

CHAPTER-III

AN OVERVIEW OF FINANCES AND ACCOUNTS OF URBAN LOCAL BODIES

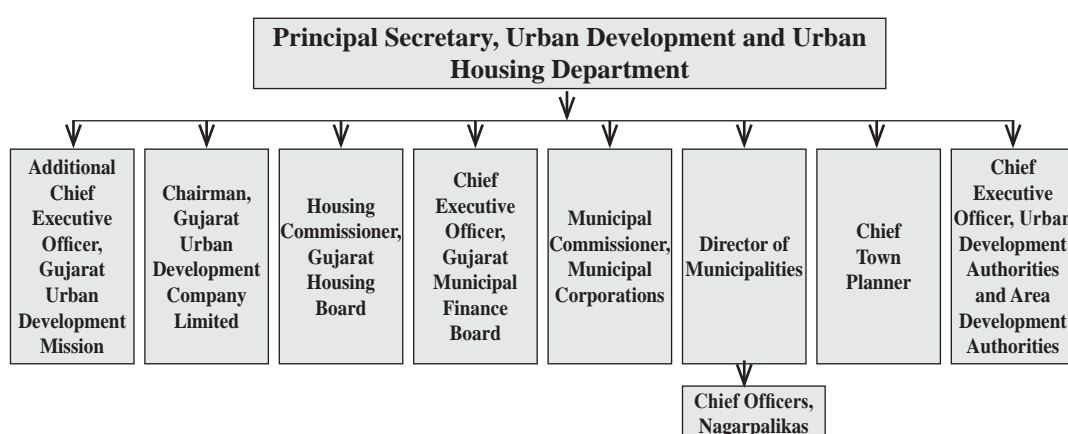
3.1 Introduction

Consequent upon the 74th Constitutional Amendment in 1992, Articles 243P to 243 ZG¹ were inserted in the Constitution whereby the legislatures could endow certain powers and duties to the Urban Local Bodies (ULBs) in order to enable them to function as institutions of self-government and to carry out the responsibilities conferred upon them including those listed in the Twelfth Schedule of the Constitution.

As per census 2011, the urban population of Gujarat State was 2.57 crore, which constituted 42.55 *per cent* of the total population (6.04 crore) of the State and 2.12 *per cent* of the total population (121.02 crore) of India. In Gujarat State, there were 190 ULBs i.e. eight Municipal Corporations (MCs), 159 Nagarpalikas (NPs) and 23 Notified Areas² (NAs) as of March 2012. The MCs were constituted under the Gujarat Provincial Municipal Corporations Act³, 1949. The NPs were constituted under the provisions of Gujarat Municipalities Act, 1963. Each MC/NP is divided into a number of wards, which is determined and notified by the State Government considering the population, dwelling pattern, geographical condition and economic status of the respective area.

3.2 Organisational set up

3.2.1 The administrative department dealing with affairs of the ULBs is the Urban Development and Urban Housing Department. An organisational chart indicating administrative set-up of the department in Gujarat is as shown below:



¹ Regarding constitution and composition of municipalities and ward committees, reservation of seats for SCs/STs, powers, authority and responsibilities of municipalities, power to impose taxes, audit of accounts, elections to the municipalities, constitution of district planning committee, *etc.*

² Notified areas are declared by Industries and Mines Department. Every notified area shall have a committee called the Board of Management appointed by the Government and shall perform its function and duties as per Gujarat Municipalities Act, 1963.

³ Bombay Provincial Municipal Corporations Act, 1949 has been renamed as Gujarat Provincial Municipal Corporations Act, 1949.

3.2.2 In order to ensure comprehensive development and to improve service delivery systems in the thickly populated and urbanised areas of the State, the State Government constituted various Boards and Authorities assigning specific functions to them as shown in **Table 1** below :

