Regular	Daily wages	Contract	Outsourced (JE & Sanitary supervisor)	Vacant	
Group A	16	15	--	--	--	1	6
Group B	86	37	--	--	--	49	57
Group C	861	439	1	45	38*	376	44
Group D	2,768	1,715	67	26	--	960	35
	3,731	2,206	68	71	38	1,386	37

\* shown as vacant post.

As can be seen from the table above that vacancy ranged from 35 per cent to 57 per cent among the various categories (except Group A), thereby hampering effective discharge of functions. Significant percentage of vacancies in the key posts are discussed as under:

- The Commissioner, Executive Officer and Secretary are the executive heads of ULBs. It was observed that 48 per cent of post of Executive Officers 57 per cent post of Secretary and 100 per cent posts of Administrative Officer and Superintendent

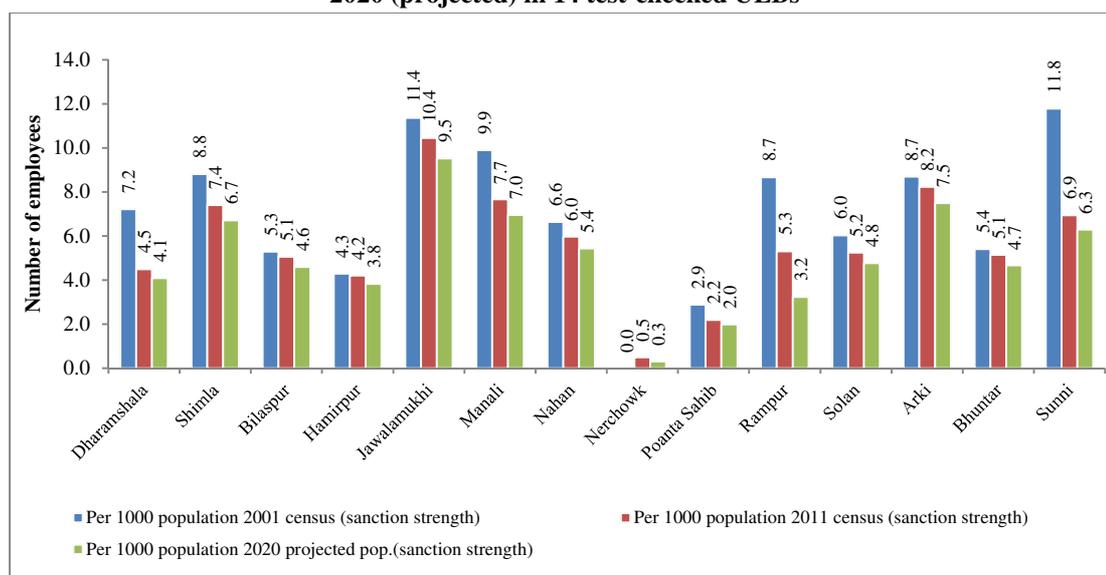
Grade-II were lying vacant affecting the delivery of public services and development works. The Sub Divisional Officers and Tehsildars have been given the additional charge of the Municipal Councils/Nagar Panchayats.

- The vacancies in technical posts such as Assistant Engineer, Junior Engineer and draughtsman ranged between 30 *per cent* and 40 *per cent*, which affected the execution of various development works of the Municipality besides resulting in poor utilisation of funds.
- Audit also observed that vacancies to the extent of 75 *per cent* in the posts of Revenue Officer (Patwari) and 100 *per cent* in the posts of Chief Accountant/Accountant affected the collection of revenue/arrears resulting in lesser realisation of own revenue as discussed in **Para 5.4**. besides affecting proper accounting and maintenance of records.

#### 6.4.1 Sanctioned strength of test-checked ULBs

The urban population of 14 test-checked ULBs which was 3.74 lakh as per 2011 census was projected at 4.25 lakh as of 2020. Analysis showed that the sanctioned strength was not commensurate with the population. In the test-checked ULBs, the sanctioned strength of ULBs per 1000 population varied from 03 to 11.7 employees per 1000 population (as per 2001 census). This ratio fell to 0.5 to 10.4 employees per 1000 population (as per 2011 census). As per the projected population in 2020, the sanctioned strength of ULBs per 1000 population would further fall down to 0.3 to 9.5 employees per 1000 projected population (2020). Comparative analysis of number of employees per 1000 population against sanctioned strength in 2001 census with 2011 census and 2020 (projected) is depicted in **Chart 6.1**:

**Chart-6.1: Employees per 1,000 population as per sanction strength for census 2001, 2011 and 2020 (projected) in 14 test-checked ULBs**

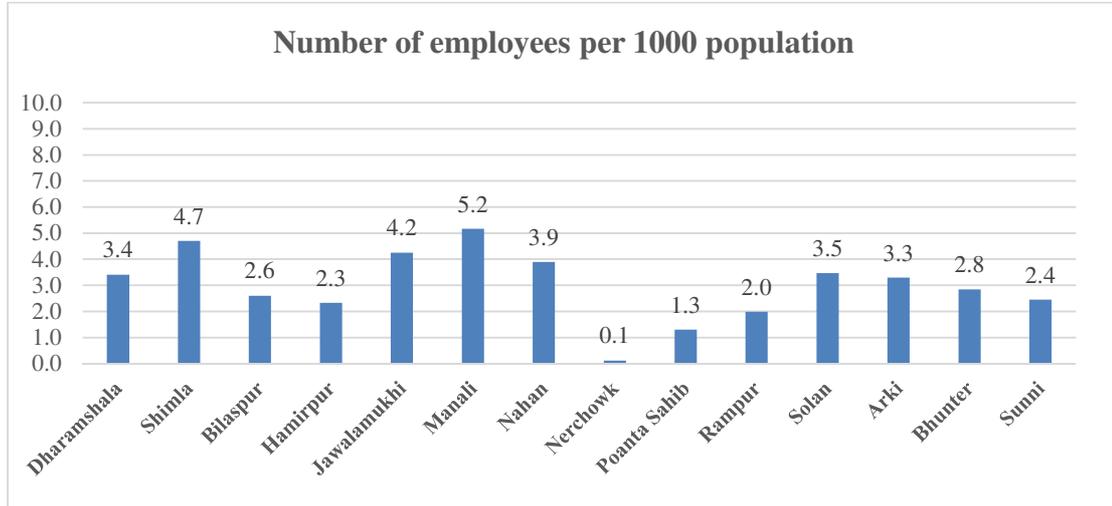


It can be seen from **Chart 6.1** that sanctioned strength of ULB officials per 1000 population is decreasing. This may be attributed to the sanctioned strength not being commensurate with the increasing population of the concerned ULBs.

### 6.4.2 Persons-in-position of test-checked ULBs

Scrutiny of 14 test-checked ULBs revealed huge variation in person-in-position per 1000 population (2020 – projected). Comparative chart is depicted below:

**Chart-6.2: Number of Employees per 1000 population as current working strength against the projected population for the year 2020**



As indicated above, 07 test-checked ULBs had 2.9 or below employees for per thousand population, 04 ULBs had between 3 and 4 employees and 03 ULBs had more than 4 employees. Evidently, the ULBs lacked adequate manpower to carry out efficient delivery of services.

### 6.4.3 Staff position in test-checked ULBs

Sanctioned strength and persons-in-position of various wings/sections in test-checked ULBs is given in **Table 6.4** and detailed post wise position of vacancies is given in **Appendix-6.1**:

**Table-6.4: Staff position in the 14 test-checked ULBs**

Sl. No.	Wing/sections	Sanctioned	Regular	Daily wages	Contract	Vacant	% Of vacancy
1.	Administration	39	19	0	0	20	51
2.	Accounts/ Revenue	264	151	0	10	103	39
3.	Sanitation Public health	884	490	8	6	380	43
4.	Engineering	794	676	8	7	103	13
5.	Town Planning	3	1	0	0	2	67
6.	Law	6	3	0	0	3	50
7.	Forest	5	2	0	0	3	60
8.	General Staff	217	135	8	1	73	34
	<b>Total</b>	<b>2,212</b>	<b>1,477</b>	<b>24</b>	<b>24</b>	<b>687</b>	<b>31</b>

As can be seen from the table above that vacancy ranged from 13 *per cent* to 67 *per cent* among the various wings/sections (March 2021).

- In nine test-checked Municipal Councils and three Nagar Panchayats, it was observed that 33 *per cent* post of Executive Officers and 100 *per cent* post of Secretary were lying vacant thereby affecting the delivery of public services and development works.

