

## Chapter IV

### Financial management

#### 4.1 Assessment of requirement of funds

In accordance with the provisions<sup>11</sup> of KM Act, 1964 and KMC Act, 1976, the Commissioner/Chief Officer of each ULB prepares the budget estimate indicating the receipt of funds from various sources and allocates the resources to various activities undertaken by it and presents it to the Governing Council for approval. After the approval by the Governing Council, ULBs forward the budget to the DMA and the Government.

It appears that the KM Act, 1964 and the KMC Act, 1976 are not in consonance with the Constitution provisions, as contained in the Constitution (74<sup>th</sup> Amendment) Act, 1992, as the Constitution provisions are silent about the approval of the budget while both the Acts specifically mention the role of the State Government in sanctioning/modifying the budget. However, it is observed that in practice, in Karnataka the Governing Council forwards the budget to DMA and the State Government for information.

Scrutiny of the financial statements of the test-checked ULBs for the years 2014-15 to 2016-17 revealed that the ULBs were mainly dependent on Government grants. The dependency on Government grants was on an average in excess of 60 *per cent*.

Sustainable financing is paramount to ensure discharge of any function. The major types of expenditure<sup>12</sup> are capital expenditure and revenue expenditure, which take care of fixed costs for land, plant, machinery, daily expenses of managing MSW, refurbishment costs, O&M costs and contingent costs, *etc*.

We observed that until the preparation of DPRs, none of the test-checked ULBs assessed the requirement of capital and revenue funds for SWM activities and hence, they were unaware of the resource deficit. Though DPRs prepared during 2016-17 assessed the resource deficit, these failed to address measures for bridging this deficit. But audit did not come across any instance of ULB asking for funds from the State Government.

The State Government admitted (May 2018) that ULBs had to depend on grants released from Central and State Governments and hence took up the SWM works based on availability of funds.

#### 4.2 Sources of funds for solid waste management

The various sources of financing for waste management are indicated in **Table 4.1:**

**Table 4.1: Sources of financing in ULBs for waste management**

Sl. No.	Source	Particulars
1	Central Grants	<ul style="list-style-type: none"><li>▪ 13<sup>th</sup> Finance Commission - capital expenditure,</li><li>▪ 14<sup>th</sup> Finance Commission - capital expenditure,</li><li>▪ Swachh Bharat Mission - capital expenditure</li></ul>

<sup>11</sup> Section 287 of KM Act, 1964 and Section 167 to 170 of KMC Act, 1976.

<sup>12</sup> Paragraph 1.4.5.6.1 of MSWM Manual, 2016.

Sl. No.	Source	Particulars
2	State Grants	<ul style="list-style-type: none"> <li>▪ State Finance Commission (tied) -revenue expenditure,</li> <li>▪ State Finance Commission (Untied) - capital/revenue expenditure,</li> <li>▪ State Finance Commission (entry tax devolution) - capital expenditure</li> </ul>
3	Own Sources (Municipal Fund)	<ul style="list-style-type: none"> <li>▪ Levy of SWM cess/user charges,</li> <li>▪ Sale of products and by-products (compost, etc.),</li> <li>▪ Sale of recyclables</li> </ul> (Own sources are utilised for revenue expenditure)

The funds under 13<sup>th</sup> and 14<sup>th</sup> Finance Commissions (FC) in the form of basic grants and performance grants and the State Finance Commission (SFC) grants were released to ULBs on weighted average method<sup>13</sup>.

### 4.3 Receipts and expenditure

The details of funds received and spent during the period 2012-13 to 2016-17 in 35 test-checked ULBs are shown in **Table 4.2**.