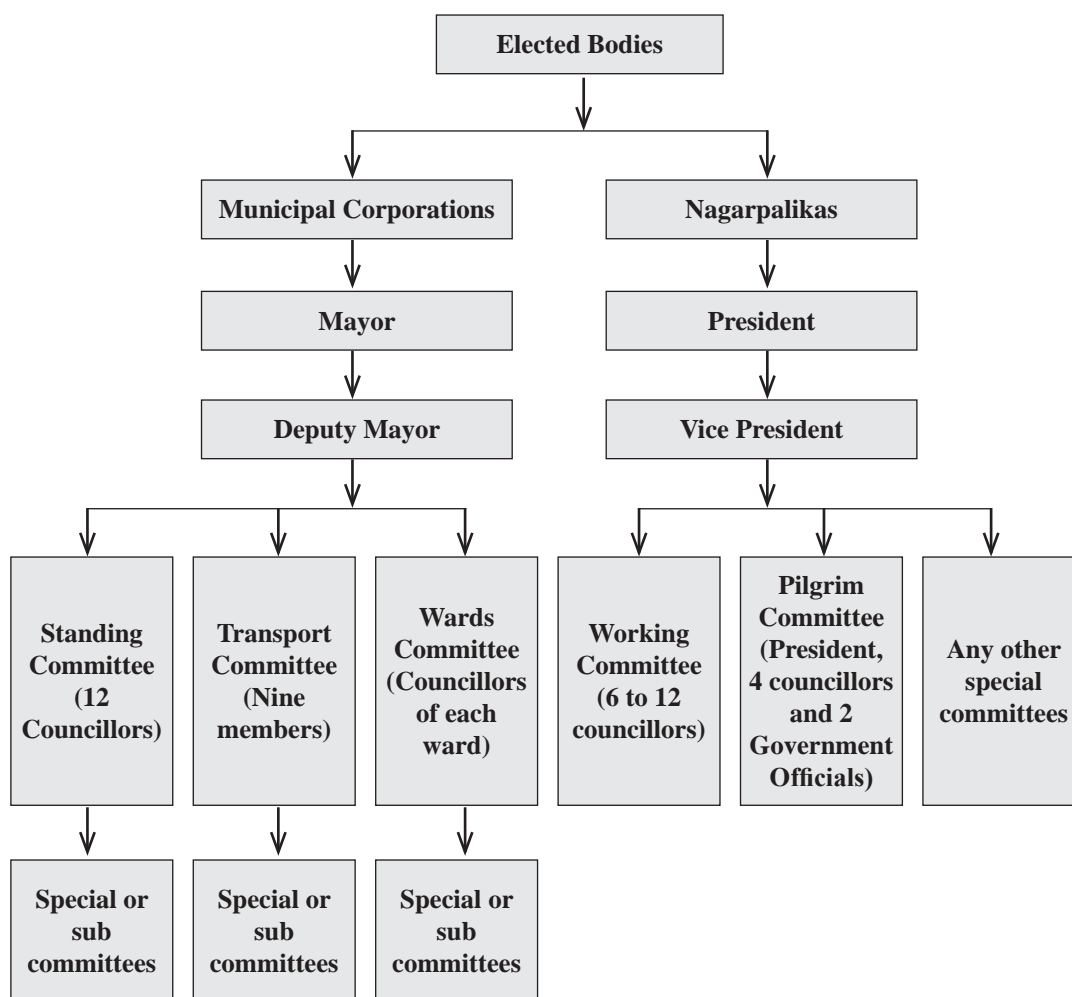
Table 1 : Boards and Authorities under the Department⁴

Sr. No.	Details of Boards/ Authorities	Function
1.	Gujarat Municipal Finance Board	To provide grants and loans for basic and infrastructure facilities through various development schemes for ULBs.
2.	Gujarat Urban Development Mission	Established as State Level Nodal Agency for the purpose of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and other State sponsored schemes.
3.	Gujarat Urban Development Company Limited	To facilitate urban development by assisting State government and existing agencies in formulation of policy, institutional capacity building and project implementation, and to assist in the funding and implementation of projects. The Company is appointed as Nodal Agency for implementation of Gujarat Urban Development Projects (GUDP) programme, Municipal Solid Waste Management project for the ULBs of the State of Gujarat, Infrastructure Facilities in the Towns identified under Tribal Sub Plan and for implementing the drainage projects under Swarnim Jayanti Mukhya Mantri Saheri Vikas Yojana (SJMMSVY).
4.	Gujarat Housing Board	The Board constructs houses for Economically Weaker Section (EWS), Lower Income Group (LIG), Middle Income Group (MIG) and Higher Income Group (HIG).
5.	12 Urban Development Authorities and 13 Area Development Authorities	Preparation and execution of town planning schemes, acquire, hold, manage and dispose of property, executive works in connection with supply of water, disposal of sewerage and provision of other services and amenities, etc.

