

CHAPTER I
AN OVERVIEW OF
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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 were required to entrust these bodies with powers, functions and responsibilities so as to enable them to function as institutions of local self-government.

Accordingly, the State Legislature 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. As per the 2011 Census, urban population of the State was 3.49 crore constituting 48.45 *per cent* of the total population of 7.21 crore. Important statistics of the State regarding population and ULBs are given in **Table 1.1**.

Table 1.1: Important statistics of the State

Population	7.21 crore
Population density	555 persons per Sq.Km
Gender ratio	995 females per 1,000 males
Literacy	80.33 <i>per cent</i>
Urban population	48.45 <i>per cent</i>
Number of ULBs	664
- Municipal Corporations	10 ¹
- Municipalities	125
- Town Panchayats	529

(Source: 2011 Census figures and Policy Note of the Municipal Administration and Water Supply Department for 2013-14)

1.2.1 Classification of Urban Local Bodies

The Municipalities and the Town Panchayats are classified into different grades by the Government of Tamil Nadu (GoTN) based on their annual income, as given in **Table 1.2**.

¹ Chennai, Coimbatore, Erode, Madurai, Salem, Tiruchirappalli, Tirunelveli, Tiruppur, Thoothukudi and Vellore

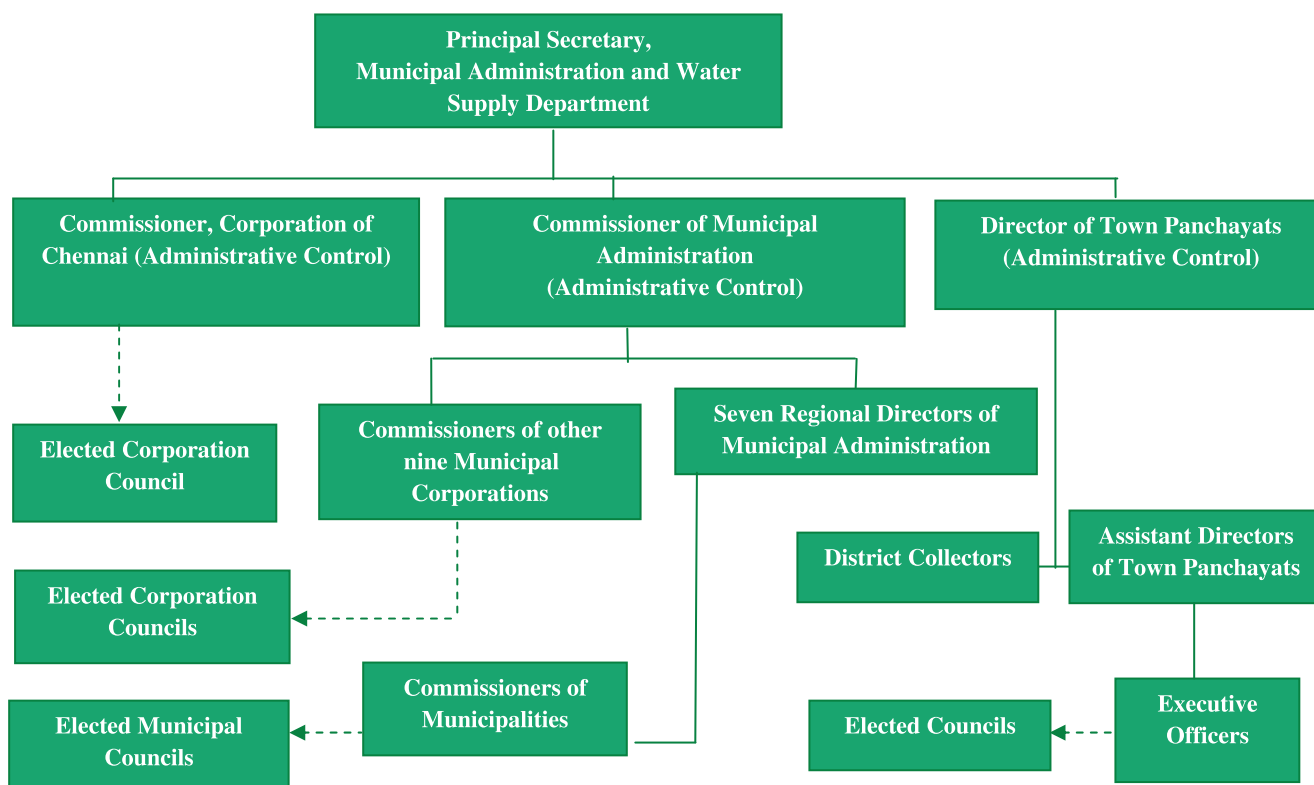
Table 1.2: Income-wise classification of ULBs

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 2013-14 of the Municipal Administration and Water Supply Department)

1.3 Organisational structure of Urban Local Bodies

The organisational structure for administration of ULBs in Tamil Nadu is as under:



(Source: Commissionerate of Municipal Administration)

1.4 Devolution of functions

Out of 18 functions enlisted in the Twelfth Schedule of the Constitution, 12 functions have been devolved to the Town Panchayats and 17 functions (except Fire Service) have been devolved to the Municipalities and the Municipal Corporations.

