

PART I
URBAN LOCAL BODIES

CHAPTER I
AN OVERVIEW OF
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SECTION 'A'

AN OVERVIEW OF URBAN LOCAL BODIES

1.1 Background

The 74th Constitutional Amendment gave constitutional status to Urban Local Bodies (ULBs) and established a system of uniform structure, regular election, regular flow of funds through Finance Commission etc. As a follow up, the States are required to entrust these bodies with powers, functions and responsibilities so as to enable them to function as institutions of self-government.

Consequent to the 74th amendment of the Constitution, the Government of Tamil Nadu amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution.

1.2 State profile

Tamil Nadu is one of the most urbanised States in India. The urban population of the State as per the 2011 census was 3.49 crore constituting 48.45 *per cent* of the total population (7.21 crore) in the State. The demographic and developmental status of the State is given in **Table 1.1**.

Table 1.1: Important statistics of the State

Indicator	Unit	State statistics
Population	Millions	72.14
Population density	Sq.Km	555
Urban population	Percentage	48.45
Number of ULBS	Numbers	664
Number of Corporations	Numbers	10
Number of Municipalities	Numbers	125
Number of Town Panchayats	Numbers	529
Gender ratio	Per 1,000 males	995
Literacy	Percentage	80.33

(Source: 2011 Census figures and Policy Note of the Municipal Administration and Water Supply Department for 2012-13).

1.2.1 Classification of Urban Local Bodies

The Municipalities and Town Panchayats are classified into different grades by the Government of Tamil Nadu based on their own revenue and population, as given in **Table 1.2**.

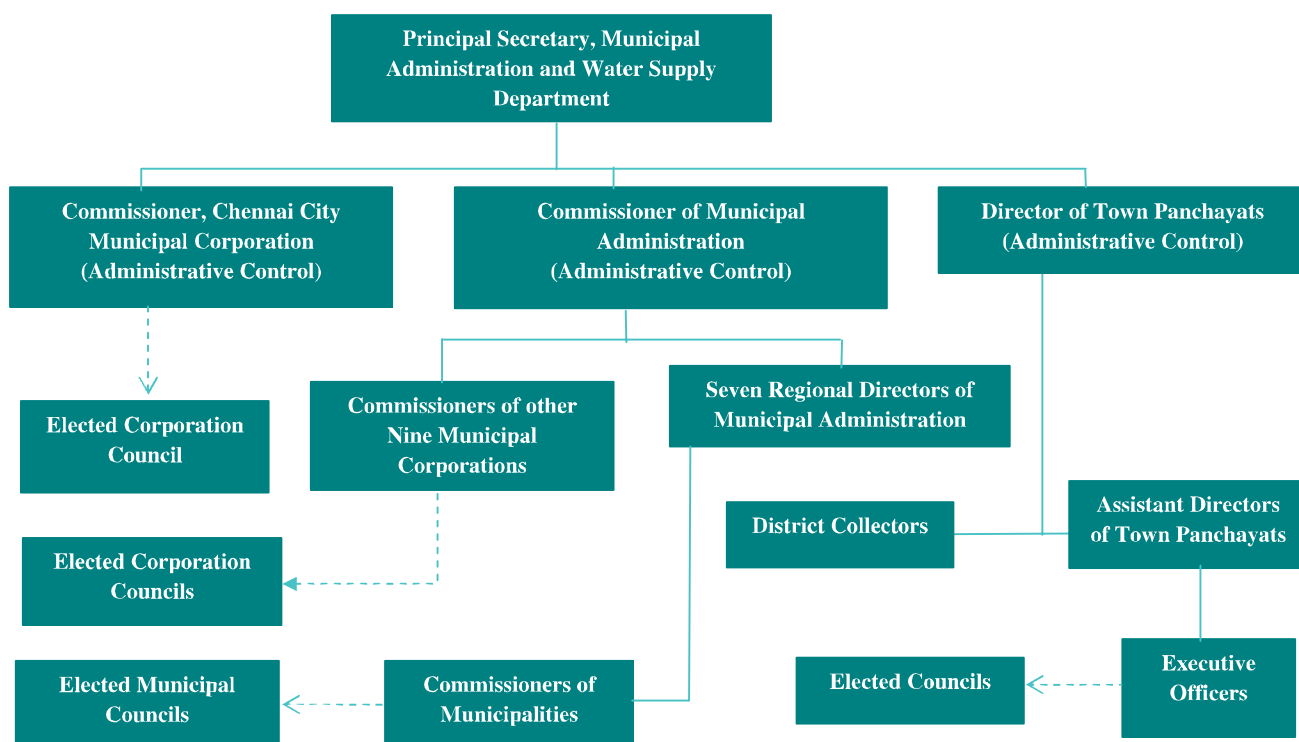
Table 1.2: Income wise classification of ULBs