Further, human resources aspects relating to five functions discussed in **Chapter 5**, is discussed below:

### **1. Property Tax:**

As per Schedule-II of the HP Municipal Service Act, there must be a post of Tax Inspector in the ULBs. But in all the ULBs no post of Tax Inspector had been sanctioned.

In test-checked ULBs except MC Shimla generally a clerk/accountant/beldar/mason was assigned with the work of preparation of assessment list, property tax assessment and further billing and collection of property Tax.

Thus, non-sanctioning of post of Tax Inspector resulted in improper assessments and shortage of collection of the property tax in the ULBs. Performing the work through untrained staff for the assessment of property tax had compromised the quality of assessment and collection of taxes. Shortcomings in maintenance of records, preparation of assessment list, assessment and collection of property tax has been discussed in the **Paras 5.4.1 to 5.4.1.4**.

### **2. Water supply (Water Tax/Charges):**

The vacancy position in water supply wing of the MC Solan shown in the table given below:

**Table 6.5: Detail of manpower in water supply wing of MC Solan**

Name of Post	Sanction Strength	Person in position	Percentage of vacancy
Assistant Engineer	01	01	Nil
Junior Engineer	03	01+01 (contract)	33
Accountant/clerk	13	12	08
Fitter	02	Nil	100
Meter Reader	03	03	Nil
Meter Mechanic	01	Nil	100
Keymen	12	03	75
Bill Distributer	02	02	Nil

As can be seen from above table, 33 *per cent* of post of Junior Engineer, 100 *per cent* post of Fitter, 100 *per cent* post of Meter Mechanic and 75 *per cent* post of Keyman was lying vacant in the MC. This has resulted in the huge non-revenue water and short collection of water tax/charges as discussed in the **Para 5.6**.

### **3. Solid Waste Management:**

The status of manpower sanctioned and engaged for management of Solid Waste in the 14<sup>th</sup> test-checked ULBs is given in the table below:

**Table 6.6: Detail of manpower in Solid Waste Management of test-checked ULBs**

Name of Post	Sanction Strength	Person in position	Percentage of vacancy
Health Officer	02	01	50
Veterinary H.O.	01	01	00
Sanitary Inspector	20	05	75
Sanitary Supervisor	29	21	28
Safai Karamchari	788	446	43
Sanitary/Safai Jamadar	42	40	05

- In all the 14 test-checked ULBs, only an employee either Sanitary Supervisor or Junior Engineer or Safai Jamadar or Peon was handling the SWM in the municipality except for MC Shimla and Rampur.
- As evident from above table against the sanctioned 20<sup>4</sup> posts of sanitary inspectors only five<sup>5</sup> were in position (vacancy was 75 per cent) and against 29<sup>6</sup> sanctioned post of Sanitary Supervisors only 21<sup>7</sup> were in position (vacancy was 28 per cent).
- In two<sup>8</sup> ULBs, the work of Solid Waste Management was being supervised by Junior Engineers, in MC Hamirpur the work was being supervised by the Peon and in MC Bilaspur by the Safai Jamadar.
- Out of 788 sanctioned posts of Safari Karamchari, 446 (421 (regular), 19 (daily wages) and 06 (contract)) were in position in the test checked ULBs. Thus, the per cent of vacancy of Safai Karamchari was 43 per cent.

Thus, non-filling up of the vacant posts resulted in inadequate Solid Waste Management in the ULBs.

During the exit conference, the State Government stated that due to poor financial position of the ULBs, department is hiring the services on outsource basis so that efficiency of the private sector will be brought in the working of ULBs. Only those posts which are critical and cannot be outsourced will be filled up for the smooth functioning. The reply is not tenable as most of the critical posts required for smooth functioning of ULBs were still lying vacant.

## 6.5 Capacity Building

In an organization the capacity enhancement is a continuous process by which individuals obtain, improve, and retain the skills, knowledge and other resources

<sup>4</sup> Bilaspur:1, Dharamshala:1, Hamirpur:1, Jawalamukhi:1, Manali:1, Nahan:2, Nerchowk:1, Paonta Sahib:1, Rampur:1, Shimla:9 & Solan:1.

<sup>5</sup> Rampur:1, Shimla:4.

<sup>6</sup> Arki:1, Bhunter:1, Dharamshala:3, Jawalamukhi:1, Manali:1, Nahan:1, Nerchowk:1, Paonta:1, Solan:1, Shimla:17 & Sunni:1.

<sup>7</sup> Dhramshala:2, Nahan:1, Shimla:17 & Sunni:1.

<sup>8</sup> Bhunter and Jawalamukhi.

needed to do their jobs competently and efficiently. It allows individuals and organizations to perform at the utmost capacity. Capacity building is important for strengthening the capabilities of personnel and for equipping them with advanced skills to deliver better services. This would also include training needs assessment to identify areas of improvement. Establishment of Local Government Training Institution which would enable ULBs in the State for capacity building of all the stakeholders of Urban Development and functionaries & Elected Representatives of ULBs.

During the audit of UDD, it was noticed that there is no State Institute of Urban Development in the State, as it existed for Panchayati Raj Institution i.e., State Institute of Rural Development. As a result no short term / long term training programmes for the officials and non-officials engaged in ULBs could be conducted. Further, Directorate of UDD had conducted only two<sup>9</sup> trainings for the officials of ULBs during the period 2015-20.

In course of audit, following observations were noticed in all the test-checked ULBs:-

- ULBs had not organized any training schedule for the enhancement of capacity of its employees in the areas of Office Procedure and Financial Administration, Service Rules, Revenue Administration, Computer Awareness and Urban Development etc. during the period 2015-20.
- It was also noticed that staff are not recruited regularly against either the existing vacancies or the additional vacancies created due to superannuation of the staff. The existing staff, by virtue of promotion often changes position, post and level irrespective of their service capacity.

Thus, mechanism for capacity development/enhancement at regular intervals of the employees to educate them of their roles and responsibilities, was not present either in the ULBs or in the Directorate of UDD.

During the exit conference, the State Government assured that the matter will be looked into.

## **6.6 Summary of Audit Findings**

- Powers for recruitment of personnel for the ULBs was vested with the State Government.
- Powers to regulate classification, method of recruitment, conditions of service, pay and allowances, initiate disciplinary action on staff of ULBs, transfer staff across ULBs or to other Government departments, are with the State Government.
- The sanctioned strength of ULBs per 1000 population varied from 03 to 11.7 employees per 1,000 population (as per 2001 census). This ratio fell to 0.5 to

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<sup>9</sup> (i) 'Transparency and Accountability in Government Financial Management' in October 2019;  
(ii) 'Implementation of PFMS' in October 2019.

10.4 employees per 1,000 population (as per 2011 census) in the test-checked ULBs. Revision in the sanctioned strength was not done in proportion to the increase in population.

- Huge vacancies across all cadres specifically in crucial technical posts resulted in absence of adequate manpower adversely impacting the delivery of citizen services.
- No mechanism of capacity building either in the ULBs or in the Directorate of UDD for enhancement of working quality of official.

## **6.7 Recommendations**

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

- (i) entrusting the power of recruitment with the ULBs so that they can perform the function without any hurdle;
- (ii) giving emphasis to fill all the vacant posts in the ULBs at the earliest;
- (iii) revising the sanctioned strength in accordance with the responsibilities and resources of the ULBs; and,
- (iv) initiating capacity building programmes at the ULBs level as well as at Directorate level, as soon as possible.



**Chapter-VII**  
**Conclusion**



The 74<sup>th</sup> Amendment introduced Part IX A (the Municipalities) containing Articles 243P to 243ZG in the Constitution. This amendment which came into effect on 1 June 1993 authorised State Legislatures to enact laws to endow local bodies with powers and authority as may be necessary to enable them to function as institutions of self-government and make provisions for devolution of powers and responsibilities (Article 243W). The 12<sup>th</sup> Schedule lists out the 18 functions to be carried out by ULBs.

- The **first** objective of PA was to check adequacy in coverage of provisions of 74<sup>th</sup> CAA in the State Legislation.
  - The State statutes (HPMC & HPM Acts 1994) complied with the provisions of the 74<sup>th</sup> CAA, however, the legal provisions were not backed by decisive actions with regard to actual implementation resulting in a situation in which the spirit of 74<sup>th</sup> CAA was not completely upheld. This was especially true in case of provisions pertaining to the devolution of functions and creation of appropriate institutional mechanisms for effective decentralisation.
- The **second** objective of the PA was to check the ‘**Empowerment of ULBs** by the State Government to discharge their functions/responsibilities effectively through creation of appropriately designed institutions/institutional mechanisms and their functions and **extent of devolution** of the functions to the ULBs by the State Government’.