⁴ Urban Development and Urban Housing Department

3.2.3 Composition of ULBs

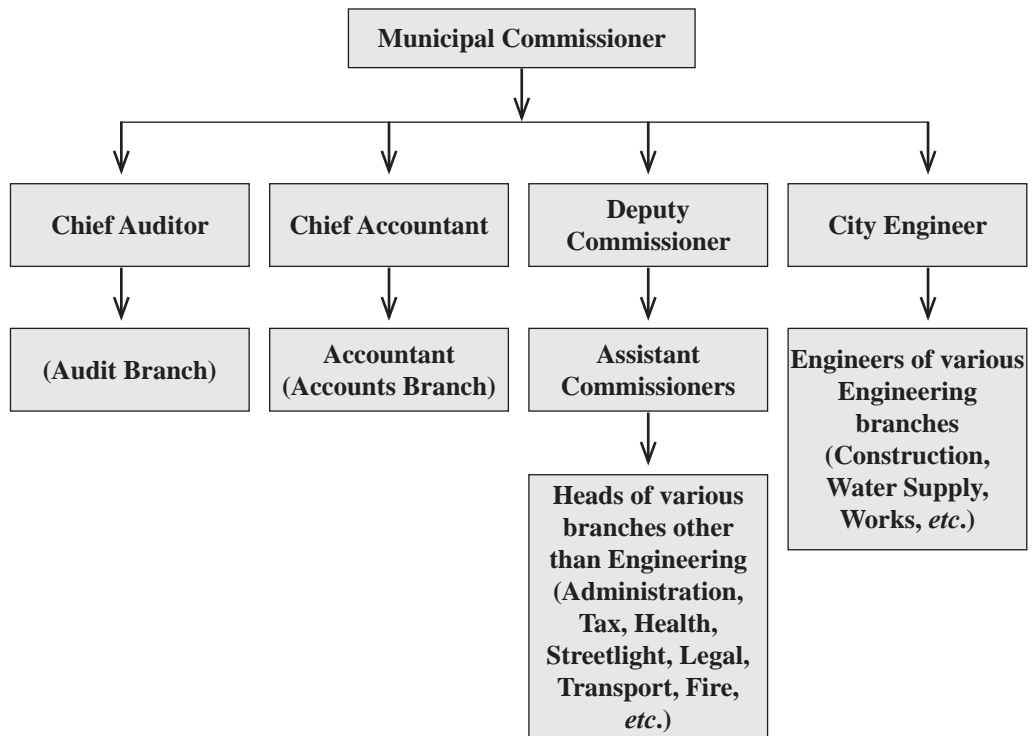
All the ULBs have a body comprising of Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected by majority of the Corporators/Councillors presides over the meetings of the Council and is responsible for governance of the body. The following chart shows the set up of elected bodies in ULBs:



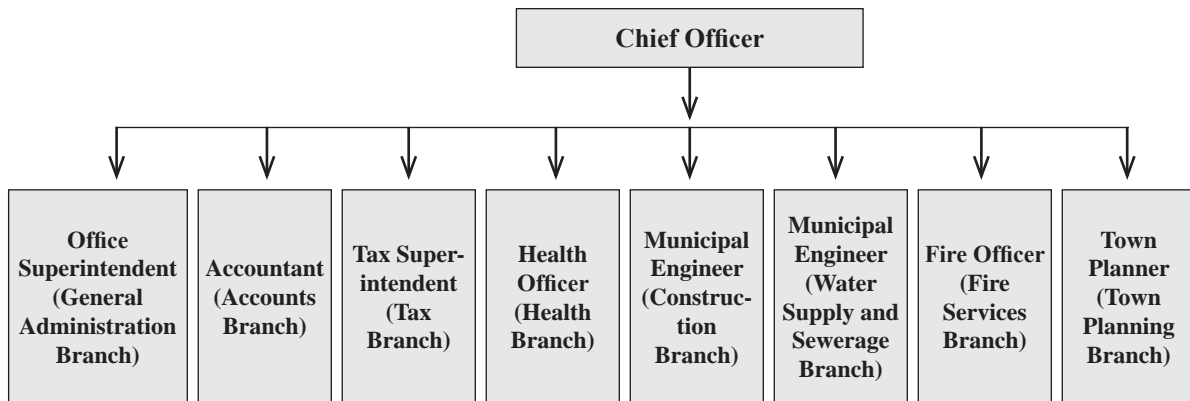
The Mayor, Deputy Mayor, President and Vice President are elected from the elected councillors. The members for committees/sub-committees are elected from the elected councillors and the Chairman of the committee is appointed from the members of the committee. The members of Transport Committee are persons with experience of administration or transport or in engineering, industrial, commercial, financial or labour matters and who may or may not be councillors.

