

## 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 Nigams<sup>1</sup>(NNs), Nagar Palika Parishads<sup>2</sup> (NPPs) and Nagar Panchayat<sup>3</sup>(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 630 ULBs in the State, governed by the elected board of their members with normally five years' tenure. The last election to these 630 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.) <sup>4</sup>	Total Population (as per census 2001)(₹in lakh)	Average population of ULBs	Density of population ( average per sq. Km)
13 Nagar Nigam	1451.92	111.69	136.08	10.47	0.09
194 NagarPalika Parishad	1960.40	10.11	129.75	0.67	0.07
423 Nagar Panchayats	1736.33	4.10	61.19	0.14	0.04
<b>Total 630 ULBs</b>	<b>5148.65</b>	<b>8.17</b>	<b>327.02</b>	<b>0.52</b>	<b>0.06</b>

*(Source: Director Urban Local Bodies, Lucknow)*

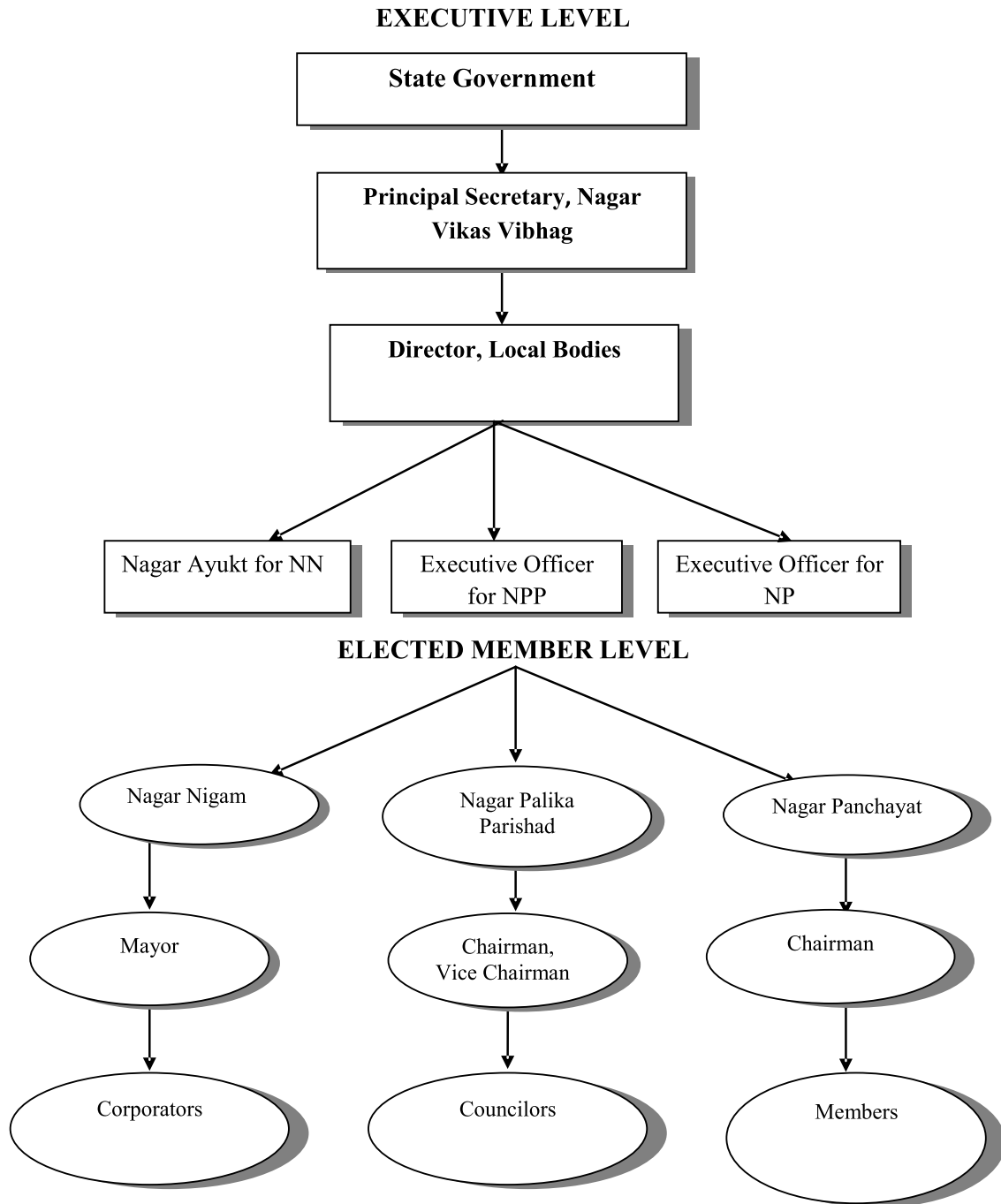
<sup>1</sup> Represents the ULBs, having the population of more than five lakh.

