

# CHAPTER-1

## INTRODUCTION

### *1.1 Background*

Under Section 4 of the Jharkhand Municipal Act, 2000, the State Government may declare a town as a Municipal Corporation, a Municipality/Municipal Council or a Notified Area Committee/Nagar Panchayat on the basis of a population of more than two lakh, not less than forty thousand and twelve thousand respectively and if the town has (i) an average number of not less than four hundred inhabitants per square Kilometer and (ii) three-fourth of the adult population are engaged on pursuits other than agriculture.

The total population of Jharkhand State as per 2001 census was 26.95 million and the total population covered by the Urban Local Bodies (ULBs) was 5.93 million. Two Municipal Corporations, five Municipalities and 11 Municipal Councils, 16 Nagar Panchayats and five Notified Area Committees (NACs), declared by the State Government, were in existence in the State as on 31 March 2009. The Municipal Corporations are governed by Ranchi Municipal Corporation (RMC) Act, 2001, whereas Municipalities and NACs are governed by Jharkhand Municipal Act (JMA), 2000. The term of elected bodies of Municipal Corporation and Municipalities is five years. The State Government (then, Bihar) in exercise of powers conferred upon it under Section 530 of Patna Municipal Corporation Act 1951 and Section 385 of Bihar Municipal Act, 1922, dissolved all local bodies during the period 1986 to 1995. Hence, no elected bodies in ULBs were in existence at the time of creation of State of Jharkhand (November 2000) and since then fresh elections were held only in March 2008 in 28 out of 39 ULBs. The other 11 ULBs were functioning without having elected bodies as on 31 March 2009. Elections in three ULBs<sup>1</sup> were not held due to pending court cases. Reasons for non-holding of election in the remaining eight ULBs were not stated by the State Government. In the absence of elections, ULBs, as envisaged by the 74<sup>th</sup> Constitutional Amendment Act, had not come into existence in these towns.

---

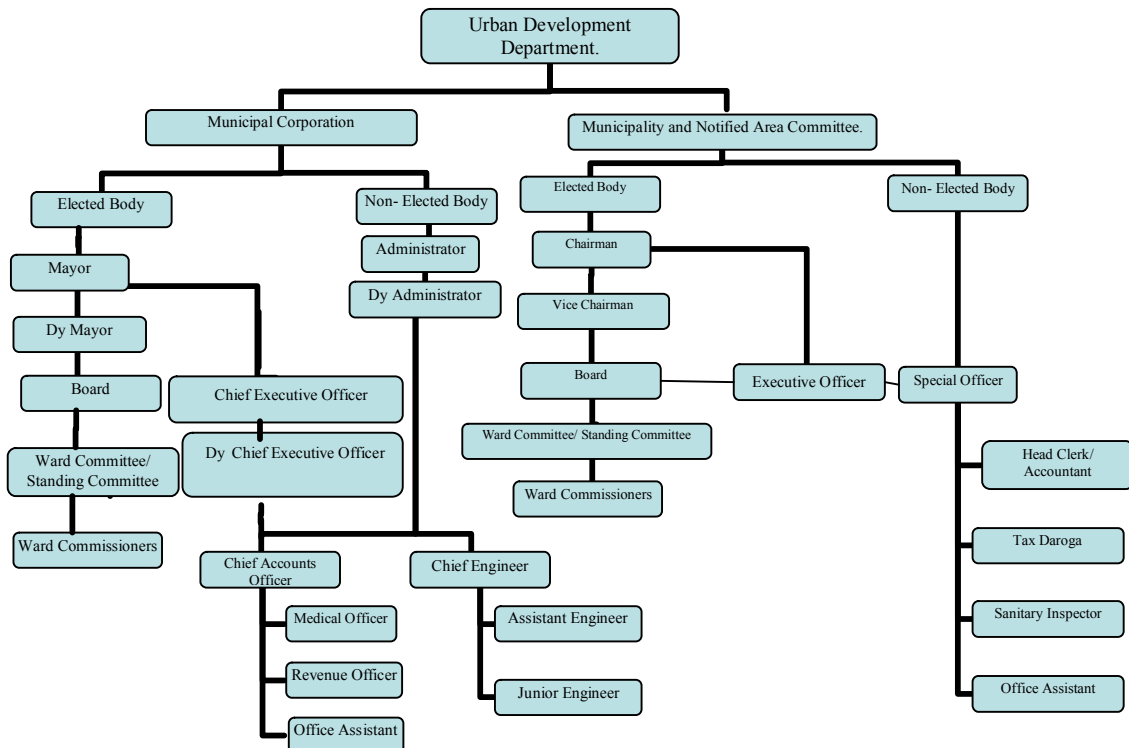
<sup>1</sup> Jamshedpur, Jugsalai and Mango.