The observations in respect of this objective are as under:

- **Formation of Councils:** Elections in all the ULBs in the State were held and councils formed in due time except in MC Shimla where election was held after a delay of 12 days only. Thereby, the democratic process was followed by the ULBs.
- **Mayoral tenure:** In the State, the term of office of Mayor and Deputy Mayor was two and a half years from the date of election while the term of the President and Vice President in the case of other ULBs was for a period of five years from the date of their election. Thus, the tenure of Mayor and Deputy Mayor was not coterminous with the duration of the Municipality.

- **Frequency of meetings of ULBs:** Meetings of ULBs were not held regularly. The percentage of number of meetings of ULBs held, ranged between 35 per cent and 95 per cent during 2015-20.
- **Standing Committees:** All the three Standing Committees were though formed in all the test-checked ULBs, no meetings were held by these standing committees in 11 ULBs and in three ULBs the required number of meetings were not held. Thus, these standing committees largely remained non-functional.
- **Ward Committees** were not constituted in any of the test-checked ULBs except MC Shimla.
- **District Planning Committee** though found constituted in all the districts, but the consolidated Draft Development Plans, involving matters of common interest between the panchayats and the municipalities, for the district were not prepared in any of the test-checked 14 ULBs.
- **State Finance Commission:** There were delays of 12, 24 & 06 months in constitution of 3<sup>rd</sup>, 4<sup>th</sup> & 5<sup>th</sup> SFC which further resulted in delay of submission of report by 17, 25 & 21 months by 3<sup>rd</sup>, 4<sup>th</sup> & 5<sup>th</sup> SFC. The State Government had not implemented many of the recommendations of SFC and undertook modifications of recommendations relating to fiscal devolution. This was a setback to the process of strengthening ULBs.
- **Property Tax Board:** State Level Property Tax Board was constituted by the State Government to assist the ULBs to put in place an independent and transparent procedure for assessing property tax but no recommendation was given by the Board.
- **Impact of parastatals on ULBs:** The functions of water supply & sewerage services in MC Shimla (SJPNL), development of infrastructure, provisioning the housing needs of underprivileged citizens (HIMUDA), infrastructure development in Industrial area (HPSIDC) and Area Based Development Projects (Smart City Mission) were discharged by these Parastatals. These parastatals (SJPNL and Smart City) had their own governing bodies which do include elected representative of ULBs but are not directly accountable to ULBs. The State did not amend the statutes to make the parastatals accountable to ULBs. This arrangement infringed on the ability of ULBs to

discharge their mandated functions and undermined the objective of accountability to the people.

- **Extent of devolution of the functions to the ULBs by the State Government:** It was observed that the State Government transferred 17 out of the 18 functions. Fire Services was not transferred. Out of the 17 functions, ULBs were solely responsible for only five functions. They had no role in two functions and had limited role/dual role in six functions. While the ULBs were mere implementing agencies for four functions.
- The **third** objective of the PA was to assess whether the ULBs have been empowered to **access adequate financial resources** for discharge of functions stated to be devolved to them.
- The fiscal transfers constituted about 78 *per cent* of the revenue of ULBs during the period 2015-16 to 2019-20. However, there was shortfall in release of the committed funds by the State Government. As against ₹ 551.94 crore to be released to ULBs as per SFC recommendations, ₹ 549.95 crore was released during the period 2015-16 to 2019-20.
  - The share of own revenue to total revenue of ULBs for the period 2015-16 to 2019-20 was only 22 *per cent*. The ULBs lacked autonomy in generating their own revenue. The authority to collect certain taxes like property tax, advertisement fee vested with ULBs, powers pertaining to the rates and revision thereof (advertisement fee), procedure of collection (property tax), method of assessment, exemptions, concessions (property tax, advertisement fee) etc., were vested with the State Government. Besides, omissions such as non-conducting of regular surveys, deficiencies in maintenance of demand, collection and balance registers, and non-maintenance of records regarding user charges of municipal Solid waste, huge non-revenue water and non-collection of sewerage charges (MC Solan) hampered the revenue generation of ULBs.
  - None of the ULBs except MC Palampur, Solan and Municipal Corporation, Shimla (SJPNL) had been devolved with function of water supply.
  - Non-Revenue Water ranging between 34 *per cent* and 47 *per cent* was noticed in MC Solan.

- Further, Jal Shakti Vibhag charged the MC Solan for supplying bulk water from source to tanks of ULB at commercial rates whereas the MC Solan distributed the water to consumers at two different rates i.e., domestic & commercial rates resulted in accrued liability of ₹ 26.29 crore during 2015-20 to MC Solan.
  - Sewerage management in the State was completely vested with the Jal Shakti Vibhag except MC Shimla (SJPNL) & MC Solan (devolved with function of only collecting sewerage charge).
  - Collection of user charges for door-to-door collection of garbage varied between 01 *per cent* and 60 *per cent* of amount collectible i.e., amount collected ₹ 21.85 crore (36 *per cent*) against amount collectible ₹ 60.43 crore.
  - Budget preparation exercise was flawed and unrealistic. Scientific estimation of cost of each municipal service was not carried out, leading to huge variations between estimates and actuals.
  - ULBs were able to generate own resources to the extent of only 62 *per cent* of revenue expenditure and had utilised on an average about 63 *per cent* of the total available funds.
  - The powers of ULBs were limited in respect of administrative approvals and technical sanctions.
- The **fourth** objective of the PA was to assess whether the ULBs have been empowered to **access adequate human resources** for discharge of functions stated to be devolved to them.
- The powers for recruitment of personnel for ULBs vested with the State Government.
  - The State had the powers to regulate method of recruitment, conditions of service, pay and allowances across ULBs.
  - Revision in the sanctioned strength of ULBs were not done in proportion to the increase in population.

- The ULBs lacked adequate manpower as there were substantial vacancies across all cadres affecting efficient delivery of services.
- No mechanism for capacity building of ULBs was in existence.

**Shimla**  
**Dated: 17 June 2022**

  
**(Ritu Dhillon)**  
**Principal Accountant General (Audit)**  
**Himachal Pradesh**

*Countersigned*

**New Delhi**  
**Dated: 28 June 2022**

  
**(Girish Chandra Murmu)**  
**Comptroller and Auditor General of India**



# **Appendices**

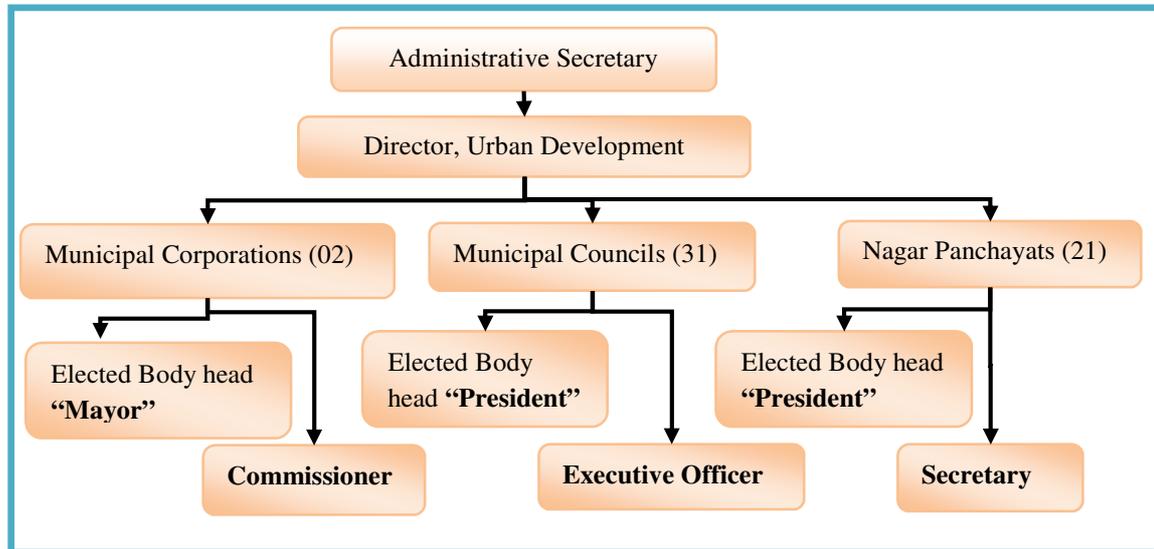


# APPENDICES

## Appendix-1.1

(Reference: Paragraph 1.4, page 2)

### Organisational Structure in respect to functioning of ULBs in the State



**Appendix-1.2**

*(Reference: Paragraph 1.4, page 2)*

**List of parastatals and their functions**

<b>Sl. No.</b>	<b>Parastatal</b>	<b>Functions</b>
1.	Shimla Jal Prabhadhan Nigam Ltd.	Water supply and sewerage system management in Shimla city
2.	Himachal Pradesh Housing and Urban Development Authority (HIMUDA)	To plan and develop land and create infrastructure to meet with the housing needs of different income groups.
3.	Himachal Pradesh State Industrial Development Corporation Ltd. (HPSIDC)	Major agency in the State to promote and setting up of Small, Medium & Large scale Industrial units in the state.
4.	Smart City Dharamshala and Shimla	To promote sustainable and inclusive cities that provide core infrastructure and give a decent quality of life to its citizen.