<sup>2</sup> Represents the ULBs, having the population between 20 thousand and five lakh.

<sup>3</sup> Represents the ULBs having the population below 20 thousand.

<sup>4</sup> Area as per census of 1991

## 1.2 ADMINISTRATIVE ORGANISATION OF URBAN LOCAL BODIES



While a *Mayor* heads the Nagar Nigam, *Chairman* heads Nagar Palika Parishads and Nagar Panchayats. 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 Officer in case of Nagar Palika Parishads and Nagar Panchayats are the administrative heads.

### 1.3 Database on finances

The Eleventh Finance Commission recommended that a database on the finances of the ULBs should be developed at the district, State and Central Government levels and be easily accessible by computerizing it and linking it through V-SAT<sup>5</sup>. The data were to be collected and compiled in standard formats prescribed by the C&AG of India. The objective 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. Upon the recommendation of Eleventh Finance Commission, ₹ 49.41 lakh was deposited in the Personal Ledger Account (PLA) of Nagar Nigam Lucknow in 2000-01 for creation of database. The database was, however, not developed up to November 2010 and action in this regard taken at the Government level was awaited (December 2010).

Non creation of the database on finances of the ULBs deprived the Government to assess their performances in the State by comparing it with the performances of the ULBs of other States. Besides this, releases of grants after reviewing their actual needs and fiscal performance were not ensured. This was more important in terms of the recommendation of the Twelfth Finance Commission which observed that maintenance of the database was necessary to keep accurate information on the finances of the ULBs for need based assessment of their requirements.

### 1.4 Transfer of functions

In follow up to the 74<sup>th</sup> Constitutional Amendment Act, 1992, the State Legislature enacted laws for devolving 13 functions out of 18<sup>6</sup> (enshrined

<sup>5</sup> Very Small Aperture Terminal

<sup>6</sup> (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

in Twelfth Schedule of the Constitution) on the ULBs leaving out five<sup>7</sup> 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 functions<sup>8</sup> out of 14 devolved were transferred to the ULBs as of December 2010.

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

With the constitution of the Eleventh Finance Commission, ULBs were brought within purview of the Finance Commissions for the first time. The objective was to augment Consolidated Fund to enable the State to supplement resources of the ULBs. Accordingly, the Twelfth Finance Commission recommended release of grants to the State government for them. State Government also released grants to the ULBs as recommended by its own State Finance Commission. In all, the sources of revenues for the ULBs comprised:

- Grants assigned under Twelfth Finance Commission (periods 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.
- Funds from departments for functions transferred to the ULBs.

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amenities including street lighting, parking lots, bus stops and public conveniences, (xviii) Regulation of slaughter houses and tanneries.

<sup>7</sup> (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.

<sup>8</sup> (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.

- Revenue earned by the ULBs out of their own resources such as taxes, rent, fees, *tehbazari*<sup>9</sup>, taxi stands etc.

### 1.5.2 Aggregate receipts

The aggregate receipts of grants by the ULBs under the recommendation of Twelfth Finance Commission (TFC), State Finance Commission (SFC) and revenue realized from their own resources during the periods 2005-10 were as under:-

(₹ in crore)

Sl. No.	Year	TFC (per cent to total receipt)	SFC (per cent to total receipt)	Own resources (per cent to total receipt)	Total
1	2005-06	51.70 (4)	911.25 (63)	475.98 (33)	1438.93
2	2006-07	103.40 (5)	1518.00 (73)	448.36 (22)	2069.76
3	2007-08	103.40 (4)	1838.43 (71)	662.23 (25)	2604.06
4	2008-09	103.40 (3)	1985.64 (68)	841.95 (29)	2930.99
5	2009-10	103.40 (4)	2120.58 (71)	751.37 (25)	2975.35
<b>Total</b>		<b>465.30 (4)</b>	<b>8373.90 (70)</b>	<b>3179.89 (26)</b>	<b>12019.09</b>

