

Chapter-6
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The devolved functions can be carried out effectively by the ULBs only when they are supported with sufficient financial resources. Such financial resources could take the form of predictable fiscal transfers or access to own revenue streams that are buoyant and commensurate with the expenditure obligations, accompanied by appropriate expenditure powers. Predictable fiscal transfers to ULBs need to be ensured through a robust SFC mechanism and compliance with the State and Central Finance Commission (CFC) recommendations. Access to own resources of revenue would include both the power to levy and collect from a specific stream. Expenditure powers refer to reasonable delegation limits that allow the ULB to utilise their financial resources.

6.1 Sources of revenue

The details of revenue of ULBs in the State during the period 2015-16 to 2020-21 is indicated in **Table-6.1** below.

Table-6.1: Details of revenue of ULBs during the period 2015-16 to 2020-21

(₹ in crore)

Year	Grants	Own Revenue	Total Revenue	Percentage of own revenue to total revenue
2015-16	482.60	92.91	575.51	16.14
2016-17	480.16	121.57	601.73	20.20
2017-18	830.55	152.85	983.40	15.54
2018-19	867.55	137.16	1,004.71	13.65
2019-20	894.40	139.95	1,034.35	13.53
2020-21	1,202.19	136.02	1,338.21	10.16
Total	4,757.45	780.46	5,537.91	14.09

Source: Information furnished by Directorate, UDD for 91 ULBs

The above table shows an increasing trend in realisation of revenue from own sources from 2015-16 to 2017-18. However, a spike in 2017-18 was due to collection of arrears of previous years. During 2018-19, revenue collection was stated to be impacted by deployment of staff in General Elections related duties while COVID-19 pandemic affected the revenue in the year 2020-21.

Funds were devolved to ULBs through transfer by the Central and State Government in the form of grants. As can be seen from the above table, the fiscal transfers from Government formed the major portion of the revenue (86 per cent) of ULBs in the State during the period 2015-16 to 2020-21.

During the exit conference the Director, UDD stated that the ULBs are directed at regular intervals to enhance their own revenue so that the dependence on SFC, CFC and other grants are minimised.

6.1.1 Fiscal transfer to Urban Local Bodies

6.1.1.1 State Finance Commission Grants

The major share of financial resources of ULBs comprised grants recommended by the SFC. Timely constitution of the SFC and acceptance of its recommendations have a bearing on the assured transfer of funds to ULBs.

6.1.1.2 Release of funds under SFC

The details of the funds due as per orders of the State Government and actually released to the ULBs during the period from 2015-16 to 2020-21 is given in the **Table-6.2**.

Table-6.2: Allocation and release of SFC grants

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Allocation as decided by the State Government	254.04	254.11	579.78	591.97	591.97	591.02
Funds actually released to ULBs	254.04	254.11	579.78	591.97	591.97	591.02

Source: Information provided by Urban Development Directorate

The above table indicates that the funds allocated by the State Government were fully released and there was no shortfall in release of funds.

6.1.1.3 Release of funds under CFC

Article 280(3) (C) of the Constitution mandates the CFC to recommend measures to augment the Consolidated Fund of a State to supplement the resource of Municipalities based on the recommendations of the respective SFCs. The 14th Finance Commission recommended basic grant and performance grant¹ to ULBs as a percentage of divisible pool account. **Table-6.3** depicts the allocation and release of CFC grants during the period 2015-16 to 2020-21.

Table-6.3: Details of the allocation and release of Basic and Performance grants to ULBs

(₹ in crore)

Period	Basic Grants		Performance Grants	
	Allocation	Release	Allocation	Release
2015-16	75.43	75.43	-	-
2016-17	93.96	93.96	24.53	24.53
2017-18	107.56	107.56	27.16	27.16
2018-19	108.67	108.67	-	-
2019-20	188.18	188.18	-	-
2020-21	278.00	278.00	NA	NA

¹ Performance grants are proposed to be introduced with a view to encourage the maintenance of the State's receipts and expenditure accounts and bring about an increase in the states own revenue. This provision was deleted by 15th CFC.

