

CHAPTER-I

AN OVERVIEW OF URBAN LOCAL BODIES

1.1 Introduction

Government implemented the system of democratic governance down to grass root level in Urban Local Bodies (ULBs) through Uttar Pradesh Municipal Corporation Act, 1959 and Uttar Pradesh Nagar Palika Act, 1916. The objective was to make the ULBs self reliant and to provide better civic facilities to the people of the areas under their jurisdiction. Further, the Seventy-Fourth Constitutional Amendment (1992) paved the way for decentralization of powers, transfer and devolution of more functions and funds to the ULBs. Consequently, more diversified responsibilities were devolved through a three tier structure namely Nagar Nigams¹ (NNs), Nagar Palika Parishads² (NPPs) and Nagar Panchayat³ (NPs). To incorporate the provisions of the Seventy-Fourth Constitutional Amendment, the legislature of Uttar Pradesh enacted the Uttar Pradesh Urban Local Self Government Laws (Amendment) Act, 1994.

There were 627 ULBs in the State, governed by the elected board of their members with normally five years' tenure. The last election to these 627 ULBs was held in the year 2006. The population profile of the ULBs was as under:

Number and names of ULBs	Aggregate area (sq km)	Average area/ULB (sq km) ⁴	Total Population (as per census 2001)	Average population	Density of population (average per sq. km)
12 Nagar Nigam	1,426.56	118.88	1,31,49,882	10,95,823	9,218
194 Nagar Palika Parishad	1,980.76	10.21	1,33,98,815	69,066	6,764
421 Nagar Panchayats	1,700.42	4.04	60,53,844	14,380	3,560
Total 627 ULBs	5,107.74	133.13	3,26,02,541	11,79,269	19,542

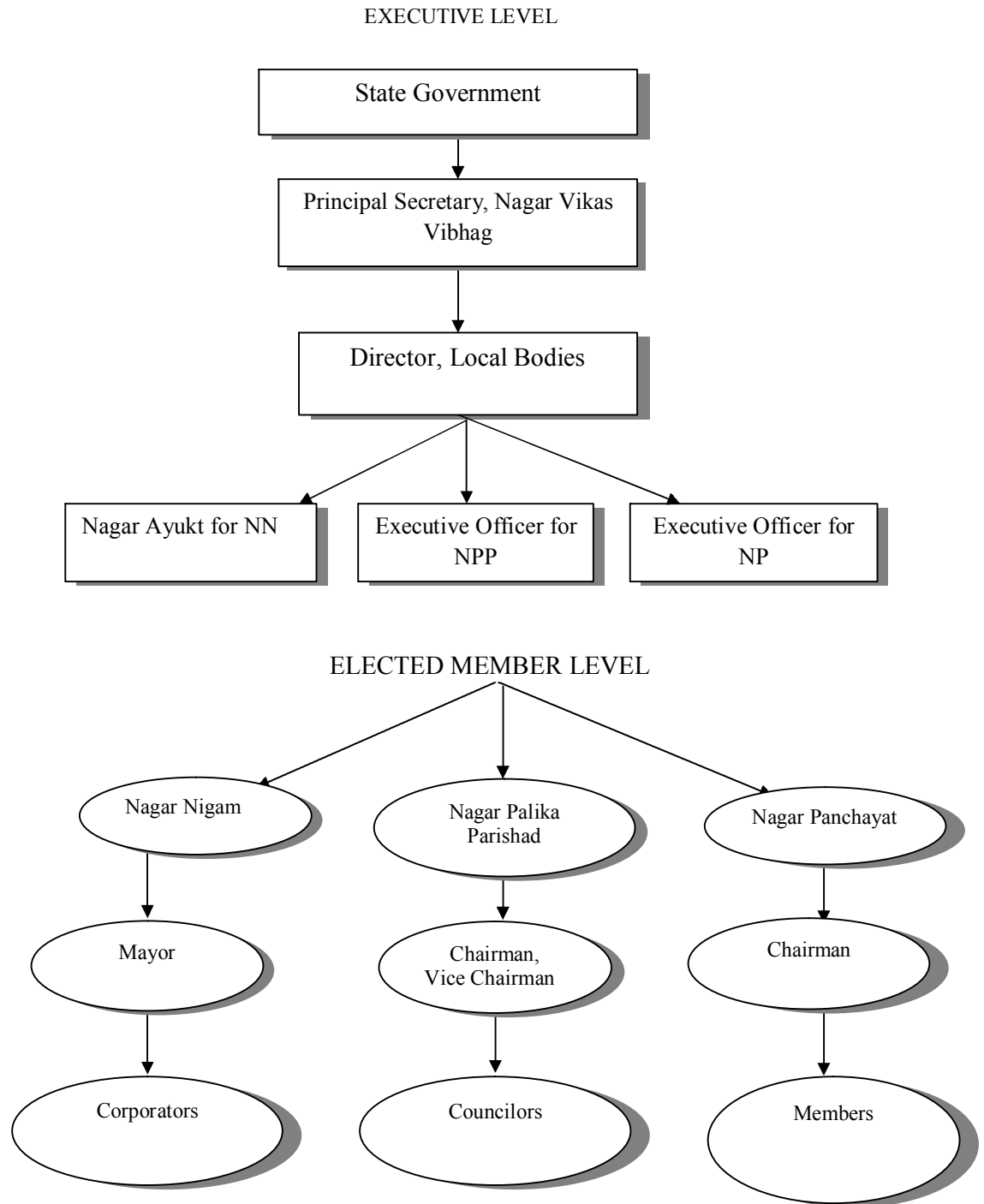
¹ Represents the ULBs, having the population of more than five lakh.

