



CHAPTER-IV

**An overview of Urban
Local Bodies**

CHAPTER IV

URBAN DEVELOPMENT DEPARTMENT

AN OVERVIEW OF URBAN LOCAL BODIES

4.1 Introduction

4.1.1 The 74th Constitutional amendment enacted in 1992 envisioned creation of local self-governments for the urban area population wherein municipalities were provided with the constitutional status for governance. The amendment empowered Urban Local Bodies (ULBs) to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice with regard to 18 subjects listed in the XII Schedule of the Constitution.

The category-wise ULBs in the State as of March 2014 are as shown in **Table 4.1** below:

Table 4.1: Category-wise ULBs in Karnataka State

Urban Local Bodies	Number of ULBs
City Corporations (CCs)	11
City Municipal Councils (CMCs)	41
Town Municipal Councils (TMCs)	94
Town Panchayats (TPs)	68
Notified Area Committees (NACs)	5

Source: Administrative Report of UDD for the year 2013-14

The CCs are governed by Karnataka Municipal Corporations Act, 1976 (KMC Act) and other ULBs are governed by Karnataka Municipalities Act, 1964 (KM Act). Each Corporation/Municipal area is divided into a number of wards, which are determined and notified by the State Government considering the population, geographical features, economic status, *etc.*, of the respective area.

4.2 Organisational Structure

4.2.1 The Urban Development Department (UDD) is headed by Additional Chief Secretary to Government of Karnataka and is the nodal department.

The Directorate of Municipal Administration (DMA), established in December 1984, is the nodal agency to control and monitor the administrative, developmental and financial activities of the ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP), which functions directly under the UDD.

4.2.2 Composition of ULBs

All the ULBs have a body comprising Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected by the Corporators/Councillors presides over the meetings of the Council and is responsible for governance of the body. While the ULBs other than BBMP

have four Standing Committees, BBMP has 12 Standing Committees to deal with their respective functions. The Commissioner/Chief Officer is the executive head of ULBs. The officers of ULBs exercise such powers and perform such functions as notified by the State Government from time to time. Municipal Administration, Town Planning and Urban Land Transport are the subordinate wings of UDD.

4.3 Financial profile

4.3.1 Resources of ULBs

The finances of ULBs comprise receipts from own sources, grants and assistance from Government of India (GoI)/State Government and loans from financial institutions or nationalised banks as the State Government may approve. The ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstay of ULB's own revenue. While power to collect certain taxes is vested with the ULBs, powers pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemptions, concessions, *etc.*, are vested with the State Government. The own non-tax revenue of ULBs comprise fee for sanction of plans/mutations, water charges, *etc.*

4.3.2 Release of grants to ULBs

The details of grants released by the State Government to ULBs during the period 2009-14 are as shown in **Table 4.2** below:

Table 4.2: Statement showing release of grants

(₹ in crore)

ULBs	2009-10		2010-11		2011-12		2012-13		2013-14	
	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	679	662	617	616	2,800	2,864	3,544	2,669	4,348	3,632
CMCs/TMCs	1,335	1,372	1,789	1,936	1,252	1,126	1,513	1,126	1,629	1,139
TPs/NACs	351	438	474	423	285	258	290	214	344	248
Total	2,365	2,472	2,880	2,975	4,337	4,248	5,347	4,009	6,321	5,019

Source: State Budget Estimates and Finance Accounts

4.3.3 Property Tax

The State Government introduced the Self Assessment Scheme (SAS) for payment of property tax applicable to all Municipalities of the State with effect from 1 April 2002. The position of property tax demanded, collected and outstanding at the end of March 2014 in respect of 213 ULBs is shown in **Table 4.3** and target fixed and collection against target in respect of BBMP is shown in **Table 4.4** below:

Table 4.3: Position of demand, collection and balance of Property Tax

(₹ in crore)

Year	Opening balance	Current year demand	Total demand	Collection	Balance	Percentage of collection to total demand
2009-10	156.04	199.50	355.54	216.16	139.38	61
2010-11	139.38	258.66	398.04	290.03	108.01	73
2011-12	108.01	290.61	398.62	288.79	109.83	72
2012-13	109.83	342.00	451.83	284.18	167.65	63
2013-14	167.65	384.03	551.68	362.27	189.41	66

Source: Furnished by DMA

From the above table, it could be seen that arrears increased from ₹139.38 crore in 2009-10 to ₹189.41 crore (36 *per cent*) in 2013-14. ULBs need to make efforts to collect balance amount without further delays.