(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 7.5 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 periods 2005-10 were as under:-

(₹ in crore)

Year	Net proceeds of Tax Revenue of State Government	Funds to be devolved	Funds actually devolved	Short release (per cent) (column no 3-4)
(1)	(2)	(3)	(4)	(5)
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)
2009-10	33,877	2,541	2,121	420(17)
<b>Total</b>	<b>129,351</b>	<b>9,701</b>	<b>8,374</b>	<b>1,327 ( 14)</b>

(Source: Director Urban Local Bodies, Lucknow)

<sup>9</sup> Tax on trades and callings carried on within the municipal limits.

It 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 2005-10. Analysis of the table revealed that total short devolution during 2005-10 was ₹ 1,327 crore (14 per cent).

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

## 1.6 Utilization of funds

### 1.6.1 Utilization of grants under TFC and SFC

Based on data made available by Director, ULBs, Lucknow, the table below brings out the position of funds available under the TFC and SFC and its utilization during 2005-10 as of November 2010.

(₹ in crore)

Name of the grant	Year	Funds available	Funds utilized	Funds not utilized
Twelfth Finance Commission (TFC)	2005-06	51.70	51.70	-
	2006-07	103.40	103.40	-
	2007-08	103.40	103.40	-
	2008-09	103.40	103.40	-
	2009-10	103.40	103.40	-
State Finance Commission (SFC)	2005-06	911.25	911.25	-
	2006-07	1518.00	1518.00	-
	2007-08	1838.43	1838.43	-
	2008-09	1985.64	1985.64	-
	2009-10	2120.58	2120.58	-

(Source: Director Urban Local Bodies, Lucknow)

The data were not reliable 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.

### 1.6.2 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 2007-10 by the Government and achievement thereagainst is given below:

(₹ in crore)

Number and Name of ULBs	2007-08		2008-09		2009-10	
	Target	Achievement (per cent)	Target	Achievement (per cent)	Target	Achievement (per cent)
13 NNs	328.82	430.98(131)	364.16	581.31(160)	478.78	527.57(110)
194 NPPs	175.80	157.18(90)	193.98	216.91(113)	149.96	178.37(119)
423 NPs	28.79	74.07(257)	50.64	43.73 (86)	40.53	45.43(112)
<b>Total</b>	<b>533.41</b>	<b>662.23</b>	<b>608.78</b>	<b>841.95</b>	<b>669.27</b>	<b>751.37</b>

(Source: Director Urban Local Bodies, Lucknow)

It would be seen from the above table that in respect of NNs and NPs, the targets for the years 2008-09 and 2009-10 were fixed less than the revenue realized during the years 2007-08 and 2008-09 respectively and in respect of NPPs, the targets fixed for 2009-10 was less than the revenue realized during 2008-09.

Further, it was noticed in test check that 12 Nagar Palika Parishads and 22 Nagar Panchayats raised demands for ₹ 11.65 crore during 2008-09 which included ₹ 5.46 crore on account of arrear dues for previous years. Out of total demands only ₹ 5.49 crore was recovered during 2008-09 and the remaining ₹ 6.16 crore was lying unrecovered for no reasons on record. The financial position of the NPPs and NPs suffered to this extent (Appendix-1.1).

### 1.7 Overall financial position of the ULBs

As mentioned at preceding Paragraph 1.3, the database 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 (2006-07: 106, 2007-08: 75 and 2008-09: 153) test checked in audit during the period 2007-10 is detailed below:

(₹ in crore)

Year	Number of ULBs test checked	Opening balances	Funds received	Total Funds available	Expenditure (per cent in bracket)	Closing balances
<b>Nagar Nigams</b>						
2006-07	7	211.72	605.50	817.22	595.48(73)	221.74
2007-08	8	211.44	1002.22	1213.66	688.71(57)	524.96
2008-09	10	724.34	1837.40	2561.74	1616.10(63)	945.64
<b>Nagar Palika Parishads</b>						
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
2008-09	52	130.74	347.68	478.42	350.16(73)	128.26
<b>Nagar Panchayats</b>						
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
2008-09	91	25.89	81.68	107.57	84.88(79)	22.69

(Source: Inspection report of the audited units.)

