

Housing and Urban Development Department

Review of utilization of TFC grants by Urban Local Bodies

2.1. Introduction

The Twelfth Finance Commission (TFC) appointed for 2005-10 recommended to augment the Consolidated Fund of the State to supplement the resources of the Panchayats and Municipalities on the basis of recommendations of the State Finance Commission.

The TFC recommended public and private partnership to enhance service delivery of Solid Waste Management Services (SWM) in Urban Local Bodies (ULBs) and urged the State Government to make it mandatory for ULBs with population over one lakh to prepare comprehensive schemes for SWM including composting and waste to energy programme to be undertaken in private sector with minimum 50 *per cent* of grants for the purpose. TFC also stressed the need for creation of database and maintenance of accounts at grass root level.

The TFC grants were to be released in two equal installments in July and January every year and State Finance Secretary was required to provide utilization certificate of grants spent by the local bodies. The TFC recommended grants of ₹104.00 crore for ULBs for the period from 2005-10 based on which the Government of India (GOI) during 2005-09 released ₹83.20 crore (₹20.80 per annum).

Audit was conducted during April to June 2009 covering the period from 2005-09 through test check of records at office of the Principal Secretary to Government, Finance Department (FD Housing and Urban Development Department (HUDD)), 15 ULBs¹ including all three Municipal Corporations, seven out of 32

¹ 15 ULBs were selected basing on the fund flow during 2005-2009. These are :
MCs: Cuttack (₹10.67), Bhubaneswar (₹,11.16), Berhampur(₹,5.64), **Municipalities:** Balasore(₹,2.30), Bhadrak, (₹,0.92) Baripada(₹,0.97), Bhawanipatna(₹.59),, Dhenkna(₹,0.68),

Municipalities and five out of 68 NACs involving fund flow of ₹39.31¹ crore (received during 2005-2009) on TFC recommendations.

The audit findings are discussed in the succeeding paragraphs.

2.2 Receipt and utilization of TFC grants by Urban Local Bodies

The Urban local bodies were to utilize the TFC grants towards improvement of Solid Waste Management in urban areas, creation of database and maintenance of accounts. The position of receipt and utilization of grants by ULBs during 2005-09 were as under:

(₹ in Crore)

Year	Amount to be released as per TFC recommendation	Amount released by GOI	Amount released by the State Government	UC submitted to GOI up to March 2009	UC not submitted as on 31 March 2009
2005-06	20.80	20.80	20.80	20.80	0
2006-07	20.80	10.40	20.80	19.24	1.56
2007-08	20.80	0	10.40	0	10.40
2008-09	20.80	52.00	30.76	0	30.76
Total	83.20	83.20	82.76	40.04	42.72

From the above table, it can be seen that Government released ₹82.76 crore against receipt of TFC award of ₹83.20 crore resulting in short release of ₹0.44 lakh. The amount was intended to be released to the Berhampur Municipal Corporation for Solid Waste Management.(SWM).

Further observations on utilization of TFC grants are as indicated below:

2.2.1 Avoidable expenditure of ₹3.37 crore

The cardinal principle of financial propriety is that Public Servant should exercise the same vigilance in respect of expenditure from public fund generally as a person of ordinary prudence would exercise in respect of the expenditure of his own money. But while making expenditure out of TFC funds, the Bhubaneswar

Rayagada(₹,0.69) and Sambalpur, (₹,3.12) NACs: Chhatrapur(₹,0.23), Gopalpur(₹,0.13), Hirakud(₹,0.36), Koraput(₹,0.83) and Sunabeda(₹,1.07)

Municipal Corporation (BMC) and Cuttack Municipal Corporation (CMC) did not consider the financial propriety which resulted in avoidable expenditure of ₹3.37 crore (BMC ₹1.71 crore & CMC ₹1.66) as detailed under.

A) Avoidable expenditure of ₹1.71 crore by BMC, Bhubaneswar.

During February 2005 on filling of vacant posts of sweepers in Urban Local Bodies (ULBs) the Finance Department Govt. of Orissa took a view that “the job of cleaning and sweeping should be contracted out. This would reduce the financial burden of the ULBs as well as result in improvement of services”. To make cleaning and sweeping of wards cost effective the, the BMC decided to privatize 13 wards on monthly contract basis limiting the rate to approximate monthly expenditure which BMC was incurring including salary of its regular staff engaged for the job in these wards and awarded the contract in April 2005 initially for one year. On completion of 1st year contract, the agencies / contractors requested for extension of the contract for one more year on same terms and conditions. BMC considered their request (April 2006) and extended the period of contract for 2nd year upto March 2007.