**Table 4.2: Year-wise details of receipts and expenditure under SWM in 35 test-checked ULBs**

(₹ in crore)

Year	Opening balance (Capital)	Receipts		Total funds available		Expenditure		Closing balance (Capital)
		Revenue	Capital	Revenue	Capital	Revenue	Capital	
2012-13	8.10	101.27	38.47	101.27	46.57	101.27	29.68	16.89
2013-14	16.89	119.53	48.12	119.53	65.01	119.53	27.14	37.87
2014-15	37.87	127.12	34.17	127.12	72.04	127.12	18.54	53.50
2015-16	53.50	152.01	22.13	152.01	75.63	152.01	10.57	65.06
2016-17	65.06	177.45	44.83	177.45	109.89	177.45	16.70	93.19
<b>Total</b>		<b>677.38</b>	<b>187.72</b>			<b>677.38</b>	<b>102.63</b>	

Source: Information furnished by ULBs

It could be seen from the above table that the capital expenditure on SWM was not commensurate with the funds available resulting in accumulation of balances to the tune of ₹93.19 crore at the end of March 2017. ULBs did not utilise the funds provided for creation of capital assets. In comparison, the funds provided for revenue expenditure were utilised in full by the ULBs.

**Table 4.3** shows the source-wise details of receipts and expenditure in the test-checked ULBs during the period 2012-13 to 2016-17.

**Table 4.3: Source-wise details of receipts and expenditure under SWM in 35 ULBs**

(₹ in crore)

Source of funds	Opening balance	Receipts	Total funds available	Expenditure	Closing balance	Percentage of unspent amount
13 <sup>th</sup> FC	6.40	68.25	74.65	46.82	27.83	37
14 <sup>th</sup> FC	0.00	35.35	35.35	6.10	29.25	83
SFC-Untied	1.70	52.41	54.11	43.84	10.27	19

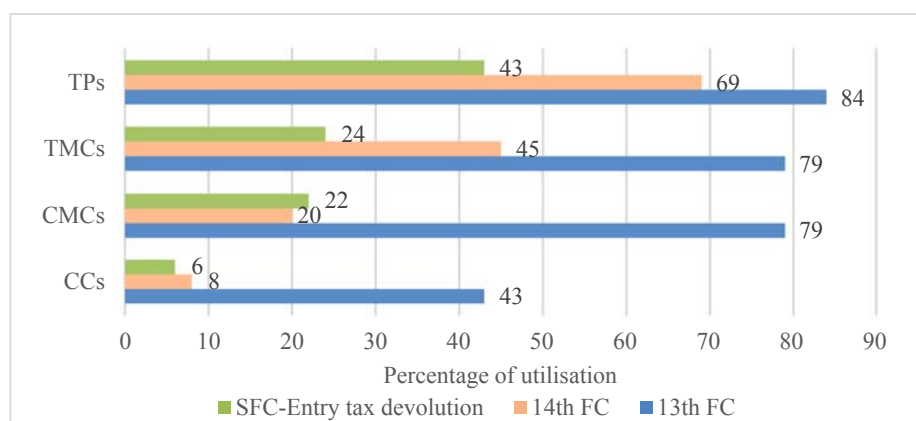
<sup>13</sup> In weighted average method, funds are allocated to ULBs on percentage basis determined in proportion to total population (40 per cent), area (20 per cent), Scheduled Caste/Scheduled Tribe population (20 per cent) and literacy (20 per cent).

Source of funds	Opening balance	Receipts	Total funds available	Expenditure	Closing balance	Percentage of unspent amount
SFC-Entry tax devolution	0.00	17.79	17.79	3.53	14.26	80
Municipal Fund	0.00	405.70	405.70	405.70	0.00	-
Others (SFC tied, SBM, etc.)	0.00	285.60	285.60	274.02	11.58	4
<b>Total</b>	<b>8.10</b>	<b>865.10</b>	<b>873.20</b>	<b>780.01</b>	<b>93.19</b>	<b>11</b>

Source: Information furnished by ULBs

Table above indicates that municipal fund which is used for revenue expenditure was spent fully on daily expenses of managing MSW, refurbishment costs, and O&M, etc. However, ULBs were deficient in asset creation as can be seen from the expenditure incurred under 13<sup>th</sup> FC (37 per cent), 14<sup>th</sup> FC (83 per cent) and the grants provided under SFC-entry tax devolution (80 per cent). ULB-wise details are indicated in **Appendix 4.1**. Further analysis revealed that the utilisation of the grants was less in CCs when compared to CMCs, TMCs and TPs. The category-wise utilisation of capital funds in the test-checked ULBs is depicted in **Chart 4.1**:

**Chart 4.1: Category-wise utilisation of funds in test-checked ULBs**



We observed that:

- Fifteen test-checked ULBs did not utilise even a single rupee of the grant of ₹11.71 crore released as at the end of March 2017 under SFC. ULBs attributed this to non-preparation of action plan, procedural lapses, etc.;
- Twenty-six test-checked ULBs did not utilise the entire allocation as of March 2017 despite the end of the 13<sup>th</sup> FC period. CC, Tumakuru utilised ₹79.10 lakh (towards purchase of enzyme culture for preventing bad smell in SWM plant - ₹27.76 lakh and yearly maintenance of SWM plant - ₹51.34 lakh) that were of the nature of revenue expenditure. This was against the 13<sup>th</sup> FC guidelines, which stipulated use of funds for creation of capital assets; and
- Nine and 19 ULBs test-checked allocated less than 15 per cent of the 14<sup>th</sup> FC grants received during 2015-16 and 2016-17 respectively. Twelve<sup>14</sup> ULBs did not utilise any amount allocated for SWM under the 14<sup>th</sup> FC.

<sup>14</sup> CCs - Ballari, HDMC and Mangaluru; CMCs - Dandeli, Hosapete, Nanjangud, Shidlaghatta and Udupi; TMCs - Kakkera, Magadi and Ugar Khurd; TP, Chinchali.

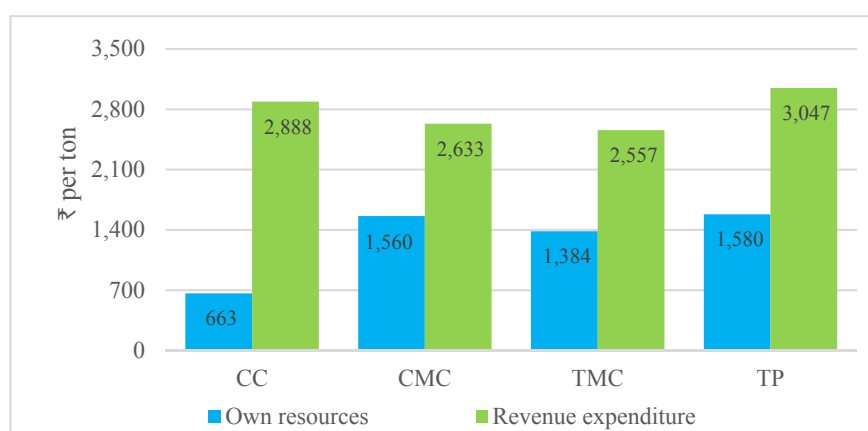
The non-utilisation of funds received under the CFC/SFC thus, resulted in non-creation of infrastructure at landfill sites such as construction of compound walls, windrow platforms, internal drains and roads; purchase of segregating and screening machineries; purchase of vehicles for collection and transportation, construction of vermi-compost sheds, dry waste collection centres, etc.

The State Government stated (May 2018) that ULBs were asked to hold back procurement and other infrastructure activities till the SWM DPRs are approved in order to prevent ineffectual expenditure in waste management sector due to lack of detailed comprehensive plan. It further stated that the funds would be utilised in due course. The Government's reply is non-committal since it does not specify the period within which the funds would be utilised.

#### 4.4 Resource-expenditure gap

Own resources form a major source of revenue of ULBs in meeting their O&M expenses. Hence, strict enforcement of levy and collection of SWM cess is essential. The levy and collection of SWM cess was found to be deficient as discussed in Paragraph 4.5. The impact thereof is the increase in the gap between generation of own resources and the expenditure in relation to SWM activities as indicated in the **Chart 4.2**.