## 1.2 Organizational Setup

The Urban Local Bodies are under Administrative control of Urban Development Department, Government of Jharkhand. The Chairman/Mayor elected by the public is the executive head of a ULB and presides over the meetings of the Board. Thus, the executive power of a ULB is exercised by the Board. To assist the Board, various committees and ward committees are constituted. The Chief Executive Officer/Executive officer appointed by the State Government is a whole time officer of the Corporation/Nagar Parishad/Nagar Panchayat and the executive power for the purposes of carrying on the administration of the Municipality, subject to the provisions of this Act and of any rules and bye-laws made thereunder and the general control of the Municipal Board, vests in him. He also carries into effect every resolution of the Board passed in conformity with the provisions of law. In absence of elected bodies, Municipal Corporations, Municipalities and NACs are administered by an Administrator, a Special Officer and a SDO (Civil)-cum-ex-officio Chairman of the NACs respectively. Other officers are also appointed to discharge specific functions.

### Organograph

The following Organograph will show the Organisational structure of a ULB.



### 1.3 Powers and Functions

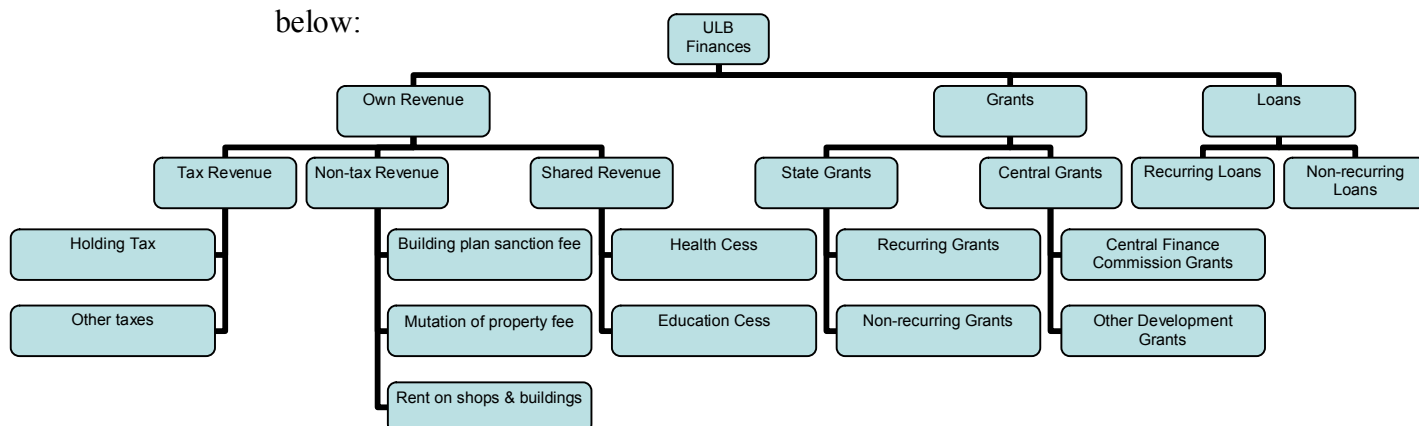
The ULBs shall perform, *inter alia*, 18 functions enumerated in the Twelfth Schedule to the Constitution inserted by the 74<sup>th</sup> Constitutional Amendment Act, 1992 (**APPENDIX-I**). These Powers and functions of the ULBs are described in Section 11A of JMA, 2000 and Section 63A of RMC Act, 2001. Some of the important functions performed by the ULBs are as follows:

- Urban planning including town planning;
- Regulation of land use and construction of buildings;
- Construction of roads and bridges;
- Water supply for domestic, industrial and commercial purposes and
- Maintenance of public health, sanitation, conservancy and solid waste management.

In addition to the above, some other functions are also partly performed by the ULBs out of 18 functions given in **APPENDIX-I**.

### 1.4 Financial Profile

The Urban Local Body Fund comprises of receipts from own resources and grants and loans from State Government. A flow chart of finances of the ULBs is given below:



Under the provisions of the Acts in force, all collections such as tax on holding, water tax, latrine tax, collection charges of health cess & education cess, tax on vehicles, tax on trades, professions, callings and employments, fee on registration

of vehicles etc. are sources of tax revenue and building plan sanction fees, mutation fees of property, rent on shops & buildings, tolls and other fees and charges etc. constitute the main source of non-tax revenue. The State Government releases grant-in-aid and loans to the ULBs to compensate their establishment expenses. Grant and assistance are also received from the State Government and the Central Government for implementation of specific schemes and projects.

Financial profile of the 17 test checked ULBs was as summarized in the table below:

**Table-1**

(Rs in lakh)

Sl. No	Name of ULBs	Period	Opening Balance	Receipts			Grand Total	Expenditure		Total	Closing Balance
				Grant	Loan	Own/Other Sources		Establishment	Scheme		
1.	Ranchi	2008-09	2477.53	1632.30	809.75	546.75	5466.33	1414.19	1155.55	2569.74	2896.59
2.	Dhanbad	2004-06	1011.55	641.79	298.56	230.54	2182.44	293.22	554.44	847.66	1334.78
3.	Hazaribagh	2007-08	771.43	234.77	283.51	132.16	1421.87	177.26	326.31	503.57	918.30
4.	Giridih	2007-08	1133.66	241.95	464.66	73.89	1914.16	205.11	1377.17	1582.28	331.88
5.	Chatra	2006-08	499.25	432.06	95.33	15.94	1042.58	31.09	448.08	479.17	563.41
6.	Chakradharpur	2007-08	266.62	55.32	45.76	18.62	386.32	47.49	64.08	111.57	274.75
7.	Chas	2006-08	461.34	643.30	167.93	75.61	1348.18	90.52	932.04	1022.56	325.62
8.	Simdega	2006-08	404.91	202.76	92.25	19.98	719.90	33.91	197.10	231.01	488.89
9.	Godda	2007-08	137.48	65.93	50.84	11.23	265.48	31.02	53.84	84.86	180.62
10.	Mango	2006-08	520.40	659.47	410.89	70.70	1661.46	44.73	691.48	736.21	925.25
11.	Jamtara	2006-08	290.58	100.54	79.20	36.40	506.72	27.62	251.52	279.14	227.58
12.	Saraikela	2006-08	284.38	54.48	21.25	18.04	378.15	16.38	211.20	227.59	150.57
13.	Basukinath	2006-08	241.66	505.09	197.10	61.24	1005.09	2.97	373.87	376.84	628.25
14.	Jasidih	2006-08	233.02	105.39	67.34	12.41	418.16	24.16	156.22	180.38	237.78
15.	Kharsanwan	2006-08	335.78	28.08	17.33	1.60	382.79	13.61	220.32	233.93	148.86
16.	Chakuliya	2007-08	1.45	76.40	35.32	0.22	113.39	1.76	20.11	21.87	91.52
17.	Chirkunda	2002-08	63.52	150.66	108.03	-	322.21	Nil	262.29	262.29	59.92

From the above table it was clear that the ULBs were financially dependent on grants/loans from the Government and their own revenues were meager.