The monthly bills of private agencies / contractors were paid only on certificate of good performance by competent authority of the corporation. But much before expiry of contract period, the BMC authorities prepared fresh estimates (Nov’2006) for cleaning of these wards on the basis of road and drain length and approximate generation of garbage from the households of the wards concerned.

The fresh estimates of these wards in most of cases (9 wards out of 13 wards) were much higher than the monthly contract rates at which the private agencies were doing the job at that time (Nov 2006) and continued to do the job satisfactorily upto June 2007. The fresh estimates were put to tender (March 2007) and in case of previously privatized wards contracts were awarded for next two years at higher rates ranging from 25 percent to 236 percent than the existing rate in favour of the same agencies / contractors on competitive bidding.

It was seen that due to revision of contract rate in nine wards BMC made an extra expenditure of ₹1.71 crore during two years of contract period (July 2007 to June 2009) as in the **Appendix-II**. The extent of impropriety and excess expenditure can be assessed from one example stated below.

The contractor assigned with the job of cleaning & sweeping of ward No. 12 has taken up the job @ ₹70,000/- per month to the full satisfaction of BMC authorities during the period upto June 2007. During Nov 2006 the BMC authorities prepared an estimate of ₹225700/- for the same job which was put to tender during March 2007. The same contractor offered a rate of ₹235000/- per month which was found lowest. The job was assigned to the contractor @ ₹2,35,000/- per month for two years from July 2007. The excess expenditure towards cleaning of that single ward was of ₹39.60 lakh (₹2.35 lakh – ₹0.70 lakh x 24 months) for extended contract period of two years.

As none of the agencies / contractors had requested for any revision of the monthly contract rate and area of the wards remained same the action of the BMC authorities for revision of rate was unwarranted and inexplicable. The BMC authorities instead of negotiating with the contractors awarded to the job at much higher rate. The BMC authorities noted the audit observations (March 2009) to review all such cases of privatization. No action was taken as of July 2010.

B) Avoidable expenditure of ₹1.66 crore by CMC, Cuttack.

The instruction of Finance Department for privatization of conservancy work was in lieu of filling up of vacant posts of sweepers/sweepresses. The Cuttack Municipal Corporation (CMC) had excess staff (225 as on 01-03-07) as in the Appendix-III, in the cadre of sweepers/sweepresses and in other posts engaged in conservancy work. In spite of excess staff, the CMC authorities decided for privatization of conservancy work in 17 wards, six sectors of Cuttack Development Authority (CDA) area and Badambadi main road with an avoidable expenditure of `2.17 crore per annum (Appendix-IV) during the period from February 2005 to February 2008.

Scrutiny of relevant records on privatization revealed that CMC implemented privatization without any proposal for reduction of surplus staff (above 200 who were diverted to other wards maintained by CMC) or in previous expenditure on conservancy works of corporation. As such the annual expenditure on privatization was an additional burden on CMC fund mainly met out of TFC grants.

The CMC while making decision for privatisation of conservancy work in different wards did not consider the financial propriety of the proposal in selection of wards. Wards where conservancy work was maintained by CMC with least effort were given priority for privatization as in case of sectors 6 & 7 and Sector 8 & 9 of CDA area where CMC was maintaining the work with daily deployment around 24 sweeper/sweepresses (4 regular and 20 temporary) but decided to privatize the works of Sector 6 & 7 (May 2005) and that of sector 8 & 9 (August 2006) on monthly contract rate of `1.41 lakh and `1.35 lakh respectively. Where as conservancy work of wards 31, 32, 33 & 34 where BMC was maintaining the work with daily deployment of around 76 sweepers / sweepresses was privatizing (February 2007) with monthly contract rate of `2.44 lakh (@ `61000/- x 4).

The privatization of Sector -6 & 7 and 8 & 9 of CDA could have been avoided by CMC had it considered the privatization of ward No. 31,32,33,34 earlier and some of the surplus staff of these wards were diverted for better maintenance of sector 6 & 7 and sector 8 & 9 of CDA. In such case an expenditure of `1.66 crore on privatization of Sector -6 & 7 and 8 & 9 of CDA as in the Appendix-V could have been avoided.

The CMC have since discontinued privatization of Sector 6 & 7 from June 2010 on the ground of poor performance by the contractors and transferred it to the CMC own maintenance wards while continuing with privatization of sector 8 & 9.

The privatization of Sector 6 & 7 and 8 & 9 of CDA was neither on consideration of necessity nor decided on consideration of financial propriety. The entire expenditure of `125.22 lakh upto June 2010 was considered avoidable and

unnecessary burden on TFC grant provided to CMC for Solid Waste Management.

The CMC authorities did not act upon the audit observations till June 2010 when privatization of sectors 6 & 7 was discontinued.