² Represents the ULBs, having the population between 20 thousand and five lakh.

³ Represents the ULBs having the population below 20 thousand.

⁴ Area as per census of 1991.

1.2 Administrative Organization of Urban Local Bodies



While a *Mayor* heads the Nagar Nigam, *Chairman* heads the Nagar Palika Parishads and the Nagar Panchayat. The elected representatives exercise their powers and discharge the duties through the committees of elected members. *Nagar Ayukt* in case of Nagar Nigam and Executive Officers in case of Nagar Palika Parishads and Nagar Panchayats are the administrative heads.

1.3 Database on finances

Based on the recommendation of Eleventh Finance Commission (EFC), Ministry of Finance, Government of India issued (June 2001) guidelines that a data base on the finances of the ULBs should be developed at the district, State and Central Government levels and be easily accessible through computers and linking it through V-SAT⁵. The data were to be collected and compiled in standard formats prescribed (2003) by the Comptroller and Auditor General of India (C & AG). The data base was to facilitate comparison of performance of local bodies among the States at the Government of India level and the Government at the State level.

The data base was, however, not developed upto December 2009 even after funds to the tune of ` 49.41 lakh were earmarked (2000-01) for data base creation as per recommendations of EFC. Action taken in this regard at the Government level was awaited (December 2009).

Due to non-availability of the data base on finances of the ULBs, the Government could not assess their performance in the State. Besides, release of grants after reviewing their actual needs and fiscal performance was not possible in absence of data base. This was more important in terms of the recommendation of the Twelfth Finance Commission (TFC) which observed that maintenance of the data base was necessary to keep accurate information on the finances of the ULBs for need based assessment of their requirements.

⁵ Very Small Aperture Terminal.

1.4 Transfer of functions

In follow up to the 74th Constitutional Amendment Act, 1992, the State Legislature enacted laws for devolving 13 functions out of 18⁶ (enshrined in Twelfth Schedule of the Constitution) on the ULBs leaving out 5⁷ functions. In addition, one function namely parking places for vehicles (beyond Twelfth Schedule of the Constitution) was also devolved. However, neither activities nor functionaries and funds in respect of six functions⁸ out of 14 devolved were transferred to the ULBs as of August 2009.

Thus, partial devolution of the activities/functions and funds restricted the activities of the ULBs.