### 1.5 Audit Arrangement

Audit of the ULBs is conducted by the Examiner of Local Accounts, Jharkhand under Jharkhand & Orissa Local Fund Audit Act, 1925.

Under Section 120 (1) of RMC Act, 2001, the Annual Accounts of the Municipal Corporation are subject to audit under the Jharkhand and Orissa Local Fund Audit Act, 1925. For this purpose, the Corporation is deemed to be a local authority whose accounts have been declared by the State Government to be subject to audit under Section 3 of the Jharkhand and Orissa Local Fund Audit Act, 1925 and the municipal fund is deemed to be a local fund.

## **1.6 Audit Coverage**

Out of 39 ULBs, accounts of 17 ULBs covering the financial year 2002-03 to 2008-09 (*APPENDIX-II*) were test checked and findings of audit are discussed in the succeeding paragraphs.

## **1.7 Loss of Rs.90.85 crore due to non-receipt of Grants as per the recommendations of EFC and TFC**

Due to non-holding of elections for municipal bodies, the State Government could not receive Rs 90.85 crore up to 2008-09 as grants from Central Government on the recommendations of the Eleventh and Twelfth Finance Commission as shown below: -

**Table-2**

(Rs in crore)

Particulars	Period	Requirement up to 2008-09	Actual receipt	Balance
EFC	2000-05	26.89	Nil	26.89
TFC	2005-10	78.40	14.44	63.96
<b>Total</b>		<b>105.29</b>	<b>14.44</b>	<b>90.85</b>

During 2008-09, GOI sanctioned Rs 14.44 crore to the State Govt under TFC which was released to 12 ULBs ( March 2009) for the purpose of providing basic infrastructure and common facilities (Solid Waste Management, Construction of Roads, Drains, Street lighting etc) to the civilians. However, only Rs 1.64 crore (11 *per cent*) of the above grant could be utilized by the ULBs till February 2010. Due to non-utilisation of the fund, the intended benefits of the scheme could not be achieved.

### **1.7.1 Non-receipt of Grants of Rs.1707.77 crore under Jawaharlal Nehru National Urban Renewal Mission**

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched by Government of India (December 2005) to ensure sustainable development of selected cities. The scheme was to be implemented during 2005-2012. The State

Government and ULBs seeking assistance under the JNNURM were required to enter into Memorandum of Agreement with Government of India and undertake reforms at municipal level with thrust areas like potable water supply, sewerage and sanitation, solid waste management, road network, transportation, integrated development of slums, street lighting etc. Under the scheme, three cities (Ranchi, Dhanbad and Jamshedpur) of Jharkhand were selected, along with 63 cities in the country. For Mission coverage, the pre-condition was that the cities should have elected bodies in position. As per the Mission overview, the investment requirement based on City Development Programme (CDP) for the selected ULBs was as under:

**Table-3**

(Rs in crore)

Sl. No	Name of City/ULBs	Category	Annual Funds Requirements	Grant		Loan from Financial Institutions (Per cent)	Share of Central & State grant required per year	Total grant required during 2005-09	Grant received up to 2008-09	Non-receipt of Grants
				Central (Per cent)	State (Per cent)					
1.	Ranchi	Less than One Million population as per 2001 census	31.89	80	10	10	28.70	114.80	101.63	13.17
2.	Dhanbad	One Million plus but less than 4 Million populations as per 2001 census.	307.62	50	20	30	215.33	861.32	26.67	834.65
3.	Jamshedpur		307.62	50	20	30	215.33	861.32	1.37	859.95
<b>Total</b>							<b>459.36</b>	<b>1837.44</b>	<b>129.67</b>	<b>1707.77</b>

The Municipal Board of Ranchi came into existence in March 2008 but had not undertaken the reforms required under the Mission. Against total requirement of funds of Rs 114.80 crore during 2005-09, RMC got Rs 101.63 crore only for implementation of schemes under JNNURM, whereas Dhanbad and Jamshedpur neither had elected bodies nor had undertaken any reforms required under the Mission. Dhanbad Municipal Corporation received Rs 26.67 crore against total requirement of Rs 861.32 crore for 2005-09. Non-fulfillment of conditions of JNNURM by Jamshedpur resulted in non-receipt of Rs 859.95 crore during 2005-09 with consequential impact on civic facilities/ development in the cities.