**Chart 4.2: Resource-expenditure Gap in ₹ per ton (average for the period from 2012-13 to 2016-17)**



As could be seen from the above chart, the resource-expenditure gap was more in CCs and TPs. Further analysis revealed that the gap during the year 2016-17 increased in 24 out of 30 test-checked ULBs and decreased in six ULBs in comparison with the year 2012-13 as detailed in **Appendix 4.2**.

This gap is being met out by ULBs from out of their own revenue (property tax, license fee, etc.). A case study of CC, Mangaluru is illustrated below.

CC, Mangaluru outsourced (November 2014) the door-to-door collection, sweeping and transportation of waste to M/s Antony Waste Handling Cell Pvt. Ltd., Mumbai (service provider) and the work of O&M of composting plant, vermi-composting and sanitary landfill site at Mangaluru to M/s Unique Waste Processing Company Ltd. It received ₹10 crore towards capital expenditure and allocated ₹106.40 crore towards revenue expenditure during the period 2012-13

to 2016-17 against which the utilisation was ₹2.33 crore and ₹106.40 crore respectively. CC had pending payments of ₹13.89 crore towards price escalation (₹0.23 crore) and difference of minimum wage reimbursement (₹13.66 crore).

The Commissioner of CC, Mangaluru requested (December 2015) the DMA to permit utilisation of funds received under the 13<sup>th</sup>/14<sup>th</sup> FC and SFC for O&M of SWM activities. The matter is under consideration by DMA. It also stated that payment would be made as per the availability of funds and verification of the bills concerned to that period. It is pertinent to mention that utilisation of such funds for revenue expenditure cannot be permitted as these are meant for capital expenditure.

The State Government stated (May 2018) that steps were being taken to recover 30 to 50 *per cent* of the total O&M cost from levy of SWM cess, sale of compost and recyclables, *etc.*, and to address other shortcomings in the existing system of levy of SWM cess/user charges. The reply is not consistent with the SLB, which mandated 100 *per cent* recovery of all operating expenses from operating revenues. In the instant case of CC, Mangaluru, O&M cost was ₹106.40 crore and cess collected was ₹19.36 crore. The sale proceeds on account of compost, recyclables, *etc.*, were nil. Hence, the recovery works out to less than 19 *per cent* and thus, the possibility of achieving 30 to 50 *per cent* of total O&M cost is remote.

***Recommendation 8: The Central and State Governments may devise a system for need-based allocation of funds and accord greater flexibility to ULBs in their utilisation to bridge the resource-expenditure gap.***

#### **4.5 Levy and collection of solid waste management cess**

Section 103B (2) of KMC Act, 1976 provides for levy of SWM cess for the purpose of collection, transportation and disposal of solid waste. There was no such provision under the KM Act, 1964. However, as per Chart of Accounts under the Karnataka Municipal Accounting Manual (KMAM), the Government as a matter of policy, and with a view to keep the town in a better hygienic/sanitary condition i.e., to maintain 'litter free zones', may direct the municipalities to levy and collect a cess, in the nature of revenue income, for this purpose. Accordingly, DMA issued (September 2009) instructions directing all ULBs to collect SWM cess. To facilitate collection of SWM cess with greater efficiency, the DMA directed ULBs to collect the cess along with property tax through the property tax returns.

As per Clause 15 (f) of SWM Rules, 2016 (effective from 8 April, 2016), the local authorities shall prescribe from time to time user fee as deemed appropriate and collect the fee from the waste generators on its own or through authorised agency.

##### **4.5.1 Non-collection of cess**

Scrutiny of the records relating to collection of SWM cess revealed that there is an appreciable increase in the number of test-checked ULBs collecting SWM cess. The quantum of cess increased significantly during the period 2012-13 to 2016-17. As of March 2017, 11 test-checked ULBs were yet to levy SWM cess

and thus, deprived themselves of the own revenue source. **Table 4.4** gives the status of collection of SWM cess in test-checked ULBs. ULB-wise details are given in **Appendix 4.3**.