Category of ULB	Grade	Annual income	Number
Municipalities	Special grade	Above ₹ 10 crore	17
	Selection grade	₹ 6 crore and above but below ₹ 10 crore	31
	First grade	₹ 4 crore and above but below ₹ 6 crore	33
	Second grade	Below ₹ 4 crore	44
Total			125
Town Panchayats	Special grade	Above ₹ 20 lakh	12
	Selection grade	Above ₹ 16 lakh but below ₹ 20 lakh	222
	Grade I	Above ₹ 8 lakh but below ₹ 16 lakh	215
	Grade II	Above ₹ 4 lakh but below ₹ 8 lakh	80
Total			529

(Source: Policy Note 2012-13 of the Municipal Administration and Water Supply Department)

1.3 Organisational structure of ULBs

The Organisational structure for administering the ULBs in Tamil Nadu is as under:



(Source : Directorate of Municipal Administration)

1.4 Devolution of functions, functionaries and funds

Consequent to the 74th amendment of the Constitution, the Government of Tamil Nadu amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs. Twelve out of 18 functions enlisted in the Twelfth Schedule of the Constitution have been devolved to the Town Panchayats. The Commissioner of Municipal Administration (CMA) stated (October 2012) that 17 functions (except Fire Service) are the natural and statutory functions of ULBs and they have been devolved to the Municipalities

and Corporations and necessary and adequate provisions in respect of the said functions are available in the Act governing the ULBs and other Acts, Rules, Regulations and Orders. He further stated that the ULBs have adequate sanctioned strength of staff for effectively discharging their functions and the Government is taking necessary efforts towards capacity building of the staff of ULBs. The CMA further stated that as per the recommendations of Third State Finance Commission, State's own revenue is devolved to ULBs and Government is sanctioning necessary funds for taking up infrastructure projects in individual ULBs and the Government is devolving necessary funds for the effective functioning of ULBs as institutions of Local Self Government.

In respect of Chennai City Municipal Corporation, only 13 functions have so far been devolved and the function of water supply is handled by the Chennai Metropolitan Water Supply and Sewerage Board.

1.5 Decentralised planning

1.5.1 Standing Committees

The ULBs constitute Standing Committees to perform the assigned functions. The list of various committees in the ULBs is given in **Table 1.3**.

Table 1.3: Standing Committees

Category of ULBs	Chief Political Executive	Standing Committees	Political executive of Standing Committees
Corporations	Mayor	Public Health, Town Planning, Works, Taxation and Finance, Education and Accounts	Chairman (elected among the members)
Municipalities	Chairman	Contract Committee, Town Planning Committee and Taxation Appeal Committee	
Town Panchayats	Chairman		

As per Section 241(1) of the Tamil Nadu Panchayats Act, 1994 the State Government constituted a District Planning Committee (DPC) in each of the 28 districts in November 1997. One DPC was formed in 2005 and two more were formed in April 2012 totalling to 31 DPCs. The DPC consists of following members:

- The Collector of the District as Chairman;
- The Chairman of the District Panchayat as Vice Chairman;
- Members of Parliament, Members of Legislative Assembly and representatives of Local Bodies as members.