It was noticed that the ULBs could not maintain pace in expenditure with the flow of funds during 2007-10. The *per centages* of expenditure as against the available funds ranged between 57 to 73 in case of Nagar Nigams, 73 to 75 in case of Nagar Palika Parishads and 76 to 79 in case of Nagar Panchayats. Consequently, huge amounts were lying unspent with them at the end of each financial year which indicated poor planning for 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 Accounting arrangements

- *Adoption of account formats prescribed by the Comptroller and Auditor General of India*

The Comptroller and Auditor General of India, on the recommendation of Eleventh Finance Commission 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 November 2010.

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 6 Nagar Palika Parishads and 13 Nagar Panchayats had a total difference of ₹ 5.76 crore (*Appendix-1.2*) as on 31 March 2009 in the cash book and treasury/bank statements. The unreconciled differences were fraught with risk of misuse / misappropriation of funds.

### 1.10 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 (December 2010) by Director, Local Funds Audit, the arrears in audit of ULBs occurred ranging between 6 to 11 *per cent* during the year 2007-08 to 2009-10 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 <i>per cent</i>
2007-08	623	586	37	6
2008-09	623	585	38	6
2009-10	623	556	67	11

(Source: Information furnished by Director Local Fund Audit)

- As per direction of C&AG of India about the TGS, it was directed that the report of the test check conducted by AG would be sent to

the Director Local Fund Audit (DLFA) for pursuance of action taken with ULBs. The DLFA would ensure compliance of audit paras of AG's report in the same manner as if these are his own reports. About the settlement of the paragraph sent by DAG/LB, it was told by Director Local Fund Audit Allahabad that due to shortage of manpower no paragraph could be pursued.

- Director, Local Fund Audit, in terms of section 8(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 upto the year 2007-08, reports up to the year 2004-05 was only placed before the Legislative Assembly.

#### **1.11 Position of entrustment of audit/Technical Guidance and Supervision to Comptroller and Auditor General of India**

- The Eleventh Finance Commission recommended exercising of Technical Guidance and Supervision (TGS) over the proper maintenance of accounts of ULBs and their audit by the Comptroller & Auditor General of India under section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971. The Government entrusted the audit of local bodies to comptroller and Auditor General of India in October 2001.
- Audit of 10 Nagar Nigams, 52 Nagar Palika Parishads and 91 Nagar Panchayats for the year 2008-09 was conducted during 2009-10 and 2054 paragraphs on poor financial management and irregularities resulting into infructuous and excess expenditures, diversion of funds and loss of revenue, etc. were communicated during 2006-10 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 2010).

### 1.12 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 share of the net tax proceeds of the State to ULBs and PRIs, to improve their resources through license fee etc. and to implement e-governance, computerization in local bodies etc.

It was noticed that Government accepted in *toto* 74 recommendations and partially 12 and did not accept remaining 21 which mainly related to imposing of property tax in rural areas, revision of rates of land revenue and enhancing income of ULBs through license etc.

Third State Finance Commission was constituted in December 2004. On the issues relating to transfer of fixed shares of the net tax proceeds of the State to ULBs and PRIs, the commission recommended nine *per cent* of the net tax proceeds to ULBs but State Government decided to devolve only seven *per cent* of the total tax net receipts to the ULBs.

### 1.13 Conclusion

Thus, Government, on one hand, did not devolve 7.5 *per cent* of the proceeds of Tax Revenue to the ULBs in terms of the recommendations of the Second State Finance Commission and on the other hand, funds made available to them were underutilized leading to accumulation of huge amounts of fund depriving thereby the people of the areas under their jurisdiction the civic basic amenities. The financial data were also not reliable as neither the database was developed nor data of fund utilization compiled at the State level. The status of the assets and liabilities of the ULBs was also not available due to non maintenance of accounts in the prescribed formats. In addition, Government decided to devolve only seven *per cent* of the total tax net receipts to the ULBs against the nine *per cent*, which was recommended by Third State Finance Commission.