1.5 Sources of revenue

1.5.1 Flow of revenue

In the mandate of the EFC, ULBs were brought within purview of the Finance Commissions for the first time. The objective was to augment Consolidated Fund of the State Government to supplement the resources of the ULBs. Accordingly, the TFC also recommended release of grants to the State Government. State Government also released grants to the ULBs as

(i) Urban planning including town planning, (ii) Regulation of land use and construction of buildings, (iii) Planning for economic and social development, (iv) Roads and bridges, (v) Water supply for domestic, industrial and commercial purposes, (vi) Public health, sanitation, conservancy and solid waste management, (vii) Fire services, (viii) Urban forestry, protection of the environment and promotion of ecological aspects, (ix) Safeguarding the interests of weaker sections of society including the handicapped and mentally retarded, (x) Slum improvement and up gradation, (xi) Urban poverty alleviation, (xii) Provision for urban amenities and facilities such as parks, gardens, playgrounds, (xiii) Promotion of cultural, educational and aesthetic aspects, (xiv) Burials and burial grounds, cremations, cremation grounds and electric crematorium, (xv) Cattle ponds, prevention of cruelty to animals, (xvi) Vital statistics including registration of births and deaths, (xvii) Public amenities including street lighting, parking lots, bus stops and public conveniences, (xviii) Regulation of slaughter houses and tanneries.

⁷ (i) Urban planning including town planning, (ii) Regulation of land use and construction of buildings, (iii) Roads and Bridges, (iv) Fire services, (v) Promotion of cultural, educational and aesthetic aspects.

⁸ (i) Planning of economic and social development, (ii) Urban forestry, (iii) Safeguarding the interest of weaker sections of society, (iv) Urban poverty alleviation (v) Slum improvement and upgradation, (vi) Parking places for vehicles.

recommended by its own State Finance Commission (SFC). In all, the sources of revenues for the ULBs comprised:

- Grants assigned under the recommendations of the EFC (2000-05) and TFC (2005-10).
- Devolution of 7.5 *per cent* of net proceeds of total Tax Revenue of the State Government under the recommendations of the Second State Finance Commission (2003).
- Funds from other departments for functions transferred to the ULBs.
- Revenue earned by the ULBs out of their own resources such as taxes, rent, fees, *tehbazari*⁹, taxi stands, etc.

1.5.2 Aggregate receipts

The aggregate receipts of the ULBs under the recommendations of EFC, TFC and SFC and revenue realized from their own resources during the period 2004-09 were as under:

(` in crore)

Sl. no.	Year	EFC and TFC (per cent to total receipt)	SFC (per cent to total receipt)	Own resources (per cent to total receipt)	Total
1.	2004-05	22.79 (2%)	877.00 (67%)	412.33 (31%)	1,312.12
2.	2005-06	51.70 (4%)	911.25 (63%)	475.98 (33%)	1,438.93
3.	2006-07	103.40 (5%)	1,518.00 (73%)	448.36 (22%)	2,069.76
4.	2007-08	103.40 (4%)	1,838.43 (71%)	662.23 (25%)	2,604.06
5.	2008-09	103.40 (4%)	1,985.64 (68%)	841.95 (29%)	2,930.99
Total		384.69 (4%)	7,130.32 (69%)	2,840.85 (27%)	10,355.86

(Source: Director, Urban Local Bodies, Lucknow)

It would be seen from the table that the prime contributor to receipts of ULBs was the grants received under the recommendations of the SFC followed by income generated through their own resources.

1.5.3 Devolution of State Finance Commission grant

Second State Finance Commission recommended that 7.50 *per cent* of the net proceeds of the Tax Revenue of the State Government should be devolved to the ULBs. The devolution of the funds and actual funds released by the State Government during the period 2004-09 were as under:

⁹ Tax on trades and callings carried on within the municipal limits.

(` in crore)

Year (1)	Net proceeds of Tax Revenue of State Government (2)	Funds to be devolved (3)	Funds actually devolved (4)	Short release (per cent) (Column no 3-4) (5)
2004-05	15,693	1,177	877	300 (25)
2005-06	18,858	1,414	911	503 (36)
2006-07	22,998	1,725	1,518	207 (12)
2007-08	24,959	1,872	1,838	34 (2)
2008-09	28,659	2,149	1,986	163(8)
Total	1,11,167	8,337	7,130	1,207 (14)

(Source: State Finance Accounts of the respective years and Director, ULBs)

As would be seen from the table that the Government did not devolve 7.5 per cent of the net proceeds of the Tax Revenue in any year during the period 2004-09.