The functions of the DPC is to consolidate the plans prepared by Rural Local Bodies and Urban Local Bodies for the preparation of consolidated district plan, which will facilitate the State Planning Commission in the preparation of State Plan; identification of priority needs, determination of policies, programmes and priorities for development of the district; collection, compilation and updation of information on the natural resources of the district to create a comprehensive database for decentralised planning; monitoring and evaluation of various developmental programme in the district; encouraging the participation of voluntary organisations in the development process; advising the State

Government with regard to the implementation of the State schemes and any other function that may be entrusted by the State Government.

At present, the Annual Plans prepared at the Government level are consolidated and adopted as District plans.

1.6 Financial profile

1.6.1 Funds flow to ULBs

The major resource base of ULBs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, Centrally Sponsored Schemes (CSS) grants, Own revenue, Assigned revenue and loans as given in **Table 1.4** below:

Table 1.4: Funds flow mechanism in ULBs

Nature of Funds	Corporations		Municipalities		Town Panchayats	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own revenue	Assessees and users	Bank	Assessees and users	Bank	Assessees and users	Bank
Assigned revenue	State Government	Bank	State Government	Bank	State Government	Bank
SFC grants						
CFC/CSS grants	GOI	Bank	GOI	Bank	GOI	Bank
State Plan grants	State Government	Bank	State Government	Bank	State Government	Bank
Loans	GOI/State Government/ Financial Institutions	Bank	GOI/State Government/ Financial Institutions	Bank	GOI/State Government/ Financial Institutions	Bank

Table 1.5 below shows the details of receipts and expenditure of the ULBs for the period 2007-08 to 2011-12.

Table 1.5 : Receipts and expenditure of the ULBs

	(₹ in crore)				
	2007-08	2008-09	2009-2010	2010-2011	2011-12
Own revenue	1,511	1,742	1,992	2,174	4,858
Assigned revenue	453	451	370	372	821
Grants	2,000	1,944	2,658	3,969	4,136
Loans	114	353	428	636	225
Total receipts	4,078	4,490	5,448	7,151	10,040
Revenue expenditure	1,806	2,186	2,558	3,319	4,129
Capital expenditure	1,395	1,767	1,878	2,514	3,418
Total expenditure	3,201	3,953	4,436	5,833	7,547

(Source: Details furnished by the Commissioner of Chennai City Municipal Corporation; Commissioner of Municipal Administration and Director of Town Panchayats)

The percentage of expenditure and savings to the total receipts during 2007-08 to 2011-12 is given in **Table 1.6**.

Table 1.6: Percentage of expenditure and savings

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue expenditure	44	49	47	46	41
Capital expenditure	34	39	34	35	34
Savings	22	12	19	19	25

While the Capital expenditure over the years ranged between 34 and 39 *per cent* of the total receipts, Revenue expenditure ranged between 41 and 49 *per cent* and savings between 12 and 25 *per cent* of the total receipts. The ULBs failed to utilize these savings towards Capital expenditure for creating additional infrastructure.

1.7 Accounting framework

Accrual-based system of accounting is being followed in all Municipal Corporations and Municipalities as per the orders of the Government of Tamil Nadu with effect from 2000-01 and in all Town Panchayats with effect from 2002-03. Tamil Nadu State was adopting a State Accounting Manual. Consequent to the introduction of National Municipal Accounting Manual (NMAM) and in order to comply with the condition stipulated by the XIII Central Finance Commission, the State Government has initiated action to prepare a new Accounting Manual incorporating the principles laid down in NMAM to suit the requirement of ULBs in Tamil Nadu. Regarding the implementation of NMAM Government stated (February 2013) that synchronizing the State Accounting Manual with that of National Municipal Accounting Manual is under consideration of the Government. The final decision on this matter will be furnished shortly.