Table 4.4: Position of estimated target, collection and percentage of Property Tax collected in BBMP

(₹ in crore)

Year	Target	Collection	Percentage of collection to total target
2009-10	1,100.00	797.00	72
2010-11	1,500.00	1,108.00	74
2011-12	1,600.00	1,210.00	76
2012-13	2,000.00	1,358.00	68
2013-14	2,500.00	1,323.18	53

Source: Furnished by BBMP

From the above table it is seen that the target was not achieved in any of the years. The percentage of collection as against the target was only 68 *per cent* in the year 2012-13 and further reduced to 53 *per cent* in the year 2013-14.

4.3.4 Realisation of water charges

It is the duty of every Municipality to provide supply of wholesome water for the domestic use of inhabitants. The supply of water for domestic and non-domestic users is charged at the prescribed rates.

The details of demand, collection and arrears for the five years ended 31 March 2014 in respect of seven test-checked ULBs are shown in the **Table 4.5** below:

Table 4.5: Details of collection of water charges in selected ULBs for the period 2009-14

(₹ in crore)

Name of ULB	Opening balance	Demand	Total demand	Collection	Outstanding balance	Percentage of collection to total demand
TMC, Aland	0.01	0.99	1.00	0.90	0.10	90
BBMP	Water supply function is entrusted to Bengaluru Water Supply and Sewerage Board					
TMC, Hunsur	0.48	2.18	2.66	2.26	0.40	85
CC, Kalaburagi	Water supply function is entrusted to Karnataka Urban Water supply and Drainage Board					
CC, Mysuru	61.60	150.63	212.23	123.83	88.40	58

Name of ULB	Opening balance	Demand	Total demand	Collection	Outstanding balance	Percentage of collection to total demand
CMC, Shahabad	0.50	0.63	1.13	0.57	0.56	50
TMC, Wadi	0.07	0.56	0.63	0.61	0.02	97
Total	62.66	154.99	217.65	128.17	89.48	59

Source: Information furnished by ULBs

It may be seen from the above table that in five out of seven test-checked ULBs, a sum of ₹128.17 crore (59 per cent) was collected during 2009-14 towards water charges against a total demand of ₹217.65 crore, leaving a balance of ₹89.48 crore. TMC, Nanjangud had not furnished any details.

4.3.5 Realisation of rent from commercial properties

As of March 2014, seven test-checked ULBs had raised a demand of ₹12.46 crore towards rent from stalls, shops and market complexes for the period 2009-14 against which a sum of ₹10.67 crore (86 per cent) was collected. The arrears in realisation of rent at the end of 31 March 2014 amounted to ₹1.79 crore as detailed in **Table 4.6** below:

Table 4.6: Position of demand, collection and balance of rent in selected ULBs for the period 2009-14

Name of ULB	Opening balance	Demand during 2009-14	Total demand	Collection	Outstanding balance	(₹ in crore)
						Percentage of collection to total demand
TMC, Aland	0	0.13	0.13	0.11	0.02	85
CC, Kalaburagi	1.10	1.50	2.60	2.17	0.43	83
TMC, Hunsur	0.33	0.56	0.89	0.77	0.12	87
CC, Mysuru	0.55	7.92	8.47	7.52	0.95	89
CMC, Shahabad	0.14	0.23	0.37	0.10	0.27	27
Total	2.12	10.34	12.46	10.67	1.79	86

Source: Information furnished by ULBs

TMC, Nanjangud had not furnished any details. In TMC, Wadi, though rental income of ₹1.00 lakh was earned during the period 2010-11 to 2012-13, the details of demand and collection were not furnished to audit.

4.3.6 Renewal of rent/lease agreements

The test-checked ULBs had been collecting rent without renewal of agreements and revision of rates, during the period 2010-14 as detailed below:

- TMC, Hunsur had not renewed (August 2014) the agreements of 38 shops though they had expired prior to May 2010. Also, no agreements were executed in case of 50 vegetable shops.
- TMC, Nanjangud had not renewed (August 2014) agreements of 60 shops though they had expired prior to 2010. Further, rent advance equivalent to six month's rent as stipulated in the agreement was not collected.
- As reported by the Financial Statement Auditors in their Audit Reports, the CC, Kalaburagi had not renewed, in most cases, the lease agreements

though the lease period had expired. The CMC, Shahabad and TMC, Aland had not made available the lease agreements for verification.

The shortfall in realisation of rent and non-revision of rent after the expiry of the lease period stipulated in the agreement reduced the revenues of these ULBs to that extent, thereby widening the resource gap and extending undue benefits to the tenants. Audit did not come across any cases of interest/penalty for delayed payment.

4.3.7 Remittance of cess amount

As of March 2014, the seven test-checked ULBs had not remitted an amount of ₹72.14 crore collected towards Health, Library and Beggary cess to the State Government as detailed in **Appendix 4.1**.