**Appendix-2.1***(Reference: Paragraph 2.3, page 3)***List of selected ULBs**

<b>Sl. No.</b>	<b>Name of the District</b>	<b>Name of ULB</b>	<b>Category of Municipality</b>
1.	Bilaspur	Bilaspur	Municipal Council
2.	Hamirpur	Hamirpur	Municipal Council
3.	Kangra	Dharamshala	Municipal Corporation
4.		Jawalamukhi	Municipal Council
5.	Kullu	Bhuntar	Nagar Panchayat
6.		Manali	Municipal Council
7.	Mandi	Nerchowk	Municipal Council
8.	Shimla	Shimla	Municipal Corporation
9.		Rampur	Municipal Council
10.		Sunni	Nagar Panchayat
11.	Sirmour	Nahan	Municipal Council
12.		Paonta Sahib	Municipal Council
13.	Solan	Arki	Nagar Panchayat
14.		Solan	Municipal Council

**Appendix-4.1**

*(Reference: Paragraph 4.2.1.6, Page 15)*

**Details of number of Meetings of Municipalities held during 2015-20**

<b>Sr. No.</b>	<b>Name of the ULB</b>	<b>No. of meetings to be held</b>	<b>No. of meetings held during 2015-20</b>	<b>% of meetings held</b>
1.	NP Arki	60	39	<b>65</b>
2.	NP Bhuntar	60	35	<b>58</b>
3.	MC Bilaspur	60	41	<b>68</b>
4.	Municipal Corporation Dharamshala (New MC constituted on April 2016)	48	24	<b>50</b>
5.	MC Jawalmukhi	60	41	<b>68</b>
6.	MC Hamirpur	60	29	<b>48</b>
7.	MC Nerchowk	60	23	<b>38</b>
8.	MC Nahan	60	45	<b>75</b>
9.	MC Paonta Sahib	60	47	<b>78</b>
10.	MC Rampur	60	37	<b>62</b>
11.	Municipal Corporation, Shimla	60	55	<b>92</b>
12.	MC Solan	60	21	<b>35</b>
13.	NP Sunni	60	57	<b>95</b>

### Appendix 4.2

(Reference: Paragraph 4.2.5.2, Page 19)

#### Non/partial implementation of SFCs recommendations

Sl. No.	Name of the SFC/ Para No.	Content of recommendation	Action taken report	Status of implementation
1	<u>First/19.1</u>	Some of the local government bodies are not levying the rates and taxes which should be statutorily levied by them. It should be mandatory for all to raise resources within their purview. The Commission feels that in case some local government bodies do not collect the statutory levies, the resources transfers recommended through this report of the Commission should not be released. Compliance to collect taxes at the local level should only qualify these bodies for availing the resource transfers from the consolidated fund of the State.	All the municipalities have been directed by the Government. to get house tax compulsorily imposed. Whereas the Government. has not accepted the recommendation of Commission stating that the withholding of grants will not be a desirable step.	Partially implemented. ➤ MC Solan and Nerchowk are not levying Property Tax, seven <sup>1</sup> ULBs levying property tax on the Old method i.e., Annual Rental Value, four <sup>2</sup> with the New Unit Area method and MC Nahan was levying tax as per his own method. ➤ Property Tax has been discussed in detail in Paragraph 5.4.1
2	<u>First/19.1</u>	In developing and expanding the civic infrastructure, the Urban Local Bodies should increasingly resort to negotiated loans from the national funding agencies.	HPMC Act allows the corporation to raise loans but there is no such provision in the HPM Act. Steps are being taken to amend the HPM Act.	<b>Not implemented.</b> HPM Act, 1994 not amended yet, as a result the MCs and NPs are not in a position to raise loans from the national funding agencies.
3	<u>Third 14.20-22</u>	The Commission has recommended differential taxation for urban properties according to their geographical location within a town on the same lines as was recommended by the Second State Finance Commission. The details of this design are contained in paragraphs 14.20 to 14.22 and the State Government may consider setting up a study group to go into the suggestions made and amend the statutes on these lines subsequently as such a suggestion has also been made under the National Urban Renewal Mission.	The Property Tax Board has been constituted to review the present property tax system in the municipalities including adoption of Unit area Method and flexibility of rates. Amendments under Section 65 and 86 of HPM and HPMC Act has been done.	<b>Partially implemented.</b> ➤ Out of 14 test-checked ULB, only four <sup>3</sup> ULBs were levying property tax as per New Unit Area Method. The number of ULBs that have adopted unit area method has been discussed in Paragraph 5.4.1.2.

<sup>1</sup> Annual rental value: NP Bhuntar, Sunni, MC Hamirpur, Manali, Poanta Sahib, Rampur M/Corporation Dharamsala.

<sup>2</sup> NP Arki, MC Bilaspur, Jawalamukhi and M/Corporation Shimla.

<sup>3</sup> NP Arki, MC Bilaspur, Jawalamukhi and M/Corporation Shimla.

4	<u>Third</u> <u>16.17</u>	The need for continuity of an institutional mechanism to track the implementation of the recommendation made by the SFCs & CFCs and to collect and compile the financial data relating to the local government institutions on a regular basis needs no over-emphasis. The Fourth Finance Commission also reiterated the permanent institutional arrangement. The 13 <sup>th</sup> FC also recommend for the same.	The Government. stated that work relating to the SFCs will be carried out without any additional creation of posts as permanent staff will lead a heavy financial burden on the State Government. exchequer.	<b>Not implemented.</b> This has resulted delayed in constitution of the State Finance Commission and implementation of recommendations as discussed in Paragraph 4.2.5.1
5	<u>Fourth</u> <u>13.11(10)</u>	The Commission observed that the District Planning Committees have been constituted in all districts, however, DPCs are fully functional only in two Districts viz., Chamba and Sirmour and preparing draft development plan. Efforts may be made to implement District Planning Committees in all Districts and to provide more teeth to the District Planning Committee. The State Government may consider merging the functions assigned to the District Planning, Development and 20 Point Programme Revised Committee, constituted by Planning Department Himachal Pradesh with the functions of the District Planning Committee.	Action Taken Report (ATR) awaited	<b>Not implemented.</b> The Draft Development Plan (DDP) regarding to matters of common interest between the panchayats and the municipalities was not prepared by any of municipalities as discussed in Paragraph 4.2.4. <b>(Formation of Distt. Planning Committees)</b>
6	<u>Fourth</u> <u>11.18</u>	The Commission was of the view that the users of the urban areas could well afford to pay extra money for more improvement supply of street lighting. Therefore, the commission of the view that the rate of electricity tax could be increased from the existing rate of 2 paisa per unit to a 5 paisa per unit specially in the case of municipalities to liquidates the pending arrear on account of street lighting.	ATR Awaited	<b>Not implemented.</b> The electricity tax is being levied at the existing rate of 2 paisa per unit in all the test-checked ULBs
7	<u>Fourth</u> <u>13.11(9)</u>	The Commission observed that most of the departments have not transferred funds, functions and functionaries as per the notification made by the UDD. To meet the constitutional obligations and to empower local bodies the State Government. should Constitute a High-Powered Committee of Secretaries of the concerned line departments under the Chairmanship of Chief Secretary to GoHP. To oversee the entire process of delegation /devolution of funds, functions and functionaries to the ULBs to strengthen the local governance system	ATR Awaited	<b>No such High-Powered Committee was constituted.</b> No real effort was made to transfer funds, functions, and functionaries. Last such effort was made in the year 2004, under the chairmanship of Principal Secretary to Government. of HP (September 2004).