As per guidelines for implementation of recommendations of 14th Finance Commission issued (October, 2015) by Ministry of Finance, Government of India (GoI) grants shall be released to State Government for duly constituted² ULBs in two instalments in June (50 *per cent* of basic grants) and October (remaining portion of basic grants and full performance grants) in each year. The release of second and subsequent instalments of grants (both basic and performance) will be subject to receipt of utilisation certificate for the pervious instalment. From the above table it is evident that the funds allocated by the Central Government were fully released and there was no shortfall in release of funds. However, the Performance Grant for the year 2018-19 and 2019-20 was not released by the GoI.

During exit conference the Director, UDD stated that demand was uploaded for the ULBs which fulfilled the required conditions but GoI neither rejected the claim nor released the Performance grant.

6.1.2 Own Revenue of Urban Local Bodies

Municipal Corporation Act, 1959 and Municipality Act, 1916 empowers ULBs in the State to tap various sources of own revenue. The details of the main revenue sources, status of levy and statutory provisions are indicated in **Appendix-6.1**.

The property tax on land and buildings is the mainstay of ULBs own tax revenue. The own non-tax revenue of the ULBs mainly comprises of rent from assets, advertisement tax, trade licences fee, fee for issuance of various certificates such as birth and death certificate, transfer of properties, road cutting charges, user charges, income from contract on parking *etc.*

The State laws revealed that while the authority to collect certain taxes like property tax and advertisement tax are vested with the ULBs, the State Government may, by general or special order, published in the Official Gazette, require a Municipality to impose any tax mentioned in Section 128, not already imposed, at such rate and within such period as may be specified in the notification and the Municipality shall thereupon act accordingly. Further, State Government may require a Municipality to increase, modify or vary the rate of any tax already imposed and thereupon the Municipality shall increase, modify or vary the tax as required. From these provisions it is clear that the ULBs lacked autonomy in levying and collecting their own sources of revenue. Thus, the ULBs have limited resources of own revenue. In order to make ULBs self-dependent, more taxation powers need to be given.

6.2 Expenditure of Urban Local Bodies

The details of expenditure against total revenue of the ULBs for the period from 2015-16 to 2020-21 is shown in the **Table-6.4**.

² Either an elected body is in place or is under the process of being in place as per law.

Table-6.4: Statement showing the details of expenditure of ULBs for the period 2015-16 to 2020-21

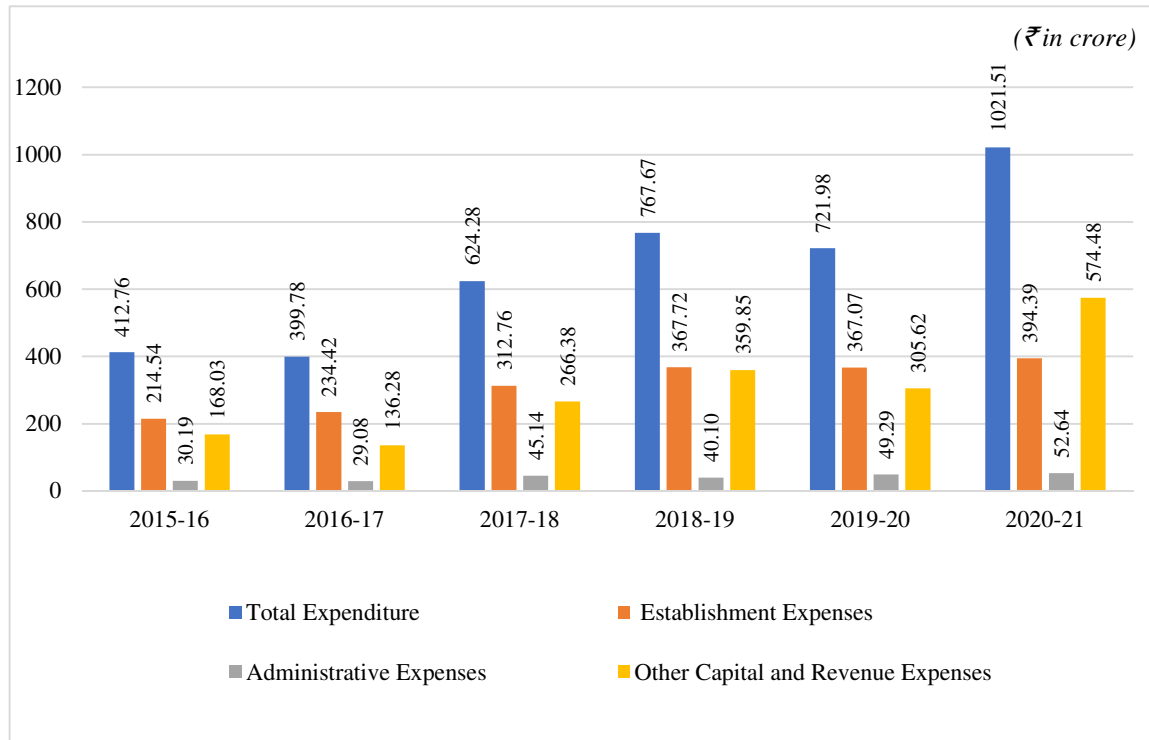
(₹ in crore)