Comments on utilization of grants received under JNNURM have been incorporated later in the Report.

## **1.8 Accounting Reforms**

### **1.8.1 Finalization of “State Municipal Accounts Manual”**

Based on C&AG’s Task Force Report on accrual accounting in ULBs, the National Municipal Accounts Manual (NMAM) was developed and circulated to all States and they were requested to prepare the State specific Accounts Manual (March 2004).

The Govt. had informed (March 2007) that the draft of ‘State Municipal Accounts Manual’ had been prepared on the basis of National Municipal Accounts Manual and was under review at the Govt. level. Despite reminders (January 2008, July 2008 and January 2010), the Govt. did not intimate further progress in this regard (March 2010).

### **1.8.2 Non-constitution of Steering Committee**

As per the decisions taken in the National Seminar organized (September 2003) by the Ministry of Urban Development, a Steering Committee was to be formed in all the States to oversee the implementation of budget and accounting formats in ULBs. A representative of Accountant General (AG) of the concerned State was also to be made as member of Steering Committee as an observer. Urban Development Department, Govt. of Jharkhand formed a Steering Committee (February 2004) without any representative of AG. The Government was requested (April 2004) to include the Examiner of Local Accounts, Jharkhand as Member-Observer of the Steering Committee and several correspondences were made for formation of the said Committee (last reminder in January 2010), but nothing had been heard from the Government (February 2010).

### **1.8.3 Adoption / Acceptance of database formats on finances of ULBs**

Formats of database on finances of ULBs prescribed by the C&AG as per Eleventh Finance Commission, were sent to the State Govt. (October 2003) and Hindi version of the same, as desired were also sent (August 2005) for adoption and implementation by ULBs.

In spite of several reminders, formal adoption / acceptance of the formats was not communicated by the Government (March 2010).

## 1.9 Devolution of functions, funds, and functionaries

### Functions:

Visualizing ULBs as institutions of self-governance, the 74<sup>th</sup> Constitutional Amendment Act, 1992 left the extent of devolution to the wisdom of the State Legislatures. Major elements of devolution are transfer of functions, functionaries and funds to ULBs, accompanied by administrative control over staff and freedom to take administrative and financial decisions at local level. Though the functions listed in the 12<sup>th</sup> Schedule to the Constitution were inserted under Section 11-A of JMA, 2000, neither the extent to which the functions had been actually devolved on the ULBs nor any Action Plan for achieving devolution of all functions was communicated by the State Government though called for (August, September & November 2009; February 2010).

During audit, it was noticed that out of 18 functions mentioned in the Schedule, five functions (Sl.No.7, 8, 9, 13 & 15 of Appendix-I) were not being performed by the ULBs, whereas some functions were being partly performed by some ULBs. Two functions i.e. Urban Planning including Town Planning and Regulation of Land use and Construction of buildings were not being performed by two Corporations i.e. Ranchi and Dhanbad. These functions were performed by Ranchi Regional Development Authority and Mineral Area Development Authority, Dhanbad respectively at present.