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8	<u>Fifth (R-5)</u>	The Commission has also recommended creation of a Centralized Pension Fund to meet the pensionary benefits of the State Cadre Officers retired from the Urban Local Bodies who are eligible for pensions by taking contribution from such municipal bodies where such offices have worked. This is essential because, otherwise, the burden of pensionary benefits falls on the Urban Local Body where from the person retires.	Action Taken Report awaited	Centralized Pension and Gratuity Fund has not been created. The Municipalities are maintaining Pension and Gratuity Fund at their own level.
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**Appendix-5.1(A)**

(Reference: Paragraph 5.2.2.1, Page 32)

**Service Level Benchmark indicators of 2017-18 for the Performance Grant of 2018-19**

Sl. No.	Name of the ULB	Audit of Accounts	Covering Establishment Cost and O&M Cost from own Income	Capital Expenditure as a part of Total Expenditure	Water Supply Coverage	Reduction in Non-Revenue Water	Coverage of Water Supply of Public & Community Toilets	Percentage of waste being processed scientifically	Total Score
1	<u>Arki</u>	0	0	20	15	15	0	0	50
2	<u>Bilaspur</u>	0	0	20	15	15	0	0	50
3	<u>Bhuntar</u>	0	0	20	0	0	0	0	20
4	<u>Dharamshala</u>	0	0	20	15	10	0	0	45
5	<u>Jawalamukhi</u>	0	15	20	15	15	0	0	65
6	<u>Hamirpur</u>	0	0	20	15	15	0	0	50
7	<u>Manali</u>	0	20	20	0	0	10	0	50
8	<u>Nahan</u>	0	0	20	15	15	0	5	55
9	<u>Nerchowk</u>	0	0	0	5	15	0	0	20
10	<u>Paonta Sahib</u>	0	0	20	0	0	0	0	20
11	<u>Rampur</u>	0	20	20	0	0	0	0	40
12	<u>Shimla</u>	0	0	10	10	10	0	0	30
13	<u>Solan</u>	0	20	20	15	15	0	0	70
14	<u>Sunni</u>	0	0	20	10	15	0	0	45

## Appendix-5.1(B)

(Reference: Paragraph 5.2.2.1, Page 32)

## Service Level Benchmark indicators of the year 2018-19 for the Performance Grant of 2019-20

Sl. No.	Name of the ULB	Audit of Accounts	Covering Establishment Cost and O&M Cost from own Income	Capital Expenditure as a part of Total Expenditure	Water Supply Coverage	Reduction in Non-Revenue Water	Coverage of Water Supply of Public & Community Toilets	Percentage of waste being processed scientifically	Total Score
1	Arki	0	0	20	15	15	0	0	50
2	Bilaspur	0	0	10	15	15	0	0	40
3	Bhuntar	0	0	20	0	0	0	0	20
4	Dharamshala	0	10	20	15	15	0	0	60
5	Jawalamukhi	0	15	20	15	15	0	0	65
6	Hamirpur	0	0	20	15	15	0	0	50
7	Manali	0	20	20	0	0	10	0	50
8	Nahan	0	15	20	15	10	0	5	65
9	Nerchowk	0	0	0	5	15	0	0	20
10	Paonta Sahib	0	0	20	0	0	0	0	20
11	Rampur	0	20	20	10	10	0	0	60
12	Shimla	0	0	15	10	10	0	0	35
13	Solan	0	20	20	15	15	0	0	70
14	Sunni	0	15	20	10	15	0	0	60

**Appendix-5.2**

(Reference: Paragraph 5.4, Page 35)

**Detail of revenue receipts received in the test-checked ULBs during the period  
2015-16 to 2019-20**

**Sources of Revenue of Test-Checked ULBS for the period 2015-20**

**Year: 2015-16 (₹ in lakh)**

Sr. No.	Name of the ULB	Grants						own revenue	Assigned revenue	Total	Total Revenue	% of own revenue to total revenue
		Central sponsored schemes	CFC	Total	State sponsored schemes	SFC	Total					
1	Arki	22.21	7.42	29.63	7.15	44.8	51.95	15.99	2.84	18.83	100.41	16
2	Bilaspur	13.39	57.58	70.97	12.48	180.32	192.8	30.54	4.15	34.69	298.46	10
3	Bhuntar	1.06	17.6	18.66	11.43	57.62	69.05	33.81	4.98	38.79	126.5	27
4	Dharamshala	652.12	89.51	741.63	1,623.43	298.79	1,922.22	341.09	15.91	357	3,020.85	11
5	Jawalamukhi	427.94	22.92	450.86	29.65	70.8	100.45	94.84	5.06	99.9	651.21	15
6	Hamirpur	59.89	67.16	127.05	84.01	232.48	316.49	168.74	11.35	180.09	623.63	27
7	Manali	1.99	19.02	21.01	109.27	119.32	228.59	456.37	20.1	476.47	726.07	63
8	Nahan	0	21.61	21.61	83.9	372.21	456.11	143.29	2.21	145.5	623.22	23
9	Nerchowk	0	0	0	0	100	100	17.5	0	17.5	117.5	15
10	Paonta Sahib	7.79	94.65	102.44	13.8	332.57	346.37	354.44	10.61	365.05	813.86	44
11	Rampur	132.87	91.99	224.86	45.4	4.55	49.95	304.29	4.08	308.37	583.18	52
12	Shimla	2,397.05	631.29	3,028.34	1,352.51	2,546.42	3,898.93	5,418.49	279.76	5,698.25	12,625.52	43
13	Solan	277.7	144.6	422.3	19.44	518.43	537.87	760.51	33.03	793.54	1,753.71	43
14	Sunni	4.32	7.93	12.25	4.73	35.56	40.29	15.24	5.16	20.4	72.94	21
	<b>Total</b>	<b>3,998.33</b>	<b>1,273.28</b>	<b>5,271.61</b>	<b>3,397.2</b>	<b>4,913.87</b>	<b>8,311.07</b>	<b>8,155.14</b>	<b>399.24</b>	<b>8,554.38</b>	<b>22,137.06</b>	

**Year: 2016-17 (₹ in lakh)**

Sr. No.	Name of the ULB	Grants					Total	own revenue	Assigned revenue	Total	Total Revenue	% of own revenue to total revenue
		Central sponsored schemes	CFC	Total	State sponsored schemes	SFC						
1	Arki	50.1	15.09	65.19	7.41	42.41	49.82	22.06	0	22.06	137.07	16
2	Bilaspur	228.72	70.89	299.61	156.92	190.49	347.41	46.02	13.08	59.1	706.12	7
3	Bhuntar	1.39	23.48	24.87	53.72	62.43	116.15	37.94	0	37.94	178.96	21
4	Dharamshala	1,610.87	253.03	1,863.9	450.17	746.99	1,197.16	421.68	2.08	423.76	3,484.82	12
5	Jawalamukhi	55.69	28.1	83.79	199.93	74.79	274.72	154.15	5.3	159.45	517.96	30
6	Hamirpur	30.19	84.91	115.1	243.34	245.6	488.94	209.18	0	209.18	813.22	26
7	Manali	0	39.5	39.5	25.38	112.95	138.33	423.68	1.4	425.08	602.91	70
8	Nahan	38.39	94.07	132.46	550.15	0	550.15	704.77	6.27	711.04	1,393.65	51
9	Nerchowk	3.66	86	89.66	80.67	227.48	308.15	145.29	0	145.29	543.1	27
10	Paonta Sahib	106.08	119.92	226	15.5	351.33	366.83	257.3	0	257.3	850.13	30
11	Rampur	83.62	17.58	101.2	24	155.36	179.36	503.08	3.85	506.93	787.49	64
12	Shimla	1,896.16	803.95	2,700.11	5,917.43	2,665.83	8,583.26	5,493.71	190.61	5,684.32	16,967.69	32
13	Solan	101.24	184.27	285.51	416.55	547.68	964.23	954.27	0.73	955	2,204.74	43
14	Sunni	95.37	13.27	108.64	2.45	36.15	38.6	22.02	3.32	25.34	172.58	13
	<b>Total</b>	<b>4,301.48</b>	<b>1,834.06</b>	<b>6,135.54</b>	<b>8,143.62</b>	<b>5,459.49</b>	<b>13,603.11</b>	<b>9,395.15</b>	<b>226.64</b>	<b>9,621.79</b>	<b>29,360.44</b>	