The shortfall in devolution of funds deprived the ULBs at the grass root level to provide better civic amenities to the people of the areas under their jurisdiction besides denying ULBs an opportunity to be self reliant.

1.6 Utilization of funds

Utilization of grants under EFC, TFC and SFC

Based on data made available by Director, ULBs, Lucknow, the table below brings out the position of funds available under the EFC, TFC and SFC and its utilization during 2004-09 as of August 2009.

(` in crore)

Name of the grant	Year	Funds available	Funds utilized	Funds not utilized
EFC	2004-05	22.79	22.79	--
TFC	2005-06	51.70	51.70	--
	2006-07	103.40	51.70	51.70
	2007-08	103.40	77.55	25.85
	2008-09	103.40	16.76	86.64
Second SFC	2004-05	877.00	877.00	-
	2005-06	911.25	911.25	-
	2006-07	1,518.00	1,518.00	-
	2007-08	1,838.43	1,838.43	-
	2008-09	1,985.64	1,985.64	-

As would be seen from the table out of ` 310.20 crore of TFC grant released during 2006-09, ` 164.19 crore remained unutilized as of August 2009.

Further, data furnished by Director, local bodies, were not found realistic as the funds made available to the ULBs was treated as final expenditure in the records of the Director, ULBs and no system existed to ascertain the actual expenditure incurred by the units.

Revenue realized from own resources

The ULBs were required to generate revenues by collecting taxes, rent, fee, etc. from the people of the areas falling under their jurisdiction. Position of targets fixed for revenue realization for ULBs during 2006-09 by the Government and achievement thereagainst is given below:

Number and Name of ULBs	2005-06		2006-07		2007-08		2008-09	
	Target	Achievement (per cent)	Target	Achievement (per cent)	Target	Achievement (per cent)	Target	Achievement (per cent)
12 NNs	261.52	299.88 (115)	298.93	254.41 (85)	328.82	430.98 (131)	364.16	581.31(160)
194 NPPs	158.92	132.10 (83)	161.90	116.73 (72)	175.80	157.18 (90)	193.98	216.91(113)
421 NPs	19.81	44.00 (222)	19.81	77.22 (390)	28.79	74.07 (257)	50.64	43.73 (86)
Total	440.25	475.98	480.64	448.36	533.41	662.23	608.78	841.95

(Source: Director, Urban Local Bodies)

It would be seen from the above table that in respect of NNs, the targets for 2006-07 and 2008-09 were fixed less than the revenue realized during 2005-06 and 2007-08 respectively and in respect of NPs, the targets fixed for 2006-07, 2007-08 and 2008-09 were less than the revenue realized in their preceding years.

1.7 Overall financial position of the ULBs

As mentioned in the Paragraph 1.3, the data base on finances of the ULBs was not created. As a result the overall financial position of all the ULBs in the State depicting the opening balances, receipts, expenditure and closing balances could not be ascertained.

The year-wise financial positions of ULBs (2005-06: 105, 2006-07: 106 and 2007-08: 75), test-checked in audit during the period 2006-09 is detailed below:

(` in crore)

Accounts Year	Number of ULBs test-checked	Opening balances	Funds received	Total Funds available	Expenditure (per cent in bracket)	Closing balances
Nagar Nigams						
2005-06	7	132.32	581.23	713.55	501.83 (70)	211.72
2006-07	7	211.72	605.50	817.22	595.48 (73)	221.74
2007-08	8	211.44	1,002.22	1,213.66	688.71(57)	524.96
Nagar Palika Parishads						
2005-06	39	34.10	122.99	157.09	113.14 (72)	43.95
2006-07	39	43.95	124.01	167.96	126.32 (75)	41.64
2007-08	22	27.62	121.36	148.98	110.75(74)	38.23
Nagar Panchayats						
2005-06	59	15.05	40.83	55.88	39.09 (70)	16.79
2006-07	60	17.20	49.63	66.83	51.37 (77)	15.46
2007-08	45	11.08	41.72	52.80	39.91(76)	12.89
Total		43.33	132.18	175.51	130.37	45.14

(Source: Inspection report of the audited unit)

The percentages of expenditure as against the available funds ranged between 57 to 73 *per cent* in respect of NNs, 72 to 75 in respect of NPPs and 70 to 76 in respect of NPs. Consequently, huge amount was lying unspent with them at the end of each financial year which indicated poor planning of funds utilization for achieving intended objectives in a time-bound manner.