**Table 4.4: Status of ULBs collecting SWM cess during the period 2012-13 to 2016-17**

(₹ in crore)

Year	ULBs collecting SWM cess		ULBs not collecting SWM cess		Revenue expenditure for all test-checked ULBs
	Number	Amount	Number	Amount foregone <sup>15</sup>	
2012-13	4	4.81 <sup>¥</sup>	26	9.29	101.27
2013-14	7	6.69 <sup>¥</sup>	23	5.95	119.53
2014-15	11	9.38	19	5.13	127.12
2015-16	21	18.78	9	2.00	152.01
2016-17	24	21.93	11	1.76	177.45
<b>Total</b>		<b>61.59</b>		<b>24.13</b>	<b>677.38</b>

<sup>¥</sup> - Though CC, Ballari stated to have collected SWM Cess, the amount of cess collected was not furnished.

Source: Information furnished by ULBs

The reasons for non-collection of cess by ULBs were not forthcoming from the records made available to audit.

We, further, observed that test-checked ULBs were not collecting cess from places of public worship, occupiers of buildings/shops owned by ULBs and Government buildings as these properties were either exempt from payment of property tax or service charges were not collected. ULBs also did not levy cess on vacant lands despite enabling provisions. Consequently, the ULBs lost revenue of ₹3.07 crore<sup>16</sup> during the period 2012-13 to 2016-17.

The State Government stated (May 2018) that provisions were made in draft bye-laws for collection of SWM cess/user charges from such properties.

#### 4.5.2 Collection of cess on plinth area of the building

The rates of cess prescribed under Rule 19A of Part II under Schedule III to KMC Act, 1976 and by DMA were based on the plinth area of the building with rates ranging from ₹10 (for residential buildings with plinth area less than 1,000 sq. ft.) to ₹600 (for hotels, *kalyana mantaps*, nursing homes with plinth area exceeding 50,000 sq. ft.) per month. The cess payable was irrespective of the extent of waste generated and the number of individual units in the building. To cite an example, scrutiny of the property tax return of a building belonging to Ballari Urban Development Authority with a built up area of 10,880 sq. ft. and housing 128 shops showed that the SWM cess paid during the period 2013-14 to 2015-16 was ₹2,400 per year (@ ₹200 per month for commercial buildings with plinth area of more than 5,000 sq. ft.). As each shop is a commercial entity in itself and generates certain quantity of waste, the minimum cess that should be collected from the building would amount to ₹76,800 per year (@ of ₹50 per month, the rate for commercial buildings with plinth area less than 1,000 sq. ft. for 128 shops).

<sup>15</sup> Calculated at the minimum rate prescribed (2009) by Government for residential and commercial buildings.

<sup>16</sup> ₹2.57 crore from places of public worship (24 ULBs); ₹0.34 crore from buildings/shops owned by ULBs (19 ULBs) and ₹0.16 crore from Government buildings (20 ULBs).

The absence of provision to collect cess from each occupier of the units in a building, thus, resulted in a loss of revenue income to ULBs.

The State Government stated (May 2018) that suitable provisions would be made to levy cess from all the units existing in complex/single building.

#### 4.5.3 *Non/short accounting of cess*

ULBs collect various cesses such as health cess, library cess, beggary cess and urban transport cess as a percentage of property tax along with property tax. The cesses so collected are to be remitted by ULBs to the concerned departments or the specified heads of account after deducting 10 *per cent* as collection charges. SWM cess, on the other hand, is also collected along with property tax (at prescribed rates) and is to be utilised by ULBs. Hence, proper and separate accounting of this cess is required to be ensured so that ULBs can monitor its collection and utilise it exclusively for SWM. Chart of Accounts under the KMAM provides a separate code for accounting SWM cess.

We observed that 14 out of 24 test-checked ULBs collecting SWM cess were not accounting for the cess in the assigned code. While 3 of the 14 ULBs were accounting for it along with property tax, two ULBs were accounting for it under a different code. The status of accounting in the balance nine ULBs was not verifiable from the records made available to audit. Of the remaining 10 ULBs that were accounting the cess in the assigned code, we observed short accounting of cess of ₹5.41 crore in 6 ULBs. HDMC alone short accounted to the extent of ₹5.11 crore. Chartered Accountants also failed to point out short accounting of cess in their reports accompanying the financial statements.