2.2.2 Non-utilisation of TFC grants

Provisions of Orissa General Financial Rules and conditions of sanction orders of the State Government requires utilisation of grants during the year and submission of utilisation certificates (UCs) by first June of the succeeding year. However, it was noticed that out of ₹52 crore released to the ULBs during 2005-08, ₹11.96 crore remained unutilized with the ULBs and UCs for only ₹40.04 crore was submitted to the GOI as of March 2009. Similarly, in 15 selected ULBs, against total receipt of ₹39.31 crore during 2005-09 for SWM programme and creation of database, an expenditure of ₹20.17 crore was incurred by the ULBs as of June 2009 leaving an unspent balance of ₹19.14 crore. Due to delay in utilisation of grants, the objective of SWM Programme and creation of data base was not fulfilled to that extent as discussed at paragraphs 3.5 and 3.6.

2.2.3 Delay in release of grants ₹31.20 crore

- **By Government of India:** As per TFC guidelines, the release of second installment of grants for the year 2006-07 was to be based on utilization of grants already sanctioned (₹31.20 crore) and submission of UC. However, test check of records of the ULBs revealed that due to non-utilisation and non-submission of UC there was delay in release of ₹31.20 crore. The amount was however released only during 2008-09
- **By State Government:** As per guidelines, the State Government was to transfer the grants released by GOI to ULBs within 15 days of the same being credited to the State's account and in case of delayed transfer to ULBs beyond the specified period of 15 days, the State Government was to release interest at the rate equal to RBI bank rate along with such delayed transfer of grants. Test check revealed

₹31.20 crore were withheld by GOI for want of UCs

Delayed release of funds led to avoidable payment of interest

that transfer of grants to the ULBs was delayed beyond 15 days in all cases during 2006-07. ₹10.40 crore for 2006-07 was released (February 2008) with delay ranging from 43 to 60 days for which ₹7.80 lakh interest at six *per cent* per annum was paid by the State Government .

2.2.4 Loss of interest ₹55.00 lakh

While sanctioning the TFC grant, Housing and Urban Development Department (HUDD) instructed the ULBs to keep the amount in a separate joint account in the name of Executive Officer and District Magistrate immediately after drawing the same from the treasury. Test check of records of 15 ULBs revealed that in 12² ULBs the amount drawn from treasury was kept in non-interest bearing PL Account and was subsequently transferred to the Savings Bank account with delays ranging from 14 to 730 days. This resulted in loss of interest of ₹55 lakh as of March 2009. In reply, the ULBs stated (April-June 2009) that steps would be taken to transfer the amount timely to separate joint savings bank account.

2.2.5 Ineffective utilisation ₹4.16 crore

Accrual based accounting system for ULBs prescribed by the CAG and accepted by the State Government were not adopted by the ULBs as of March 2009. As a result, the ULBs were maintaining the accounts in old formats. The State Government (HUDD) instructed (March 2006) the ULBs to deposit entire funds allocated for creation of database and maintenance of accounts with Orissa Computer Application Centre (OCAC) entrusted with work of computerization and maintenance of accounts in the ULBs. The State Government released ₹4.16 crore to ULBs for creation of database and maintenance of accounts during 2005-06 to 2008-09 and submitted UC to GOI. In 15 test checked ULBs, out of ₹1.35 crore received for creation of database and maintenance of accounts, ₹69 lakh was paid to OCAC and the balance ₹66 lakh remained unspent with the concerned ULBs (March 2009). It was however seen that though OCAC supplied computers,

Annual Accounts not being maintained in prescribed formats and database not developed

² Municipal Corporation:
Municipalities:
NACs:

Bhubaneswar, Cuttack and Berhampur
Sambalpur, Bhawanipatna , Bhadrak , Balasore ,
Gopalpur, Koraput, Sunabeda, Hirkud and Chatrapur

accessories and necessary software, no database was created in any of the test checked ULBs (March 2009). The test checked ULBs assured (May-June 2009) to take steps for creation of database at the earliest. Effective utilization of ₹4.16 crore was not yet ensured.

2.2.6 Non -utilisation of grants for solid waste management

TFC guidelines provided for earmarking at least 50 *per cent* of the grants provided to each State for the ULBs for SWM through public-private partnership. The ULBs were to concentrate on collection, segregation and transportation of solid wastes. The cost of these activities including outsourcing was to be met from these grants.

HUDD released ₹78.60 crore to 103 ULBs of the State for SWM programme during 2005-06 to 2008-09. The ULBs were, however instructed (March & June 2006) not to incur any expenditure without receipt of further clearance from the Government. The fund was retained by ULBs in their PL Account/ SB account without any utilisation, thereby affecting implementation of SWM Programme. Subsequently, HUDD issued (December 2008 and January 2009) instructions to book the expenses already incurred out of own source by the ULBs under SWM programme since April 2008 to TFC grant.