**Year: 2017-18 (₹ in lakh)**

Sr. No.	Name of the ULB	Grants					Total	own revenue	Assigned revenue	Total	Total Revenue	% of own revenue to total revenue
		Central sponsored schemes	CFC	Total	State sponsored schemes	SFC						
1	Arki	32.68	13.51	46.19	38.91	46.65	85.56	17.78	5.87	23.65	155.4	11
2	Bilaspur	238.07	65.28	303.35	33.92	209.54	243.46	47.92	4.86	52.78	599.59	8
3	Bhuntar	0	19.74	19.74	29.45	68.68	98.13	36.98	0	36.98	154.85	24
4	Dharamshala	1,267.92	260.69	1,528.61	423.27	821.69	1,244.96	556.29	19.99	576.28	3,349.85	17
5	Jawalamukhi	56.85	26.02	82.87	108.73	82.27	191	164.93	5.11	170.04	443.91	37
6	Hamirpur	58.53	74.73	133.26	183.03	270.16	453.19	216.74	14.21	230.95	817.4	27
7	Manali	1.1	35.02	36.12	119.37	124.24	243.6	475.33	0.78	476.11	755.83	63
8	Nahan	196.41	144	340.41	252	662.04	914.04	410.65	14.9	425.55	1680	24
9	Nerchowk	2.78	79.91	82.69	52	250.22	302.22	82.59	5.07	87.66	472.57	17
10	Paonta Sahib	512.05	105.44	617.49	15.5	386.46	401.96	290.72	22.95	313.67	1,333.12	22
11	Rampur	121.64	38.47	160.11	111.74	141.78	253.52	494.27	3.49	497.76	911.39	54
12	Shimla	2,756.86	699.58	3,456.44	1,997.82	2,902.42	4,900.24	4,772.82	188.86	4,961.66	13,318.34	36
13	Solan	55.03	160.5	215.53	29.6	602.44	632.04	993.5	57.89	1,051.39	1,898.96	52
14	Sunni	1.82	12.35	14.17	14.4	39.76	54.16	19.56	2.29	21.85	90.18	22
	<b>Total</b>	<b>5,301.74</b>	<b>1,735.24</b>	<b>7,036.98</b>	<b>3,409.74</b>	<b>6,608.35</b>	<b>10,018.08</b>	<b>8,580.08</b>	<b>346.27</b>	<b>8,926.33</b>	<b>25,981.39</b>	

**Year:2018-19 (₹ in lakh)**

Sr. No.	Name of the ULB	Grants					Total	own revenue	Assigned revenue	Total	Total Revenue	% of own revenue to total revenue
		Central sponsored schemes	CFC	Total	State sponsored schemes	SFC						
1	Arki	59.94	7.8	67.74	2.4	51.47	53.87	17.37	2.54	19.91	141.52	12
2	Bilaspur	28.67	70.34	99.01	30.34	231.18	261.52	82.82	2.94	85.76	446.29	19
3	Bhuntar	36.34	11.41	47.75	67.89	75.77	143.66	60.56	0	60.56	251.97	24
4	Dharamshala	1,176.71	127.99	1,304.7	524.26	906.57	1,430.83	758.18	39.58	797.76	3,533.29	21
5	Jawalamukhi	113.07	15.03	128.1	6.7	90.77	96.47	165.96	2.59	168.55	393.12	42
6	Hamirpur	55.17	43.2	98.37	162.5	298.06	460.56	218.25	12.6	230.85	789.78	28
7	Manali	6.75	94.72	101.47	355.59	137.08	492.67	426.41	1.98	428.39	1,022.53	42
8	Nahan	205.28	172.8	378.08	932.37	794.88	1,727.25	955.77	17.8	973.57	3,078.9	31
9	Nerchowk	274.4	46.14	320.54	39.25	276.06	315.31	99.16	5.15	104.31	740.16	13
10	Paonta Sahib	125.35	60.95	186.3	15.46	426.38	441.84	301.76	6.4	308.16	936.3	32
11	Rampur	85.46	22.24	107.7	11.96	156.43	168.39	435.72	0.41	436.13	712.22	61
12	Shimla	3,184.24	404.49	3,588.7	2,728.6	3,171.21	5,899.81	3,729.43	316.71	4,046.14	13,534.65	28
13	Solan	5.77	92.8	98.57	81.5	664.67	746.17	1,038.93	35.38	1,074.31	1,919.05	54
14	Sunni	8.42	6.99	15.41	14.44	43.87	58.31	35.13	0.88	36.01	109.73	32
	<b>Total</b>	<b>5,365.57</b>	<b>1,176.9</b>	<b>6,542.44</b>	<b>4,973.26</b>	<b>7,324.4</b>	<b>12,296.66</b>	<b>8,325.45</b>	<b>444.96</b>	<b>8,770.41</b>	<b>27,609.51</b>	

**Year: 2019-20 (₹ in lakh)**

Sr. No.	Name of the ULB	Grants					Total	own revenue	Assigned revenue	Total	Total Revenue	% of own revenue to total revenue
		Central sponsored schemes	CFC	Total	State sponsored schemes	SFC						
1	Arki	31.74	14.96	46.7	24.02	60.01	84.03	22.68	3.98	26.66	157.39	14
2	Bilaspur	93.49	37.7	131.19	24.12	264.93	289.05	69.58	4.6	74.18	494.42	14
3	Bhuntar	3.2	27.38	30.58	62.16	71.5	133.65	53.22	0	53.22	217.45	24
4	Dharamshala	626.58	363.68	990.26	227.98	1,159.77	1,387.75	617.07	50.52	667.59	3,045.6	20
5	Jawalamukhi	31.32	3.85	35.17	17.7	119.42	137.12	388.13	2.84	390.97	563.26	69
6	Hamirpur	37	101.23	138.23	55.22	298.04	353.26	563.97	13.23	577.2	1,068.69	53
7	Manali	6.74	47.42	54.16	29.2	139.57	168.77	510.62	0.59	511.21	734.14	70
8	Nahan	236.07	198.72	434.79	1,072.24	914.11	1,986.35	929.76	20.56	950.32	3,371.46	28
9	Nerchowk	37.43	107.78	145.21	38.78	338.78	377.56	151.44	5.74	157.18	679.95	22
10	Paonta Sahib	62.66	142.88	205.54	55	427.26	482.26	292.49	9.58	302.07	989.87	30
11	Rampur	50.66	52.14	102.8	1.5	174.31	175.81	244.76	0	244.76	523.37	47
12	Shimla	6,968.75	943.49	7,912.24	1,116.54	3,101.58	4,218.12	2,625.34	233.09	2,858.43	14,988.79	18
13	Solan	46.12	217.67	263.79	37.37	688.3	725.67	1,097.16	40.9	1,138.06	2,127.52	52
14	Sunni	15.32	16.5	31.82	14	42.58	56.58	29.48	0	29.48	117.88	25
	<b>Total</b>	<b>8,247.08</b>	<b>2,275.4</b>	<b>10,522.48</b>	<b>2,775.83</b>	<b>7,800.16</b>	<b>10,575.98</b>	<b>7,595.7</b>	<b>385.63</b>	<b>7,981.33</b>	<b>29,079.79</b>	

**Revenue from all sources of the Test-Checked ULBs for the period 2015-20**  
(₹ in lakh)

Sr. No.	Name of the ULB	Grants					Total	own revenue	Assigned revenue	Total	Total Revenue (3+6+9)	% of own revenue to total revenue
		Central sponsored schemes	CFC	Total	State sponsored schemes	SFC						
		1	2	3	4	5	6	7	8	9		
1	Arki	196.67	58.78	255.45	79.89	245.34	325.23	95.88	15.23	111.11	691.79	14
2	Bilaspur	602.34	301.79	904.13	257.78	1,076.46	1,334.24	276.88	29.63	306.51	2,544.88	12
3	Bhuntar	41.99	99.61	141.6	224.65	336	560.64	222.51	4.98	227.49	929.73	24
4	Dharamshala	5,334.2	1,094.9	6,429.1	3,249.11	3,933.81	7,182.92	2,694.31	128.08	2,822.39	16,434.41	16
5	Jawalamukhi	684.87	95.92	780.79	362.71	438.05	799.76	968.01	20.9	988.91	2,569.46	39
6	Hamirpur	240.78	371.23	612.01	728.1	1,344.34	2,072.44	1,376.88	51.39	1,428.27	4,112.72	32
7	Manali	16.58	235.68	252.26	638.81	633.16	1,271.96	2,292.41	24.85	2,317.26	3,841.48	62
8	Nahan	676.15	631.2	1,307.35	2,890.66	2,743.24	5,633.9	3,144.24	61.74	3,205.98	10,147.23	31
9	Nerchowk	318.27	319.83	638.1	210.7	1,192.54	1,403.24	495.98	15.96	511.94	2,553.28	19
10	Paonta Sahib	813.93	523.84	1,337.77	115.26	1,924	2,039.26	1,496.71	49.54	1,546.25	4,923.28	32
11	Rampur	474.25	222.42	696.67	194.6	632.43	827.03	1,982.12	11.83	1,993.95	3,517.65	56
12	Shimla	17,203.06	3,482.8	20,685.83	13,112.9	14,387.46	27,500.36	22,039.77	1,209.03	23,248.8	71,434.99	31
13	Solan	485.86	799.84	1,285.7	584.46	3,021.52	3,605.98	4,844.37	167.93	5,012.3	9,903.98	49
14	Sunni	125.25	57.04	182.29	50.02	197.92	247.94	121.43	11.65	133.08	563.31	23
	<b>Total</b>	<b>27,215.2</b>	<b>8,296.88</b>	<b>35,512.05</b>	<b>22,703.65</b>	<b>32,111.27</b>	<b>54,810.9</b>	<b>42,058.5</b>	<b>1,810.74</b>	<b>43,863.24</b>	<b>1,34,168.2</b>	<b>32</b>