Period	Total Revenue	Total Expenditure	Percentage of Expenditure to total revenue
2015-16	575.51	412.76	71.72
2016-17	601.73	399.78	66.44
2017-18	983.40	624.28	63.48
2018-19	1,004.71	767.67	76.41
2019-20	1,034.35	721.98	69.80
2020-21	1,338.21	1,021.51	76.33
Total	5,537.91	3,947.98	71.29

From the above table it is evident that the expenditure to total revenue of the ULBs ranged from 63 per cent to 76 per cent. Thus, the unspent balances ranged from 24 to 37 per cent for the period from 2015-16 to 2020-21. This was due to late receipt of SFC grant, ongoing construction works and unspent balances under IHHL and PMAY where payment was to be done in instalments to the beneficiaries.

The expenditure of the ULBs can be categorised into three major categories such as establishment expenses, administration expenses and other capital and revenue expenses. Category wise detail of expenditure for the period from 2015-16 to 2020-21 is shown in **Chart-6.1**.

Chart-6.1: Category wise detail of expenditure



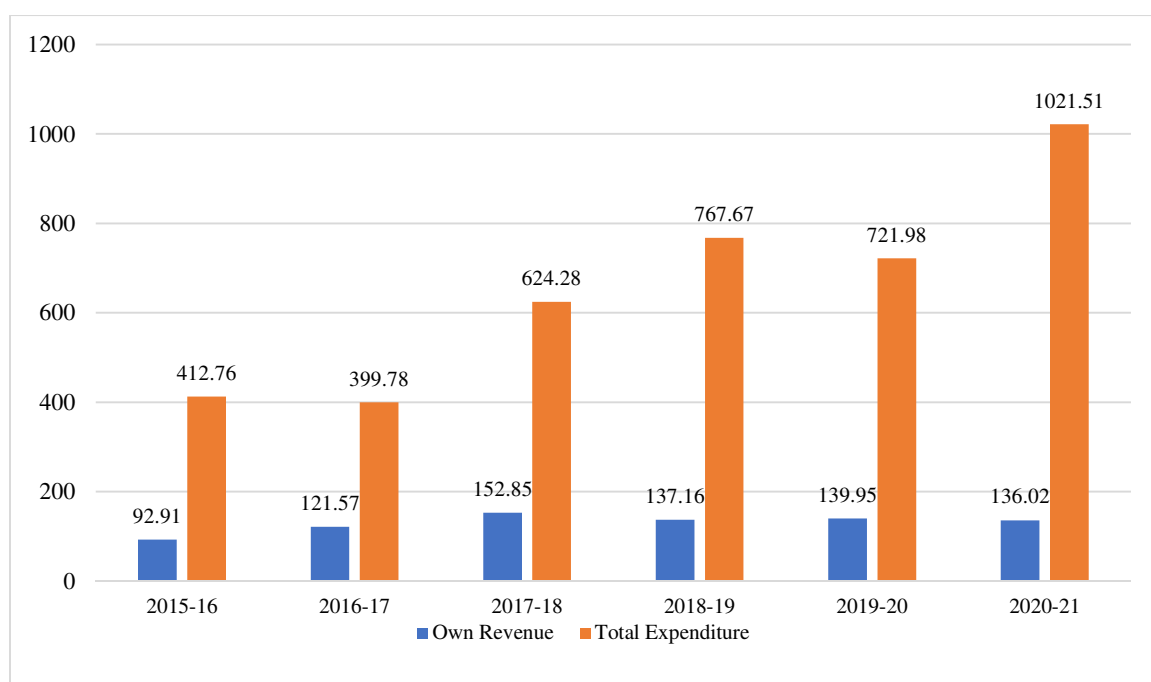
The above chart indicates that the establishment expenditure of the ULBs constituted about 48 per cent of the total expenditure followed by other capital and revenue expenses at 46 per cent.

