

CHAPTER-1

AN OVERVIEW OF URBAN LOCAL BODIES AND THEIR FINANCIAL POSITION

1.1 Introduction

Rajasthan Town Municipalities Act was promulgated in 1951 by repealing the existing princely States' municipal laws. Subsequently, due to reorganisation of the State of Rajasthan, all the existing municipal laws¹ including the Act of 1951 were replaced by the Rajasthan Municipalities Act, 1959 (Act). Later, 43 rules were incorporated thereunder by State Government from time to time. Sections 98 and 101 of the Act provide for primary and secondary functions of the municipalities i.e. Urban Local Bodies (ULBs) respectively and Sections 161 to 275 confer certain powers to them. Constitution (74th Amendment) Act, 1992 inserted new Articles 243 P to 243 ZG providing for the legislature to endow certain powers and the duties to the municipalities relating to 18 matters mentioned in Twelfth Schedule.

Section 280 of the Act envisages that Examiner (now Director), Local Fund Audit would conduct the audit of municipal accounts. After release of grant in lieu of octroi which was abolished by State Government from 1 August 1998, C&AG's audit of the municipal accounts was attracted under section 14 of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971. The Eleventh Finance Commission (EFC) recommended entrustment of audit of local bodies under Section 20 (1) *ibid.* The present audit report contains observations of audit conducted under section 14 of the C & AG's (DPC) Act.

1.2 Organisational set up

At State level, Principal Secretary, Urban Development, Housing and Local Self Government Department is the administrative head and Director, Local Bodies (DLB) is responsible for monitoring and coordination of various activities of ULBs.

There are three Municipal Corporations², 11 Municipal Councils (MCs)³ and 169 Municipal Boards (MBs)⁴ in the State, each headed by an elected

1. Bikaner Municipal Act, 1923; Udaipur City Municipal Act, 1945; Alwar State Municipalities and Small Towns Act, 1934 etc.
2. Jaipur Municipal Corporation (JMC), Municipal Corporation, Jodhpur (MCJ) and Municipal Corporation, Kota (MCK).
3. Ajmer, Alwar, Beawar, Bharatpur, Bhilwara, Bikaner, Pali, Sikar, Sriganganagar, Tonk and Udaipur.
4. Municipalities Class II(39), Class III(58) and Class IV(72).

representative namely, Mayor, President and Chairman respectively, who exercise their powers and duties through committees of elected members i.e. Corporators, Councillors and Members of Boards respectively. Chief Executive Officer, Commissioner and Executive Officer are administrative heads of three categories of ULBs respectively. The organisational chart of ULBs is given in Appendix-A.

1.3 Audit coverage

Test audit of accounts of three Municipal Corporations, nine MCs and 83 MBs for the period from 1999-2000 to 2002-03 was conducted during 2003-04. A summary of audit observations raised in terms of money value is as under:

(Rupees in crore)

S. No.	ULBs test - checked	Expenditure incurred	Paragraphs of money value relating to receipts and expenditure		Paragraphs of which money value was not relevant/ established
			Number of paras	Money value	
1.	Municipal Corporations (3)	422.09	228	334.15	52
2.	Municipal Councils (9)	398.70	260	100.08	33
3.	Municipal Boards (83)	527.47	1046	242.71	132
	Total (95)	1348.26	1534	676.94	217

Important audit findings are discussed in the succeeding paragraphs.

1.4 Devolution of funds

An expenditure of Rs 2351 crore was incurred against the income of Rs 2472 crore in all the ULBs during 1999-2003 (*Annexure -I*).

The following deficiencies/ shortcomings in devolution of funds to the ULBs were noticed:

(i) *Short release of grant in lieu of octroi*

To compensate the revenue loss to ULBs caused due to abolition of octroi w.e.f. 1 August 1998, state government decided (July 1998) to provide grant-in-aid in lieu of octroi at par with the amount of octroi actually collected by the respective ULBs during 1997-98 with 10 *per cent* increase thereon every

year from 1999-2000. Government fulfilled this commitment during 1998-2001, but out of Rs 814.80 crore required to be released to all the ULBs during 2001-03, only Rs 759.24 crore were released by retaining Rs 55.56 crore. This deprived the ULBs and urban population from the benefits of civic services and development works to that extent.

(ii) *Short-release of grant recommended by Second State Finance Commission (SFC)*

Second SFC had recommended devolution of funds to the local bodies annually at 2.25 per cent of net proceeds of the State during 2000-05. Of this, 23.4 per cent was to be released to ULBs. However, out of Rs 88.34 crore to be released to ULBs during 2000-03, Rs 9.23 crore had not been released by the State Government (March 2004).

(iii) *Non-release of entertainment tax*

State government (Finance Department) decided (March 1965) to compensate ULBs from entertainment tax being collected by Government. The Second SFC had also recommended (2000-01) to release 15 per cent of net proceeds of entertainment tax to ULBs.

However, out of Rs 14.69 crore (15 per cent of Rs 97.93 crore) to be released to ULBs as per aforesaid recommendations during 2000-03, no amount was released to them by state government (February 2004).