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

1.5 Decentralised planning

As per Section 241(1) of the Tamil Nadu Panchayats Act, 1994, GoTN constituted a District Planning Committee (DPC) in each of the 31 districts except Chennai in Tamil Nadu. District Panchayat Chairperson is the Chairperson and District Collector is the Vice Chairperson of the Committee. Members of Parliament, Members of Legislative Assembly and representatives of Local Bodies are appointed as members subject to the norms and ceiling prescribed.

Functions of DPC were to consolidate the plans prepared by Rural Local Bodies and ULBs for the preparation of consolidated district plan, which would 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 natural resources of the district to create a comprehensive database for decentralised planning; monitoring and evaluation of various developmental programmes in the district; encouraging the participation of voluntary organisations in the development process and advising the State Government with regard to implementation of the State schemes.

1.6 Financial profile

Funds flow to ULBs

Major resource base of ULBs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, Centrally Sponsored Schemes (CSS) grants, grants from GoTN, Own revenue, Assigned revenue and loans from Government of India (GoI), State Government and financial institutions.

A chart depicting various sources of revenue of ULBs is given in **Appendix 1.1**.

Table 1.3 below shows details of receipts and expenditure of ULBs for the period 2008-09 to 2012-13.

Table 1.3: Receipts and expenditure of ULBs

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Own revenue	1,742	1,992	2,174	4,858	4,828
Assigned revenue	451	370	372	821	1,225
Grants	1,944	2,658	3,969	4,136	8,655
Loans	353	428	636	225	328
Total receipts	4,490	5,448	7,151	10,040	15,036
Revenue expenditure	2,186	2,558	3,319	4,129	4,621
Capital expenditure	1,767	1,878	2,514	3,418	7,162
Total expenditure	3,953	4,436	5,833	7,547	11,783

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

Percentage of expenditure and savings to the total receipts during 2008-09 to 2012-13 is given in **Table 1.4**.

Table 1.4: Percentage of expenditure and savings

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue expenditure	49	47	46	41	31
Capital expenditure	39	34	35	34	48
Savings	12	19	19	25	21

While capital expenditure over the years ranged between 34 and 48 *per cent* of the total receipts, revenue expenditure ranged between 31 and 49 *per cent* and savings were 12 to 25 *per cent* of the total receipts during 2008-13. ULBs failed to utilise these savings towards Capital expenditure for creating additional infrastructure.

1.7 Accounting arrangements

1.7.1 Accounts maintained by Urban Local Bodies

Corporation of Chennai maintains (i) a General Fund comprising both Revenue and Capital Funds and (ii) an Elementary Education Fund.

Following accounts are maintained by the other nine Municipal Corporations, all Municipalities and Town Panchayats:

- Revenue Fund and Capital Fund
- Water Supply and Drainage Fund (except Town Panchayats)
- Elementary Education Fund (except Town Panchayats)

1.7.2 Accounting framework

Accrual-based system of accounting is being followed in all ULBs. Tamil Nadu State adopted a State Accounting Manual. Consequent to the introduction of National Municipal Accounting Manual (NMAM), GoTN initiated action to prepare a new Accounting Manual incorporating principles laid down in NMAM to suit the requirement of ULBs in Tamil Nadu. Commissioner of Municipal Administration (CMA) stated (January 2014) that State Level Project Sanctioning Committee observed (November 2009) that updation of existing municipal accounting manual was need based and not merely to coincide with the NMAM. The updated municipal accounting manual and the municipal budget manual were approved by GoTN in May 2013 and GoTN directed ULBs to compile accounts based on the updated municipal accounting manual from 2013-14. CMA also stated that accounts on the basis of newly updated municipal accounting manual would be compiled from 2014-15 since accounting software had to be created on the basis of new coding structure and training had to be imparted to the accounting staff and officers.

1.8 Audit arrangements

GoTN entrusted (August 1992) audit of ULBs to the Director of Local Fund Audit (DLFA), who has to certify 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 (General and Social Sector Audit) provides technical guidance and support to DLFA regarding audit in terms of GoTN's order of March 2003.

1.8.1 Arrears in Accounts

As per the decision taken by GoTN while accepting the Third State Finance Commission (TSFC) recommendations, ULBs should finalise their annual accounts within three months after the end of the financial year. Number of ULBs which did not submit their accounts to DLFA, as of February 2014, for the years 2010-11, 2011-12 and 2012-13 is given in **Table 1.5**.