6.2.1 Resource-Expenditure Gap

The ULBs were able to generate own resources only to the extent of 19.77 per cent of the revenue expenditure during the period from 2015-16 to 2020-21. A comparison of the own revenue to total expenditure showed large gaps as depicted in **Chart-6.2**, which needs to be addressed by ULBs.

Chart-6.2: Comparison to own revenue to total expenditure

(₹in crore)



During the exit conference the Director, UDD stated that the observation relating to less percentage of own revenue has been noted.

6.3 Financial Powers

All levels of Governments need authority to sanction schemes, projects and works in discharge of its duties. On review of administrative and financial powers of ULBs, Audit noticed that ULBs did not have any financial powers in respect of works /projects approved under the district plan. Further, Municipal Corporations had limited powers to spend even their own funds³ till 2019 when they have been given full powers to spend their own funds. **Table-6.5** below gives the details.

³ including SFC and CFC grants.

Table-6.5: Financial Powers of ULBs

(i) Nagar Nigam-

(₹ in lakh)

Category	Municipal Commissioner	Mayor	Executive Committee	Council/ Board	State Government
Prior to March 7, 2019					
Nagar Nigam	≤ 1	≤1	≤5	>5 ≤ 10	>10
After March 7, 2019 (as amended)					
Nagar Nigam (Population above 5 lakh)	≤10	>10 ≤12	>12 ≤25	>25	No role
Nagar Nigam (Population below 5 lakh)	≤5	>5 ≤6	>6 ≤15	>15	No role

(ii) Nagar Palika Parishad and Nagar Panchayat-

(₹ in lakh)

Category	Executive Officer	Chairman	Executive Committee	Council/ Board
Nagar Palika Parishads	--	≤0.50	--	>0.50
Nagar Panchayats	--	≤0.15	--	>0.15

6.4 Accounting arrangement of ULBs

Article 243-Z of the Constitution of India mandates that the States would make provisions with respect to maintenance of accounts in ULBs. The provisions relating to maintenance of accounts, therefore, emanate from the governing statutes or rules framed there under.

As per Uttarakhand Municipal Accounting Manual, Accrual Based Double Entry System of accounting replacing the single-entry cash-based accounting was to be introduced in all ULBs.

Audit noticed that the ULBs were still maintaining the accounts as per single entry system.

During the exit conference the Director, UDD stated that the observation has been noted.

6.5 Conclusion

The 74th Constitution Amendment Act provided for fiscal transfers from the Central and the State Governments besides empowering them to raise their own revenue. The funds recommended by the State Finance Commission were fully released and there was no shortfall. The generation of own revenue of the Urban Local Bodies to total grants was very low and comparison of own revenue to total expenditure also showed a large gap. This shows that Urban Local Bodies were heavily dependent on grants from the Central and the State Government. The establishment expenditure of the Urban Local Bodies constituted major portion of the total expenditure followed by other capital and revenue expenditure. The performance Grant for the period 2018-19 and 2019-20 was not released from Government of India. Further, the accrual based double entry accounting system was yet to be adopted in the Urban Local Bodies.

6.6 Recommendations

To promote financial autonomy of the Urban Local Bodies, concrete steps with milestones may be undertaken. This includes more taxation powers to be given to the Urban Local Bodies for making them self-dependent and adoption of best practices in property tax collection, increase in non-tax revenues and use of information and communication technology to control establishment expenditure. The Government may ensure implementation of double entry accrual-based accounting system in all the Urban Local Bodies in a time bound manner.


Dehradun
The 16 November 2022



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