The Municipal Commissioner is executive head of Municipal Corporation and Chief Officer is the executive head of Nagarpalika. The officers of ULBs exercise such powers and perform such functions as notified by the State Government from time to time. The executive set-up of MCs and NPs is shown as follows :

Executive set-up of Municipal Corporations



Executive set-up of Nagarpalikas

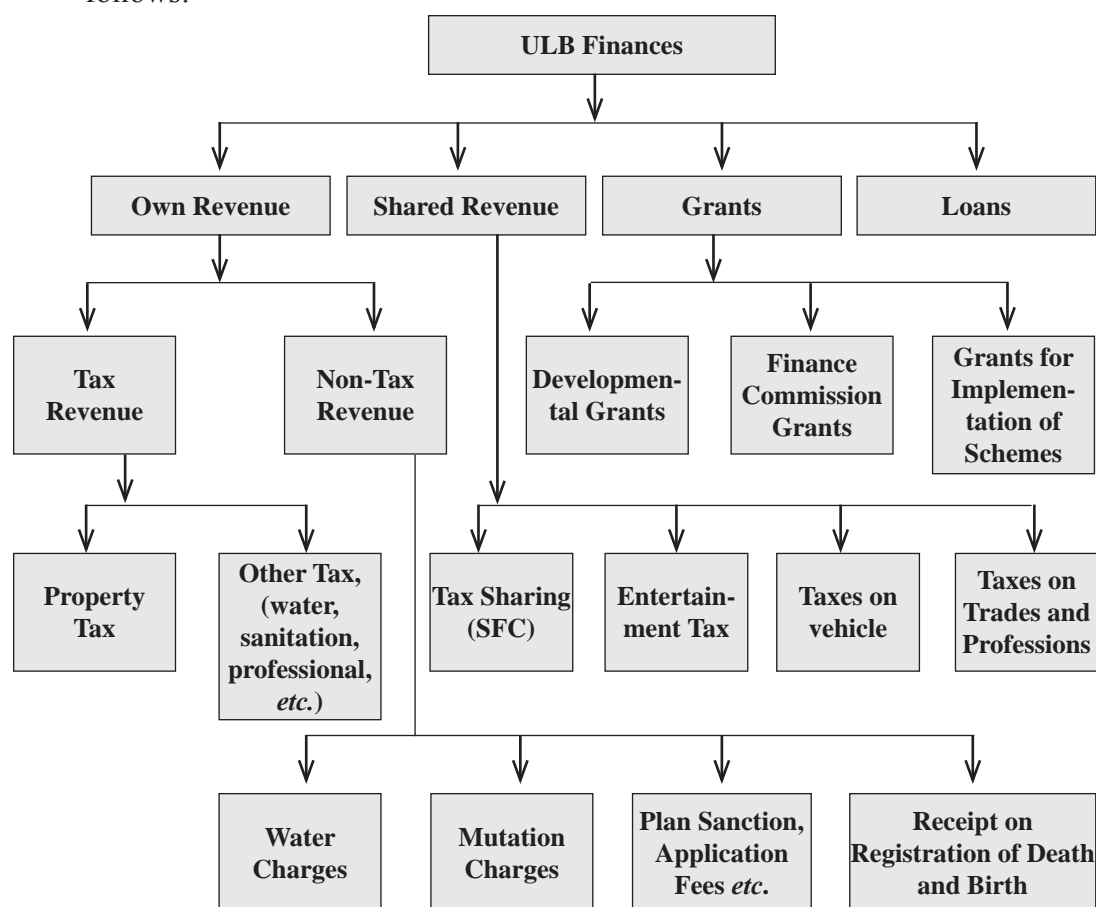


3.3 Financial management

3.3.1 Sources of receipts and items of expenditure

The ULBs do not have a large independent tax domain. The finances of ULBs comprise of receipts from own sources, grants and assistance from Government of India (GOI)/State Government and loans raised from financial institutions or nationalised banks. The property tax on land and buildings is the mainstay of ULB's own revenue. The own non-tax revenue of ULBs comprises of fee for sanction of plans/mutations, water charges, *etc.*