**Appendix-5.3**

(Reference: Paragraph 5.4.1.1, Page 36)

**Methods of calculation of property tax**

<b>ARV (Rate of tax 7.5% to 12.5%)</b>		<b>UAV (Rate of tax 01% to 25%)</b>
<b>Land</b>	i) fair rent fixed under the law relating to rent restriction for the time being in force; <b>or</b>  ii) where no fair rent referred in item (i) is fixed, at which it is expected to be let or it is actually let, whichever is greater; <b>or</b> 10% of the cost of land (if gross annual rent of land could not be determined in (i) and (ii))	Actual area of land (Sqm) x location factor for the particular zone
<b>House or Building</b>	i) On which the building or house is let or  ii) If gross annual rent cannot be determined as referred in item (i) then 10 <i>per cent</i> of the sum of the cost of erection of the building and cost of land  iii) Deduction of 10 <i>per cent</i> for cost of repairs and for other expenses necessary to maintain the building.  <b>(Annual rental value = Monthly rental value x 12-10%)</b>	i) Per square metre of plinth area) x location factor x age factor x use factor x structure factor x occupancy prescribed for the particular zone  ii) Deduction of 10 <i>per cent</i> for cost of repairs and for other expenses necessary to maintain the building.  iii) Method for calculation of ratable value and Rate of property tax on the ratable value of the unit of lands and Buildings shall be prescribed by the Bye-Laws

**Appendix-5.4**

(Reference: Paragraph 5.6, Page 46)

**Statement showing demand and collection of charges against the water supply and expenditure on O&M incurred by the various agencies****1. MC Solan**

(₹ in lakh)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Opening Balance	74.74	80.26	84.00	106.37	124.89	<b>74.74</b>
Demand raised	223.57	286.18	311.14	347.77	378.44	<b>1,547.10</b>
Total Demand	298.31	366.44	595.14	454.13	503.33	<b>1,621.84</b>
Collection	218.05	282.44	288.77	329.24	390.08	<b>1,508.58</b>
Closing Balance	80.26	84.00	106.37	124.89	113.25	<b>113.25</b>
O&M Cost	234.71	241.82	297.14	324.76	288.80	
<b>Collection against Demand</b>	<b>73</b>	<b>77</b>	<b>48</b>	<b>72</b>	<b>77</b>	<b>93</b>

**2. MC Shimla & SJPNL**

(₹ in lakh)

Year	2015-16	2016-17	2017-18	Total	2018-19	2019-20	Total
Opening Balance	783.05	994.54	1,203.19	<b>783.05</b>	575.26	2,338.10	<b>575.26</b>
Demand raised	2,123.54	2,370.87	2,371.79	<b>6,866.20</b>	2,213.48	1,751.90	<b>3,965.38</b>
Total Demand	2,906.59	3,365.41	3,574.98	<b>7,649.25</b>	2,788.74	3,990.00	<b>4,540.64</b>
Total Collection	1,912.05	2,162.22	1,983.44	<b>6,057.71</b>	550.63	1,685.13	<b>2,235.76</b>
Closing Balance	994.54	1,203.19	1,591.54	<b>1,591.94</b>	2,238.10	2,304.87	<b>2,304.87</b>
O&M Cost	65.60	121.36	1,963.15		569.44	1,486.64	
<b>Collection against Demand (%)</b>	<b>66</b>	<b>64</b>	<b>55</b>	<b>79</b>	<b>20</b>	<b>42</b>	<b>49</b>

Note: As per the information supplied by the MC Shimla an amount of ₹ 1591.54 lakh was the CB (31.03.2018), however, SJPNL had shown OB (01.04.2018) ₹575.26 lakh, which resulted in difference in OB of ₹ 1016.28 lakh.

**3. Jal Shakti Vibhag**

Perusal of information received from the four Jal Shakti Divisions<sup>4</sup> in the test-checked ULBs revealed that average collection of water charges was 87 per cent against the demand raised (2015-16 to 2019-20).

(₹ in lakh)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Opening Balance	43.43	59.09	87.89	105.13	113.91	<b>43.43</b>
Demand raised	181.55	248.18	229.18	239.66	284.50	<b>1,183.07</b>
Total Demand	224.98	307.27	317.08	344.79	398.41	<b>1,226.5</b>
Total Collection	165.89	219.38	211.95	230.88	235.71	<b>1,063.81</b>
Closing Balance	59.09	87.89	105.13	113.91	162.70	<b>162.69</b>
O&M Cost	185.76	117.99	202.74	202.03	305.77	
<b>Collection against Demand (%)</b>	<b>74</b>	<b>71</b>	<b>67</b>	<b>67</b>	<b>59</b>	<b>87</b>

<sup>4</sup> Arki, Dharamshala, Hamirpur and Kullu (Bhuntar).

**Appendix-5.5**

(Reference: Paragraph 5.8.2, Page 49)

**Statement of collection of user charges, collectable user charges and revenue expenditure on Solid Waste Management**

(₹ in Lakh)

Sl. No.	Name of ULB	Period of collection	Amount Collectible*	Amount collected	Difference	Percentage amount collected to collectible	Revenue Expd. on SWM is for same period	Percentage of collection to Expenditure
1	Municipal Corporation, Dharamshala	Sept 2019 to Jan 2021	207.65	18.43	189.21	9	561.75	3
2	Municipal Corporation, Shimla	April 2015 to March 2020	4,855.77*	1,940.57	2,915.20	40	3,585.08	54
3	Municipal Council, Bilaspur	Feb 2020 to Dec 2020	27.97	16.70	11.27	60	28.54	58
4	Municipal Council, Hamirpur	April 2018 to Mar 2020	65.46	29.87	35.59	46	172.44	17
5	Municipal Council, Jawalamukhi	Jan 2019 to Jan 2021	36.25	0.37	35.88	1	34.00	1
6	Municipal Council, Manali	April 2015 to March 2020	90.26	45.82	44.44	51	401.37	11
7	Municipal Council, Nahan	June 2019 to Nov 2020	175.20	25.85	149.35	15	NA	NA
8	Municipal Council, Nerchowk	April 2018 to Mar 2020	74.40	2.49	71.93	3	135.94	2
9	Municipal Council, Poanta Sahib	Nov 2019 to Nov 2020	59.65	1.69	57.96	3	144.89	1
10	Municipal Council, Rampur	May 2018 to March 2020	82.95	15.39	67.56	19	80.32	19
11	Municipal Council, Solan	April 2015 to March 2020	297.26	76.03	221.23	26	306.66	25
12	Nagar Panchayat, Arki	April 2019 to Dec 2020	17.69	4.59	13.09	26	16.23	28
13	Nagar Panchayat, Bhuntar	April 2015 to March 2020	29.65	1.26	28.38	4	88.76	1
14	Nagar Panchayat, Sunni	April 2019 to Jan 2021	23.12	6.14	16.98	27	26.32	23

\* Calculation of amount collectible (Various categories of properties \* different rates as specified in the Bye-laws \* No of months taken for calculation).

In case of MC Shimla, number of domestic, commercial and industrial establishments was arrived on the basis of number of electricity connections from HP Electricity Board and number of hotels taken from Deptt. of Tourism & Civil Aviation. Amount collectible calculated by multiplying minimum user charges in respect of domestic, commercial and industrial establishments paying MC Tax and allowing 10 per cent rebate for probable un-occupancy every year.