Test check of records of 15 ULBs revealed that out of ₹37.97 crore received during 2005-09 for SWM programme, ULBs spent ₹19.37 crore during 2008-09 on procurement of SWM articles and for collection and transportation of solid waste. The balance amount of ₹18.60 crore (49 *per cent*) remained unspent as of March 2009. However, no waste disposal facility was created in any of the test checked ULBs despite requirement under MSW (Management and Handling) Rules 2000. In reply, Government confirmed (August 2009) non creation of any such facility. Due to non-utilisation of the grants, the objective of SWM programme for which TFC grants were received could not be fulfilled.

₹37.97 crore released for SWM remained unspent for years in 15 test checked ULBs and suddenly ₹ 19.37 crore was spent during three months (January to March 2009)

No waste disposal facility was created in any of the ULBs of the State despite spending ₹19.37 crore under SWM

Instruments and equipments costing ₹4.75 crore was purchased without indents from ULBs of which equipments worth ₹77.18 lakh remained idle for 11 to 13 months after purchase

2.2.7 Idle investment

Test check of records of 15 ULBs revealed that the ULBs submitted their annual action plans (2005-09) showing the details of articles and instruments required for SWM programme. But without considering the above requirement of ULBs, the State Government (HUD Department) directed (October 2007) for procurement of articles like tricycles, push carts, shovels etc under SWM programme based on which the 15 test checked ULBs procured equipments worth ₹4.75 crore. It was also noticed that out of the above procurement, articles worth ₹77.18 lakh remained unutilised for 11 to 13 months as of March 2009 resulting in idle investment. In reply, while two ULBs stated (May-June 2009) that materials could not be utilized due to shortage of staff, thirteen ULBs assured (May-June 2009) to utilise the balance materials in due course.

2.2.8 Non-imposition of penalty on the defaulting supplier ₹6.13 lakh

Bhubaneswar Municipal Corporation placed (January 2008) purchase order (PO) for supply of 26 Auto Tippers valuing ₹61.34 lakh with M/s- force motors, Pune under SWM. As per the terms and condition of PO, the indented goods and articles would be delivered within 30 days from the date of placement of orders, failing which penalty @ one per cent of the cost of the goods for every week of delay subject to maximum 10 per cent of the contract value was to be deducted from the suppliers bills.

Scrutiny of records revealed that the supplier supplied the tippers to BMC during June 2010. Thus, the delay of the delivery was more than 16 weeks which attracted penalty of ₹6.13 lakh (10 per cent of the cost of the tippers ₹61.34 lakh). The penalty was not imposed on the supplier at the time of payment which resulted in loss of ₹6.13 lakh.

2.2.9 Issue of tricycles worth ₹15.06 lakh resulted in showing of undue benefit to the service providers

Violating the terms of the agreement for the work, undue favour was extended to the contractor by providing tricycles out of TFC fund.

Cleaning and sweeping operations in and during 2008-09 the said activity was out sourced and awarded to private condition of Tender Call Notice and agreement executed, the service providers would provide conservancy articles to the sweepers engaged by him from his own resources. There was not at all any condition to supply tricycles by the corporation to the contractors since they were being paid for cleaning at a fixed monthly rate.

Scrutiny of records of CMC, Cuttack revealed that out of 250 tricycles procured @ `13,944/- each in 4/2008 under TFC Award, 108 tricycles valuing ` 15,05,952/- were issued to the service providers by 10/2009 without recovery of either their cost or monthly rent from the monthly service charges paid to the contractors. This resulted in not only showing of unintended benefit to the service providers but also misutilisation of TFC funds for ₹.15,05,952.00.

2.3 Conclusion

A review of receipt and utilization of TFC grants revealed that funds remained unutilised for years in non-interest bearing personal ledger accounts and civil deposits with the treasuries and there was belated release of funds to ULBs. Utilisation certificates were not submitted in time. The database under SWM for none of the ULBs was created. Grants released for solid waste management remained blocked up to December 2008 as per Government directive and 51 *per cent* of available funds was spent within four months by adjusting previous pending bills. No waste disposal facility was created in any of the ULBs. Most of the articles and equipments purchased under solid waste management remained idle.

2.4 Recommendations

- Departmental authorities should ensure timely release of funds to ULBs within prescribed norm of 15 days of receipt from the date of receipt of allotment from GOI;
- Internal Control Management may be developed to control the diversion / misutilisation of funds;
- Creation of ULBs database may be completed within the specified time frame as recommended by the 12th Finance Commission;
- ULBs should take care the timely completion of the project Solid Waste Management for disposal of waste and sweeping materials as recommended by 12th Finance Commission;