Grants and assistance released by the State Government/GOI as well as loans raised from financial institutions are utilised for developmental activities and execution of various schemes. Flow chart of finances of ULBs is shown as follows:



3.3.2 Receipts and Expenditure of ULBs

The details of receipts and expenditure of ULBs are shown in **Table 2** below :

Table 2 : Receipts and expenditure of ULBs

	(₹in crore)		
	2009-10	2010-11	2011-12
Opening Balance⁵	Not available	3,349.04	7,919.94
Receipts			
Grant-in-aid	4,839.43	5,670.71	3,530.41
Own Revenue	3,299.23	3,748.54	4,425.41
Finance Commission grant	82.80	121.20	191.00
Total Receipt	8,221.46	9,540.45	8,146.82
Total Funds available	8,221.46	12,889.49	16,066.76
Expenditure			
Roads, Drains, Culverts	1,049.68	916.11	783.33
Public Health sanitation	209.44	225.51	242.35
Water Supply	667.11	763.72	707.97
Pay and Allowances	1,724.92	2,011.63	2,198.80
Loan repayment	117.92	52.86	93.34
Others	1,103.35	999.72	1,409.81
Total Expenditure	4,872.42	4,969.55	5,435.60
Closing Balance	3,349.04	7,919.94	10,631.16

(Source : Information as per Finance Accounts and as furnished by GMFB)

⁵ Opening Balance and Closing Balance has been arrived at by audit.

The above position indicates that -

- the expenditure against the revenue received during the period from 2009-10 to 2011-12 increased from 52 *per cent* (2010-11) to 67 *per cent* (2011-12);
- though the revenue collection of own revenue of ULBs increased by 34 *per cent*, the grant-in-aid reduced by 27 *per cent* during the period from 2009-10 to 2011-12;
- though the closing balance of funds enhanced from ₹3,349.04 crore in 2009-10 to ₹10,631.16 crore in 2011-12 (217 *per cent*), it was not clear why the total expenditure of the ULBs increased only by 12 *per cent* during the period 2009-10 to 2011-12;
- the recurring expenditure on Public Health sanitation constituted only 4.46 *per cent* of the total expenditure; and
- the expenditure on roads, drains, culvert reduced to 14 *per cent* (2011-12) from 22 *per cent* (2009-10).

3.4 Thirteenth Finance Commission

As per recommendations of Thirteenth Finance Commission, Gujarat State is eligible to get Central grant of ₹1301.81 crore for ULBs (2010-15); ₹851.16 crore as General Basic Grant (GBG) and ₹450.65 crore as General Performance Grant (GPG). Against this, GOI released ₹120.96 crore⁶ (2010-11) and ₹163.95 crore⁷ (2011-12). Grants of ₹120.96 crore⁸ (2010-11) and ₹163.95 crore⁹ (2011-12) were released to ULBs.

As of March 2012, unspent grant of ₹162.97 crore and ₹32.82 crore¹⁰ was lying with the NPs and three MCs against ₹204.54 crore and ₹50.49 crore released during 2010-11 and 2011-12 respectively. It was also observed that no expenditure was incurred by 96 Nagarpalikas though grant of ₹124.47 crore¹¹ were released to them during 2010-11 and 2011-12. Thus, the very purpose of release of funds under Thirteenth Finance Commission was defeated. The details of expenditure incurred by other MCs were not made available to audit.

3.5 Devolution of Functions

3.5.1 Transfer of Functions

Twelfth Schedule (Article-243 W) of the Constitution of India envisages that the State Government may, by law, endow the ULBs with such powers and authority as may be necessary to enable them to function as institutions of self-government.

⁶ GBG ₹119.75 crore and ₹1.21 crore for Special Area Grant

⁷ GBG ₹153.40 crore, ₹1.21 crore for Special Area Grant and ₹9.34 crore for Performance Grant

⁸ ₹30.91 crore to seven Municipal Corporations and ₹90.05 crore to 159 Nagarpalikas

⁹ ₹42.56 crore to seven Municipal Corporations and ₹121.39 crore to 159 Nagarpalikas

¹⁰ ₹29.43 crore with AMC. ₹1.48 crore with JMC and ₹1.91 crore with SMC against grant of ₹29.74 crore, ₹1.76 crore and ₹18.99 crore released.

¹¹ ₹54.81 crore of 2010-11 and ₹69.66 crore of 2011-12.