## Appendix-5.6

(Reference: Paragraph 5.9.1, Page 50)

## Statement showing variation in budget in each category of ULB

(₹ in lakh)

Category of ULB	Name of the ULB	Year	Receipts			Expenditure		
			Budgeted	Actuals	Percentage of actual to budget (%)	Budgeted	Actuals	Percentage of actual to budget (%)
Corporation	Shimla	2015-16	12,172.3	12,625.52	103	16,612.3	11,722.43	71
		2016-17	18,196.6	16,966.69	93	21,517.52	13,388.5	62
		2017-18	40,167.27	13,318.34	33	35,713.77	14,946.28	42
		2018-19	35,505.1	13,534.68	38	34,323	13,584.09	40
		2019-20	29,752.59	14,988.79	50	29,623.22	13,580.94	46
	Dharamshala	2015-16	748.12	3,020.83	403	744.74	2,044.5	274
		2016-17	1,739.98	3,484.82	200	1,272.57	2,269.5	178
		2017-18	12,300.8	3,404.85	28	13,572	3,401.1	25
		2018-19	5,965.85	3,533.29	59	7,348.51	2,951.06	40
		2019-20	7325.44	3,045.6	42	7,565.15	2,992.71	40
Councils	Bilaspur	2015-16	316.09	307.43	97	772.64	422.76	55
		2016-17	380.11	529.89	139	762.79	553.61	72
		2017-18	397.51	495.74	124	803.08	600.85	75
		2018-19	525.12	461.01	88	793.74	526.22	66
		2019-20	494.35	495	100	726.58	495.51	68
	Jawalamukhi	2015-16	302.1	651.73	215	286.99	454.23	158
		2016-17	356.29	523.5	146	347.51	524.13	150
		2017-18	442.7	444.49	100	420.57	343.74	81
		2018-19	546.21	391.14	71	516.06	349.53	68
		2019-20	573.13	427.49	75	560.7	438.22	78
	Hamirpur	2015-16	786.38	587.56	74	793.38	855.51	107
		2016-17	865.02	617.53	71	907.89	514.87	57
		2017-18	987.51	635.37	64	998.64	398.6	40
		2018-19	1,078.75	623.85	58	1,077.5	780.17	72
		2019-20	1,186.63	640.68	54	1,185.24	520.41	44
	Manali	2015-16	545.5	726.07	133	468.92	630.96	134
		2016-17	552.37	1,438.06	260	487.21	725.61	148
		2017-18	612.87	755.83	123	552.67	726.9	131
		2018-19	677.65	1,022.5	150	625.32	742.89	118
		2019-20	833.65	743.14	89	790.27	684.47	87
	Nahan	2015-16	1,040.54	621.96	60	1,051.35	756.51	72
		2016-17	1,248.64	781.3	63	1,209.05	1,089.18	90
		2017-18	1,498.37	916.61	61	1,450.86	1,488.65	102
		2018-19	3,079.05	1,055.87	34	2,924.04	5,521.7	189
		2019-20	3,540.9	3,371.51	95	3,386.58	3,279.62	97

	Paonta Sahib	2015-16	550.97	682.31	123	1,088.35	925.05	85
		2016-17	515.29	851.13	165	1,085.68	661.35	61
		2017-18	630.88	1,333.25	211	1,114.24	919.81	83
		2018-19	655.83	936.32	142	1,406.1	1,373.21	98
		2019-20	661.46	989.87	150	1,553.26	1,116.97	72
	Rampur	2015-16	1,654.95	583.3	35	1,665.91	722.48	44
		2016-17	1,913.15	1,787.51	94	1,809.99	1,433.41	79
		2017-18	1,515.25	911.42	60	1,878.65	1,202.57	64
		2018-19	1,973.8	712.23	37	1,830.98	927.97	51
		2019-20	1,871.5	523.39	28	1,963.7	607.19	31
	Solan	2015-16	5,683.95	1,908.47	34	5,961.56	1,693.07	29
		2016-17	6,099.56	2,293.43	38	6,463.19	2,399.06	37
		2017-18	8,026.4	2,381.84	30	8,457.08	2,434.7	29
		2018-19	9,117	1,991.06	21	9,031.52	2,269.01	25
		2019-20	9,270.5	2,127.52	23	9,324	2,104.57	22
NP	Arki	2015-16	113.09	100.96	89	100.07	99.34	99
		2016-17	156.41	137.61	88	141.24	91.53	65
		2017-18	195.64	155.83	80	176.57	169.86	97
		2018-19	210.25	170.58	81	210.7	192.02	91
		2019-20	241.1	182.72	76	244.87	140.87	57
	Sunni	2015-16	47.2	69.25	146	82.47	65.83	80
		2016-17	77.2	79.13	102	82.47	92.9	112
		2017-18	77.2	91.19	118	108.67	79.1	73
		2018-19	77.2	112.78	146	120.67	73.08	60
		2019-20	94.2	125.44	134	120.67	90.73	75

### Appendix-6.1

(Reference: Paragraph 6.4.3, Page 61)

#### Statement showing detailed position of vacancies in various posts of the test-checked ULBs in the State

Sr. No.	Name of Post	Sanction	Regular	Daily Wages	Contract	Vacant	% of vacancy
1	Executive Officer	9	6	0	0	3	33
2	Assistant Engineer	8	5	0	0	3	38
3	Superintendent Gr-II	10	0	0	0	10	100
4	Junior Engineer	46	32	0	7	7	15
5	Senior Assistant	44	42	0	0	2	5
6	Statistic Assistant	6	2	0	1	3	50
7	Draughtsman	8	5	0	0	3	38
8	Sanitary Inspector	20	5	0	0	15	76
9	Clerk/JAO	169	75	0	9	85	50
10	Sanitary Supervisor	29	21	0	0	8	28
11	Community Org.	11	2	0	0	9	82
12	Record Keeper	1	0	0	0	1	100
13	Safai Karamchari	788	421	10	6	351	43
14	Peon/chowkidar	101	67	8	0	26	26
15	Secretary	3	0	0	0	3	100
16	Work Supervisor	27	25	0	0	2	7
17	Beldar	232	208	5	0	19	9
18	Driver	60	43	0	0	17	28
19	Mason	28	21	1	0	6	21
20	Labour	323	323	0	0	0	0
21	Toll Guard	15	4	0	0	11	73
22	Patwari	2	1	0	0	1	50
23	Mali	27	11	0	1	15	56
24	Daftri	8	7	0	0	1	13
25	Bhisti	2	2	0	0	0	0
26	Electrician foremen	10	2	0	0	8	80
27	Dy. Forest Ranger	1	0	0	0	1	100
28	Forest Guard	4	2	0	0	2	50
29	Carpenter	8	2	0	0	6	75
30	Mate	22	21	0	0	1	05
31	Fitter	39	14	0	0	25	64
32	Sanitary/Safai Jamadar	42	40	0	0	2	05
33	Helper	4	3	0	0	1	25
34	Cattle pound Attendent	1	0	0	0	1	100
35	Plumber	1	0	0	0	1	100
36	Meter reader	4	3	0	0	1	25
37	Keymen	12	3	0	0	9	75
38	Bill Distributer	2	2	0	0	0	0

*Performance Audit of Efficacy of Implementation of 74<sup>th</sup> Constitution Amendment Act, 1992*

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39	Pump Operater	9	1	0	0	8	89
40	Executive Engineer	4	4	0	0	0	0
41	Commissioner	2	2	0	0	0	0
42	Assistant Commissioner	1	1	0	0	0	0
43	Additional Commissioner	2	2	0	0	0	0
44	Administrative Officer	1	0	0	0	1	100
45	Health Officer	2	1	0	0	1	50
46	Vetenary H.O.	1	1	0	0	0	0
47	Architect Planner	3	1	0	0	2	67
48	Deputy Controller	2	2	0	0	0	0
49	PA/PS	5	3	0	0	2	40
50	Superintendent General	1	1	0	0	0	0
51	Chief Accountant/ Accountant	4	0	0	0	4	100
52	DEO	24	24	0	0	0	0
53	Steno	2	1	0	0	1	50
54	Computer Asst.	3	3	0	0	0	0
55	Surveyor	2	0	0	0	2	100
56	Health Worker	2	1	0	0	1	50
57	Notice Server	3	3	0	0	0	0
58	Raneo operator	1	1	0	0	0	0
59	Lab. Technician	2	1	0	0	1	50
60	Ferro Printer	1	0	0	0	1	100
61	Tailoring Teacher	1	0	0	0	1	100
62	Project Coordinator	1	1	0	0	0	0
63	Boiler Man	1	0	0	0	1	100
64	Blacksmith	1	1	0	0	0	0
65	Kanoungo	1	0	0	0	1	100
66	N. Tehsildar	1	0	0	0	1	100
67	Tree Officer	1	1	0	0	0	0
68	Law Officer	1	1	0	0	0	0
<b>Total</b>		<b>2,212</b>	<b>1,477</b>	<b>24</b>	<b>24</b>	<b>687</b>	<b>31</b>



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