### Funds:

Devolution of funds to ULBs should be a natural corollary to implement the transferred functions. It was, however, noticed that no mapping of funds and functions was made by the State Government and financial assistance was being provided to ULBs by sanctioning recurring/non-recurring grants/loans. The quantum of assistance provided to ULBs by the Govt. during 2004-09 was as under:

**Table-4**

(Rs in crore)						
Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1	Revenue receipt of the State Government	6661	8464	10010	12027	13213
2	Revenue expenditure of the State Government	6976	8491	9064	10832	12877
3	Financial assistance to ULBs	48.83	77.28	109.58	146.07	50.90
4	Assistance as percentage of revenue receipt of State Government.	0.74	0.91	1.10	1.27	0.39
5	Percentage of assistance to revenue expenditure of State Government.	0.70	0.91	1.21	1.38	0.40



Though the financial assistance to ULBs had increased from 0.74 *per cent* to 1.27 *per cent* of revenue receipts of the State Government during 2004-08, it came down to 0.39 *per cent* during 2008-09 which was not enough keeping in view the insufficient resources of the ULBs and the fact that 22 *per cent* of the total population of the State resided in urban areas.

### **Functionaries:**

Devolution of powers and functions to the ULBs required availability of qualified and trained personnel at all levels for efficient discharge of these functions. The ULBs should have administrative control over the staff to command loyalty and directions of purpose in the new scenario. A review of the system of transfer of functionaries to ULBs revealed that the available manpower in ULBs was not sufficient and required attention of the State Government.

The position of sanctioned post and men- in- position in respect of the 17 ULBs was as under:

**Table-5**

Sl.No.	Name of the ULBs	Sanctioned Strength	Men in Position	Shortage	Percentage of shortage	Position as of 31 st March
1.	Ranchi	1330	774	556	41.81	2009
2.	Dhanbad	432	202	230	53.24	2006
3.	Hazaribagh	292	258	34	11.64	2008
4.	Giridih	310	141	169	54.51	2008
5.	Chatra	90	34	56	62.22	2008
6.	Chakradharpur	115	44	71	61.73	2008
7.	Chas	09	04	05	55.56	2008
8.	Simdega	Nil	Nil	Nil	Nil	2008
9.	Godda	39	22	17	43.59	2008
10.	Mango	23	18	05	21.73	2008
11.	Jamtara	09	03	06	33.34	2008
12.	Saraikela	22	08	14	63.64	2008
13.	Basukinath	09	07	02	22.23	2007
14.	Jasidih	26	19	07	26.92	2008
15.	Kharsawan	09	02	07	77.77	2008
16.	Chakuliya	Nil	Nil	Nil	Nil	2008
17.	Chirkunda	Nil	Nil	Nil	Nil	2008
<b>Total</b>		<b>2715</b>	<b>1536</b>	<b>1179</b>	<b>76.76</b>	

The above table shows that in three ULBs (Simdega, Chakulia and Chirkunda), there was no permanent staff, whereas in other ULBs the shortage of staff ranged from 11.64 *per cent* to 77.77 *per cent*. Due to shortage of manpower, the ULBs were facing difficulties in running offices and in performing their primary duties of sanitation as well as other civic facilities to their inhabitants.

### **1.10 *Non-receipt of Grants from the State Finance Commission***

The State Finance Commission (SFC) was constituted by the State Government in January 2004 under Section 80-B of JMA, 2000. The major function of the SFC was to frame the principle that would govern the distribution of the net proceeds of taxes, duties etc. between the State and ULBs and also the grants-in-aid to ULBs with the main aim of improving their financial position. No recommendation had, however, been made by the SFC till March 2009.

### **1.11 *Recommendations***

- The Finances of ULBs should be improved by taking action to enhance own revenues and to curtail avoidable expenditure by the ULBs.
- The State Municipal Accounts Manual based on NMAM, incorporating inter-alia, standard policies, documentation, and reporting requirement under accrual based double entry accounting system, should be prepared and implemented to remove the present drawbacks in the accounting and financial management system of the ULBs
- The formats of Database on finances of ULBs should be adopted by the Govt. and preparation of Database by ULBs be ensured.
- Govt. should prepare a time-bound action plan for achieving devolution of functions, funds and functionaries as envisaged by the 74<sup>th</sup> Constitutional Amendment Act.