As per Sections 87 to 92 of the Gujarat Municipality Act 1963 and Section 63 of Gujarat Provincial Municipal Corporations Act, 1949, State Government devolved all the 18 functions envisaged in the Twelfth Schedule to the NPs and MCs to enable them to function as institutions of self-government.

3.6 Accounting framework

3.6.1 Accounting arrangements

As per 13th Finance Commission's recommendations, an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual (NMAM) was to be adopted by 2011-12. All ULBs were to thus introduce accrual based double entry accounting system as per the NMAM.

The MCs and NPs have adopted the accrual based double entry accounting system since 2006-07. NMAM envisages all States to develop State specific Municipal Accounts Manual, however, audit observed that the draft Municipal Accounts Manual was pending for approval with the Government (January 2013). Thus, the adoption of consistent accounting system by all ULBs in the State has been delayed. Further, the annual accounts for the year 2011-12 in respect of all 159 NPs have not been finalised (January 2013).

3.6.2 Audit mandate

The Director Local Fund Audit (DLFA) is the primary Auditor of ULBs in terms of Section 7 of the Gujarat Local Fund Audit (GLFA) Act, 1963. The Commissioner/Chief Officer is responsible for rectification of defects or compliance to the irregularities pointed out in the report of the DLFA.

The State Government entrusted (May 2005) the audit of accounts of all NPs to the Comptroller and Auditor General of India (CAG) under Section 20(1) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 with Technical Guidance and Supervision (TGS). The State Government further entrusted (April 2011) the audit of accounts of all MCs to CAG under section 20(1) of CAG's (DPC) Act, 1971 with TGS. The provision of laying of Audit Report of DLFA alongwith the Report of CAG before the State Legislature was made by amending (May 2011) relevant Acts.

3.6.3 Arrears in Primary Audit of ULBs

Out of total 159 NPs, audit of accounts of 136 NPs for the period up to 2009-10 has been completed by DLFA (October 2012). The audit of 159 NPs was in arrears for the year 2010-11 and 2011-12. Audit of MCs has not been taken up by DLFA so far (March 2013).

3.6.4 Response to Audit observations

The Commissioners/Chief Officers are required to comply with the observations contained in the Inspection Reports (IRs) issued by DLFA and rectify the defects or omissions and report their compliance to DLFA within four months from

the date of issue of IRs. The DLFA informed (October 2012) that there were 1,47,286¹² audit paragraphs outstanding as at the end of February 2012 relating to the period up to 2009-10.

3.7 Lack of Response of Government to Audit

3.7.1 Inspection Reports outstanding

The Hand Book of Instructions for prompt Settlement of Audit Objections/ Inspection Report issued by the Finance Department in 1992 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, omissions, *etc.*, noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the Accountant General within four weeks of receipt of the IRs. Periodical reminders are issued to the Heads of the Department requesting them to furnish the replies expeditiously on the outstanding paragraphs in the IRs.

As on 31 March 2013, 140 IRs (1,895 paragraphs) were outstanding in respect of Nagarpalikas. Year-wise details of IRs and paragraphs outstanding are given in **Table 3** below:

Table 3 : Outstanding IRs and paragraphs

Year	Number of Inspection Reports	Number of Paragraphs	Money Value (₹in crore)
2006-07	07	117	4.75
2007-08	13	172	20.99
2008-09	32	417	2.88
2009-10	21	245	0.52
2010-11	26	332	4.74
2011-12	23	359	0.19
2012-13	18	253	0.41
TOTAL	140	1,895	34.48

3.8 Conclusion

The grant-in-aid of ULBs reduced by 27 *per cent* though their own revenue increased by 34 *per cent*. The utilisation of funds increased by only 12 *per cent* though the closing balance of funds enhanced substantially. The utilisation of funds on roads, drain and culvert reduced to 14 *per cent* (2011-12) from 22 *per cent* (2009-10). Thirteenth Finance Commission's grant of ₹124.47 crore were not utilised by 96 Nagarpalikas. State's Municipal Accounts Manual has not been finalised. The audit of DLFA was in arrears. The Department failed to ensure prompt and timely action by executives of ULBs in respect of audit objections raised by DLFA and CAG.

¹² Upto 2002-03 – 1,14,733 paras, 2003-04 – 4,635 paras, 2004-05 – 5,493 paras, 2005-06 – 5,765 paras, 2006-07 – 4,692 paras, 2007-08 – 4,595 paras, 2008-09 – 2,822 paras and 2009-10 – 4,551 paras.