4.4 Devolution of Functions and Funds

The 74th Constitutional amendment envisaged devolution of 18 functions listed in the XII Schedule of the Constitution to ULBs. As of March 2014, the State Government had transferred 14 functions to ULBs. Two⁵⁸ functions were being implemented by both ULBs and the State Government. The other two functions namely, Urban Planning and Fire Services had not been transferred to ULBs.

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly to the ULBs to implement the devolved functions. In addition, grants are released to implement State and Centrally Sponsored Schemes.

During audit, the functions of “Promotion of Cultural, Educational and Aesthetic Aspects” and “Vital Statistics including Registration of Births and Deaths” were test-checked to ascertain the extent of transfer of functions and funds. It was seen that none of the seven test-checked ULBs had treated these two functions as distinct functions in their budget documents and these were being carried out under functional Head ‘Administration & Programmes’ and ‘Public Health’ respectively. Thus, Audit could not ascertain effective implementation of these functions.

BBMP had a separate functional head for ‘Culture & Sports’, ‘Education’ and ‘Vital statistics including Registration of Births and Deaths’ but there was no separate functional head for ‘Aesthetic Aspects’.

4.5 Accountability framework

4.5.1 Powers of the State Government

As per the Acts governing ULBs, the State Government has the following powers for monitoring the proper functioning of the ULBs:

⁵⁸ (1) Urban forestry, protection of environment and ecology (ULBs and Forest Department)
(2) Slum improvement and up-gradation (ULBs and Slum Development Board)

- to frame rules to carry out the purposes of KMC and KM Acts;
- to dissolve those ULBs which fail to perform or default in the performance of any of the duties imposed on them;
- to cancel a resolution or decision taken by ULBs if the State Government is of the opinion that it is not legally passed or is in excess of the powers conferred by provisions of the Acts;
- to regulate the classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of the staff and officers of ULBs.

4.5.2 Vigilance mechanism

The Lokayukta appointed by the State Government has the power to investigate and report on allegations or grievances relating to the conduct of officers and employees of ULBs.

4.5.3 Audit mandate

The Controller, State Accounts Department (SAD) is the primary Auditor of ULBs in terms of KMC and KM Acts. The State Government entrusted (May 2010) the audit of accounts of all ULBs except NACs to the Comptroller and Auditor General of India (CAG) under Section 14 (2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 from 2008-09 and under Technical Guidance and Supervision from 2011-12 onwards by amending the statutes (October 2011).

4.5.4 Arrears in Primary Audit

Against 214 ULBs and five NAC coming under the purview of audit, the audit of accounts of 188 ULBs for the period up to 2012-13 was conducted by Controller, SAD as of 31 March 2013.

The audit of accounts in the test-checked ULBs was in arrears (in CC, Kalaburagi, audit was done up to 2009-10; in CC, Mysuru up to 2008-09; in CMC, Shahabad and TMC, Hunsur up to 2012-13; in TMCs, Aland, Nanjangud and Wadi up to 2012-13).

4.5.5 Response to audit observations

The Commissioners/Chief Officers are required to rectify the defects and omissions contained in the Inspection Reports (IRs) and report their compliance to SAD within three months from the date of issue of IRs. As of March 2013, 1,88,011 audit paragraphs involving monetary value of ₹3,057.85 crore were brought out in IRs issued to the ULBs. Out of this, the amount recoverable was ₹608.54 crore. The status of outstanding amount proposed for recovery and kept under objection by the SAD in their report in respect of test-checked ULBs as on 31 March 2014 is detailed in **Table 4.7** below:

Table 4.7: Outstanding amount as on 31 March 2014 in respect of test-checked ULBs

(₹ in crore)

Name of the ULBs	Report for the year	Amount kept under objection for want of details	Amount kept under objection involving recovery	Period
Mysuru	2008-09	210.18	19.93	1951 to 2008-09
Kalaburagi	2009-10	72.65	13.51	1957 to 2009-10
Shahabad	2011-12	3.81	0.24	1957 to 2012
Aland	2012-13	6.66	0.96	(up to 2012-13) Break up not available
Hunsur	2011-12	6.74	1.55	1951 to 2012-13
Nanjangud	2012-13	4.67	0.86	1948 to 2013
Wadi	2012-13	0.60	0.10	NA
Total		305.31	37.15	

Source: Local Audit (SAD) Report

NA: Not available

4.6 Conclusion

There was short collection of property tax and water charges. There were cases of shortfall in realisation of rent and non-renewal of lease agreements. Out of 18 functions to be devolved to ULBs, the State Government devolved only 14 functions. There was poor response to audit observations by ULBs.