The State Government stated (May 2018) that issue would be examined and duly addressed.

## 4.6 **Diversion of funds**

Scrutiny of approved action plans (approved by respective DCs) for the period 2012-13 to 2016-17 showed that in 10<sup>17</sup> out of 35 test-checked ULBs, the funds allocated for SWM activities included works and purchase of equipment/machineries/vehicles related to Underground Drainage (UGD) purposes and other activities not connected with SWM. An amount of ₹3.81 crore was incurred (February 2013 to January 2017) out of the allocation of ₹4.76 crore on the above activities (detailed in **Appendix 4.4**). This not only contravened the CFC guidelines but also resulted in reduced allocation of funds for SWM activities.

We also observed that in CMC, Sira, SWM works estimated to cost ₹42.01 lakh under SFC during the period 2009-10 to 2012-13 were not implemented, the reasons for which were not forthcoming from the records made available to audit. These works were subsequently dropped and the Council resolved (November 2015) to take up works not relating to SWM, which were approved

<sup>17</sup> CCs - Ballari, HDMC and Tumakuru; CMCs - Chintamani, Dandeli, Karwar and Sira; TMCs - Bhatkal, Humnabad and Kumta.

(February 2016) by the DC. An expenditure of ₹15.80 lakh incurred, as detailed in **Appendix 4.5**, thus, amounted to diversion of funds and non-achievement of intended objective of constructing bio-methanation plant, purchasing secondary storage containers, *etc.*

The State Government stated (May 2018) that since SWM was an integral part of Health Section along with UGD, ULBs utilised SWM funds on equipment such as sucking and jetting machines, open drain desilting machine, manhole desilting machine, *etc.* The reply is silent about diversion of funds relating to CMC, Sira and it was not consistent with the guidelines of CFC, which stipulate allocation and utilisation of certain percentage of funds for SWM and UGD activities separately.

#### **4.7 Collection of user charges from railway authorities/other establishments**

Provisions of SWM Rules, 2016 are also applicable to industrial townships, areas under the control of Indian Railways, airports, airbases, Ports and harbours, defence establishments, special economic zones, *etc.* (Section 2.2.1.5 of MSWM Manual, 2016).

In 19 test-checked ULBs, areas under the control of Indian Railways were within the municipal area limits. In six<sup>18</sup> of these ULBs, the waste generated within the railway premises were handed over to municipalities. Of the six ULBs, only CC, Mangaluru was collecting user fee of ₹300 per ton of waste received and the remaining five ULBs did not collect any user fee. In HDMC, the railway authorities were directly dumping the waste in the landfill site. The status in respect of other 12 ULBs is awaited.

As Indian Railways is a bulk generator, the Government/ULBs may consider levying user charges on the lines of CC, Mangaluru to augment the own revenue of ULBs.

The State Government stated (May 2018) that suitable action would be taken.

***Recommendation 9: While the number of ULBs collecting SWM cess as well as the amount being collected by these ULBs showed a rising trend, it is necessary that ULBs conduct a realistic assessment of the O&M cost involved in SWM and levy and collect SWM cess accordingly with a view to achieving SLBs. The State Government may make suitable amendments to KM Act, 1964 for levy and collection of SWM cess as was done in case of KMC Act, 1976.***

***ULBs may ensure maximisation of own resources through efficient collection and widening of SWM cess base through measures such as collection of cess from (i) individual units instead of on plinth area; (ii) functions/activities conducted in open spaces; (iii) unorganised sector and levy of interest for belated payment of cess, (iv) railway authorities, etc.***

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<sup>18</sup> CCs - Mangaluru and Tumakuru; CMCs - Sagar and Shidlaghatta; TMC, Ugar Khurd; TP, Chinchali.