1.8 Audit arrangements

As per the Government Order issued in August 1992, audit of ULBs had been entrusted to the Director of Local Fund Audit (DLFA). He is to certify the correctness of accounts, assess internal control system and report cases of loss, theft and fraud to the audited entities and to the State Government. The Principal Accountant General provides technical guidance to DLFA on a continuing basis regarding audit of accounts of the ULBs in terms of Government of Tamil Nadu's order of March 2003.

Arrears in certifying the accounts of the Urban Local Bodies and arrears in audit by DLFA are given in paragraph 1.11.2 and 1.11.3 respectively.

1.8.1 Audit of ULBs by the Principal Accountant General

The Principal Accountant General also audits the ULBs under Section 14(2) of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971. Audit of ULBs by test checking of records are followed-up through Inspection Reports issued to the Commissioner of Municipal Administration and to the ULBs concerned. Government had issued general orders in April 1967 fixing a time limit of four weeks for response by the authorities for all paragraphs included in the Inspection Reports issued by the Principal Accountant General. As of December 2012, 2,402 paragraphs contained in 449 Inspection Reports for the period 2009-10 to 2011-12 were pending for settlement for want of satisfactory replies.

The Public Accounts Committee (PAC) commenced the process of discussion of the CAG Audit Reports on Local Bodies in January 2012. Audit Reports on ULBs upto 2006-07 have been discussed and recommendations of the PAC are awaited. As of January 2013, Action Taken Report on 99 recommendations relating to 1985-86 to 1995-96 of the Municipal Administration and Water Supply Department was pending for final settlement, which *inter-alia* consisted of paragraphs relating to ULBs included in the Audit Reports (Civil).

SECTION ‘B’ – FINANCIAL REPORTING

1.9 Introduction

Financial reporting in the ULBs is a key element of accountability. The matters relating to drawal of funds, form of bills, incurring of expenditure, maintenance of accounts, rendering of accounts by the ULBs are governed by the respective ULB Acts. A chart depicting various sources of revenue of ULBs is given in **Appendix 1.1**.

1.10 Accounts maintained by Urban Local Bodies

The following accounts are prepared on accrual basis by adopting Double Entry Accounting System as prescribed under the Tamil Nadu Accounting Manual for ULBs in Tamil Nadu by all the municipalities, nine municipal corporations (excluding Chennai) and all the town panchayats:

- Revenue Fund and Capital Fund
- Water Supply and Drainage Fund (except town panchayats)
- Elementary Education Fund (except town panchayats)

The Chennai City Municipal Corporation maintains (i) a General Fund comprising both Revenue and Capital Funds and (ii) an Elementary Education Fund. The cash balance of each of the funds is maintained in separate bank account.

Figures in this Chapter have been compiled from the details furnished by the ULBs. However, in the absence of data compiled from the audited accounts of the ULBs by the Department/Government, the accuracy of these figures cannot be authenticated and the data given here are provisional subject to audit by DLFA.

1.11 Financial Reporting Issues

1.11.1 Position of outstanding loans

The position of outstanding loans of ULBs as of March 2012 is given in **Table 1.7**.

Table 1.7: Position of outstanding loans in ULBs

(₹ in crore)

Sl. No	Category of ULB	Position of consolidated loan			
		Opening balance as on 1 April 2011	Fresh loans availed during 2011-12	Repayment made during 2011-12	Closing balance as on 31 March 2012
1.	Chennai City Municipal Corporation	172.19	24.86	6.92	190.13
2.	Other municipal corporations @	670.12	137.51	56.48	751.15
3.	Municipalities@	941.75	49.80	97.15	894.40
4.	Town panchayats*	622.99	12.73	37.00	598.72

(Source: Details furnished by the Commissioner of Chennai City Municipal Corporation, Commissioner of Municipal Administration and Director of Town Panchayats)

@ Due to merger of Municipalities and Town Panchayats with Corporations, OB and CB differs

* The variation between closing balance for 2010-11 and opening balance for 2011-12 is due to non-finalization of audit by DLFA.