Table 1.5 : Position of non-submission of accounts by ULBs to DLFA

Category of ULB	Total number of ULBs	Number of ULBs not submitted their accounts		
		2010-11	2011-12	2012-13
Municipal Corporations	10	Nil	5	9
Municipalities	150 125 (from 2011-12)	1*	16	40
Town Panchayats	559 529 (from 2011-12)	Nil	Nil	10

(Source: Details furnished by DLFA)

* Perambalur Municipality

Pendency in preparation of accounts by ULBs and the eventual delay in auditing their accounts by DLFA would deprive the respective councils of an opportunity to analyse the financial position of ULBs in time.

1.8.2 Arrears in Audit

Position of arrears in audit of ULBs, as of February 2014, is given in **Table 1.6**.

Table 1.6: Position of non-completion of audit of ULBs by DLFA

Category of ULB	Total number of ULBs	2011-12			2012-13		
		Accounts submitted to DLFA (A)	Audit completed out of (A) (B)	Audit pending (A)-(B) (C)	(A)	(B)	(C)
Municipal Corporations	10	5	0	5	1	0	1
Municipalities	125	109	67	42	85	1	84
Town Panchayats	529	529	86	443	519	23	496

(Source: Details furnished by DLFA)

As of February 2014, audit of all categories of ULBs was completed upto 2010-11. Reasons attributed (February 2014) by DLFA for arrears for 2011-13 in audit were non-submission of annual accounts by Municipal Corporations and submission of defective accounts by Municipalities and Town Panchayats.

A District High Level Committee (DHLC) for settling pending paragraphs of DLFA relating to Municipal Corporations (except Chennai) and Municipalities and a State High Level Committee (SHLC) for monitoring the functions of DHLC and for settling the pending paragraphs which were not settled by DHLC were formed in May 2007. In respect of Town Panchayats, DHLCs and SHLC were formed in January 2007. DLFA reported (January 2014) to Audit that for settling the pending paragraphs relating to Municipalities, eight meetings were held during 2012-13 wherein 1,000 paragraphs were settled. The Director of Town Panchayats (DTP) stated (February 2014) that

98 DHLC meetings and five SHLC meetings were held between January 2008 and January 2014 and 4,894 audit objections relating to Town Panchayats were settled in those meetings.

DLFA further reported (January 2014) to Audit that 3,10,455 paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats included in his Inspection Reports relating to the years upto 2010-11 were pending settlement as of November 2013. The year-wise break-up is given in **Appendix 1.2**. Audit analysis of the data revealed that in respect of Municipal Corporations out of 1.11 lakh paragraphs pending, 85,914 paragraphs (78 *per cent*) related to period prior to 2006-07, of which 65,054 paragraphs pertained to Chennai, Coimbatore and Madurai Municipal Corporations. In these three Municipal Corporations, paragraphs relating to years prior to 2006-07 constituted 77, 89 and 94 *per cent* respectively of the number of paragraphs pending against them as of November 2013. This indicates that sufficient attention was not given to settle long pending paragraphs.

1.8.3 Audit of ULBs by the Principal Accountant General (G&SSA)

The Principal Accountant General also audits 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 is followed-up through Inspection Reports issued to CMA and to ULBs concerned. Government had issued general orders in April 1967 fixing a time limit of four weeks for response by the audited entities for all paragraphs included in the Inspection Reports issued by the Principal Accountant General. As of December 2013, 3,633 paragraphs contained in 791 Inspection Reports for the period 2004-05 to 2012-13 were pending settlement for want of satisfactory replies.

Audit Reports on ULBs upto 2006-07 have been discussed by the Public Accounts Committee (PAC) and recommendations of PAC are awaited. As of February 2014, Action Taken Report on 48 recommendations² of the Municipal Administration and Water Supply Department was pending final settlement, which *inter alia* consisted of paragraphs relating to ULBs included in the Audit Reports (Civil).

1.9 Conclusion

All functions enlisted in the Twelfth Schedule of the Constitution have not yet been devolved to Urban Local Bodies (ULBs) as contemplated in the 74th amendment to the Constitution. Compilation of annual accounts by ULBs based on the updated municipal accounting manual was delayed since accounting software had to be created on the basis of new coding structure and training was to be imparted to the accounting staff and officers. Out of annual accounts submitted to Director of Local Fund Audit (DLFA) by ULBs, audit by DLFA was pending in respect of five Municipal Corporations, 42 Municipalities and 443 Town Panchayats for the year 2011-12 and one Municipal Corporation, 84 Municipalities and 496 Town Panchayats for the year 2012-13. Due to non-receipt of satisfactory replies, 791 Inspection Reports of the Principal Accountant General containing 3,633 paragraphs for the period 2004-05 to 2012-13 were pending settlement as of December 2013.

² 1985-86 (one), 1987-88 (five), 1990-91 (five), 1992-93 (15), 1993-94 (10), 1997-98 (two) and 1999-2000 (10)