1.8 Internal Control

- The NPPs and NPs did not have any pre-check system for bills. As such, payments were made without pre checking of the bills.
- In terms of the Rule 67 of UP Municipal Account Code, the Executive Engineers and the Assistant Engineers were to check/verify 5 and 25 *per cent* respectively of the measurements of the construction works entered in the measurement books. In test-check of ULBs, it was, however, noticed that measurements were not checked and verified as such.

1.9 Budgeting and budgetary procedure

In terms of Note 1 below Rule 104 of Municipal Account Code, each ULB in the State was to prepare the annual budget estimates and monthly accounts for effective control over the expenditure. Test-check of records of 46 ULBs¹⁰, however, revealed that neither monthly nor annual accounts were prepared by

¹⁰ Nagar Panchayat

them. Besides, 9 NPs out of 46 did not prepare even annual budget estimates for the year 2007-08 (*Appendix-1*) Without preparation of monthly accounts/budget estimates in these ULBs, an expenditure of ` 45.04 crore was incurred. Incurring of expenditure without preparation of Monthly Accounts/Budget Estimate is not a healthy financial practice as it undermines the importance of prioritization of resource allocation besides, diluting exercise of control over receipts and expenditures.

The Executive Officers of the ULBs are primarily responsible for preparation of budget and assisting the Board in scrutinizing and approving the same. This responsibility was not effectively discharged by the Executive Officers.

1.10 Accounting arrangements

- **Adoption of account formats prescribed by the C&AG**

The C & AG on the recommendation of EFC prescribed the Budget and Accounting formats on accrual basis for ULBs which the Ministry of Urban Development circulated (June 2003) to the State Governments for their acceptance. The Government accepted the formats but could not implement the same as of August 2009.

Due to non-maintenance of accounts in the prescribed formats, the assessment of the assets and liabilities of the ULBs could not be done.

- **Non-reconciliation of cash balances**

Each item of receipts and expenditure as per cash book should be compared with the treasury/bank statements at the end of each month. The differences, if any, should be reconciled. However, it was noticed in test-check that 3 NNs, 8 NPPs and 11 NPs had a total difference of ` 10.36 crore as on 31 March 2008 in the cash book and treasury/bank statements (*Appendix-2*). On being pointed out in audit, the units stated that reconciliation would be done. The un-reconciled differences were fraught with the possibilities of misuse/misappropriation of funds.

1.11 Audit arrangements

- Director, Local Fund Audit is the primary auditor of ULBs in terms of Uttar Pradesh Local Fund Audit Act, 1984. Based on information furnished (September 2009) by Director, Local Funds Audit, the arrears in audit of ULBs occurred ranging between 6 and 7 *per cent* during the year 2006-07 to 2008-09 due to shortage of manpower. The year-wise position of the units to be audited and those actually audited have been given below:

Year	Number of units to be audited	Number of units actually audited	Units in arrear	Arrear in per cent
2006-07	623	582	41	7
2007-08	623	586	37	6
2008-09	623	585	38	6

(Source: Information furnished by Director, Local Fund Audit)

- Position of paragraph settled and paragraph lying outstanding at the end of March 2009 was as under:

Name of units	Upto 2006-07			Upto 2007-08			Upto 2008-09		
	No of outstanding paragraph	Settled during the year (per cent to the outstanding)	No. of outstanding paragraph at the end of the year	No of outstanding paragraph	Settled during the year (per cent to the outstanding)	No. of outstanding paragraph at the end of the year	No of outstanding paragraph	Settled during the year (per cent to the outstanding)	No. of outstanding paragraph at the end of the year
NNs	24,556	151 (1)	24,405	21,543	06 (NIL)	21,537	22,682	49 (NIL)	22,633
NPPs	1,41,893	5,216 (4)	1,36,677	1,48,112	859 (1)	1,47,253	1,56,277	5,386 (3)	1,50,891
NPs	1,31,300	8,487 (6)	1,22,813	1,37,627	2,206 (2)	1,35,421	1,66,407	3,098 (2)	1,63,309
Total	2,94,749	13,854	2,83,895	3,07,282	3,071	3,04,211	3,45,366	8,533	3,36,833

Source: Director, Local Fund Audit

It would be seen from the table that number of outstanding paragraph increased by 52,938 from 2, 83,895 (as on 31 March 2007) to 3, 36,833 (19 *per cent*) at the end of 2008-09. The Director, Local Fund Audit attributed the poor settlement to reluctance of ULBs in submission of compliance report.

Director, Local Fund Audit, in terms of section 7 (3) of Uttar Pradesh Local Fund Audit Act, 1984 was required to prepare a consolidated audit report on the accounts of ULBs and submit it to the Government for placing it before the Legislative Assembly. It was noticed that while such annual audit report was prepared up to the year 2005-06, reports up to the year 2003-04 only was

placed before the Legislative Assembly. Reason for non-preparation of annual audit reports for 2006-07, 2007-08 and 2008-09 was not furnished by Director, Local Fund Audit.

1.12 Position of entrustment of audit/Technical Guidance and Supervision to Comptroller and Auditor General of India

The EFC recommended exercising of Technical Guidance and Supervision (TGS) over the proper maintenance of accounts of ULBs and their audit by the C & AG of India under section 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service), Act 1971. The Government entrusted (October 2001) the audit of ULBs under section 20 (1) of C & AG's DPC Act, 1971.

- Audit of 8 Nagar Nigams, 22 Nagar Palika Parishads and 45 Nagar Panchayats for the year 2007-08 was conducted during 2008-09 and 1,644 paragraphs on poor financial management and irregularities resulting into infructuous and excess expenditures, diversion of funds and loss of revenue, etc. were communicated during 2006-09 to the Head of the offices of the concerned audited units of the ULBs, and Director, Local Fund Audit. However, the compliance of these paragraphs was awaited (December 2009).

1.13 Other points

Recommendation of the State Finance Commission

Second State Finance Commission, constituted in February 2000 for the period 2001-2006, made 107 recommendations mainly on the issues relating to transfer of fixed shares of the net proceeds of the State Tax Revenue to ULBs, formation of District Planning Committees (DPCs) to improve their resources through license fee, etc. and to implement e-governance and computerization in ULBs. The DPCs were also to approve the district development plan as a whole prepared by the ULBs for each financial year.

It was observed that the Government accepted 74 recommendations *in toto*, 12 partially and did not accept remaining 21 which related mainly to imposing of

property tax in rural areas, revision of rates of land revenue and enhancing income of ULBs through licenses etc.

1.14 Conclusion

The Government did not devolve the Net Tax Revenue to the ULBs as recommended by SFC. The ULBs did not utilize even the available funds leading to huge accumulation of funds with them at the end of each year. Despite availability of fund, data base for maintenance of finances of the ULBs were not developed, consequently, ULB-wise data was not available for assessment of their financial performance. The status of the assets and liabilities of the ULBs were also not available due to non maintenance of accounts in the formats prescribed by the C & AG.

1.15 Recommendations

- The Government should take effective steps to develop data base on finances of the ULBs for making need based assessment of their requirements at the Government level.
- The Government should adopt the achievement of norms prescribed by the Second Finance Commission for devolution of funds to the ULBs.
- The Government should ensure that ULBs prepare their budget and accounts in the formats prescribed by the C & AG of India.
- The Government should ensure that the ULBs' response to audit paragraphs raised by the Director, Local Fund Audit as well as incorporated in the Audit Inspection Reports prepared under the technical guidance and supervision of the C & AG are attended to on priority and compliance submitted to Director, Local Fund Audit and Principal Accountant General (Civil Audit), Uttar Pradesh, Allahabad.