1.11.2 Arrears in Accounts

While accepting the Third State Finance Commission (TSFC) recommendation, the State Government stated that the accounts would be finalised within three months after the end of the financial year. The due date for submission of accounts to DLFA by municipal corporations, municipalities and town panchayats were 30 June; 15 May and 30 April respectively. The number of ULBs who did not submit their accounts, as of December 2012, for the years 2009-10 and 2010-11 are given in **Table 1.8**.

Table 1.8 : Position of non-submission of accounts by the ULBs

Category of ULB	Number of ULBs not submitted their accounts	
	2009-10	2010-11
Corporations	Nil	2
Municipalities	2	52
Town panchayats	Nil	7

(Source: Details furnished by DLFA in January 2013)

While two municipalities did not submit their accounts for the year 2009-10, two municipal corporations, 52 municipalities and seven town panchayats did not submit their accounts for the year 2010-11. The pendency in preparation of accounts of ULBs and the eventual delay in audit of their accounts might result in continued existence of deficiencies in the accounts. This also deprived the respective councils of an opportunity to analyse the financial position of the ULBs in time.

1.11.3 Arrears in Audit

The position of arrears in audit of ULBs, as of December 2012, is given in **Table 1.9**.

Table 1.9 : Position of non-completion of audit of the ULBs

Category of ULB	Total number	2009-10 Number of units			2010-11 Number of units		
		Completed accounts (A)	Audit completed (B)	Audit pending (C)	(A)	(B)	(C)
Corporations	10	10	10	Nil	8	8	2
Municipalities	148 (2009-10) 150 (2010-11)	146	146	2	98	98	52
Town Panchayats	561 (2009-10) 559 (2010-11)	561	550	11	552	528	31

(Source: Details furnished by DLFA in January 2013)

From the above table, it can be seen that audit of two municipalities and 11 town panchayats for the year 2009-10 and 52 municipalities, 31 town panchayats and two municipal corporations was pending for the year 2010-11 as of December 2012. The main reasons attributed (January 2013) by the DLFA for the arrears in audit was due to non-submission of annual accounts by the corporations, submission of defective accounts by the municipalities, non-receipt of accounts on due dates and returning of defective accounts by the DLFA for rectification

and shortage of staff. The DLFA also stated that the vacancies could not be filled up due to pending court cases.

Based on the recommendations of TSFC, a District High Level Committee (DHLC) for settling the pending paragraphs of DLFA relating to municipal corporations and a State High Level Committee for monitoring the functions of DHLC were formed in 2007. A district committee for settling the pending paragraphs was already in existence.

The Director of Town Panchayats stated (January 2013) that 89 DHLC meetings and five State High Level Committee meetings were conducted between January 2008 and January 2013 and 3,983 audit objections relating to town panchayats were settled in those meetings.

The DLFA reported that 2,99,316 paragraphs relating to municipal corporations, municipalities and town panchayats included in their Inspection Reports issued upto 2010-11 were pending for settlement as of December 2012. The year-wise and ULB-wise break-up is given in **Appendix 1.2**.

1.12 Conclusion

Transfer of all functionaries to the Urban Local Bodies to carry out the devolved functions has not yet been made by the Government making the devolution incomplete. Though the savings ranged between 12 and 25 *per cent* of the total receipts during the last five years, the Urban Local Bodies failed to utilise the savings towards creation of additional infrastructure. Due to non-preparation of the accounts in time by the Urban Local Bodies, correct picture of their financial position could not be ascertained by the councils in time. While two municipalities did not submit their accounts for the year 2009-10, two municipal corporations, 52 municipalities and seven town panchayats did not submit their accounts for the year 2010-11. As of December 2012, audit of two municipalities and 11 town panchayats for the year 2009-10 and audit of 52 municipalities, 31 town panchayats and two municipal corporations was pending for the year 2010-11. As of December 2012, 2,402 paragraphs contained in 449 Inspection Reports of the Principal Accountant General for the period 2009-10 to 2011-12 were pending for settlement for want of satisfactory replies.