

Chapter-V
Financial Resources of ULBs

Sustainable financing is paramount to ensure discharge of any function. The devolved functions can be carried out effectively by 14ULBs 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 State Finance Commission mechanism and compliance with State and Central Finance Commission recommendations. Access to own sources of revenue would include both the power to levy and collect from specific revenue streams. Expenditure powers refer to reasonable delegation limits that allow the ULB to utilise their financial resources.

5.1 Sources of revenue

The details of revenues of ULBs in the State during the period 2015-16 to 2019-20 are indicated in **Table-5.1**.

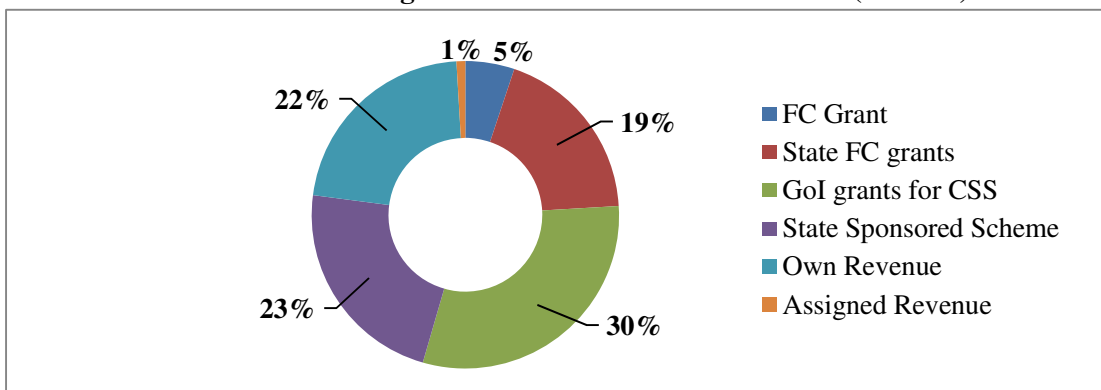
Table 5.1: Details of revenues of all the ULBs during the period 2015-16 to 2019-20

Particulars	(₹ in crore)					
	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Central Government (Central FC)	24.55	34.87	30.98	17.92	42.13	150.45
Finance Commission (FC) grants (State Government (State FC))	85.51	99.45	111.36	120.74	132.90	549.96
GoI grants for CSS	159.64	372.98	53.38	145.62	150.85	882.47
State Government grants for State scheme	67.15	75.08	76.62	221.94	216.44	657.23
Own Revenue	114.50	143.83	128.26	130.85	122.96	640.40
Assigned Revenue	5.17	3.81	5.77	5.84	6.08	26.67
Total Revenue	456.52	730.02	406.37	642.91	671.36	2,907.18
Percentage of own revenue to total revenue	25	20	32	20	18	22

Source: Information provided by UDD of all 54 ULBs in HP

Shares of various sources of funds of ULBs for the period 2015-20 in percentage are shown in the **Chart 5.1**.

Chart-5.1: Percentage share of various sources of funds (2015-20)



As depicted above, percentage of own revenue to total revenue for the period 2015-16 to 2019-20 varied between 18 per cent to 32 per cent and overall percentage was only 22 per cent of total income. The major share of income is being met through SFC Grants, Centrally Sponsored Schemes and State Sponsored Schemes.

During the exit conference, the State Government assured to take effective steps for the improvement and generation of own revenue of the ULBs.

5.2 Fiscal transfers to Urban Local Bodies

Funds were devolved to ULBs through transfer by the Central and State Government in the form of grants (**Table 5.1**). Fiscal transfers from Government formed the major portion of the revenue (averaging 78 per cent) of ULBs in the State during the period 2015-16 to 2019-20.

There were, however, certain shortcomings under fiscal transfers as discussed below:

5.2.1 State Finance Commission grants

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

Short release of funds under SFC

The details of funds recommended by SFC and actually released by the State Government to ULBs during the period 2015-16 to 2019-20 are given in **Table-5.2**.

Table-5.2: Details of grants due and released under SFC during 2015-16 to 2019-20

(₹ in crore)

Year	Recommendation by the SFC	Actual release by the State Govt.	Excess/ short release
2015-16	81.43	85.51	+4.08
2016-17	101.41	99.45	-1.96
2017-18	111.55	111.35	-0.20
2018-19	122.65	120.74	-1.91
2019-20	134.90	132.90	-2.00
TOTAL	551.94	549.95	-1.99

Source: Figures furnished by the UDD

Audit observed that during the period 2015-16 to 2019-20, an amount of ₹ 549.95 crore was released against the mandated devolution of ₹ 551.94 crore. It was further noted that except for the year 2015-16, there was a shortfall in the amounts released for the period 2016-17 to 2019-20. During 2015-16, funds of ₹ 4.08 crore were released in excess of the mandated devolution, whereas there was a shortfall in funds released to ULBs against the mandated devolution by an extent of ₹ 6.07 crore during 2016-17 to 2019-20.

5.2.2 Central Finance Commission grants

Article 280(3)(C) of the Constitution mandates the Central Finance Commission (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 13th Finance Commission and 14th Finance Commission recommended basic grant and performance grant to ULBs as a percentage of divisible pool account. The grant was divided in basic and performance grant in the ratio 80:20.

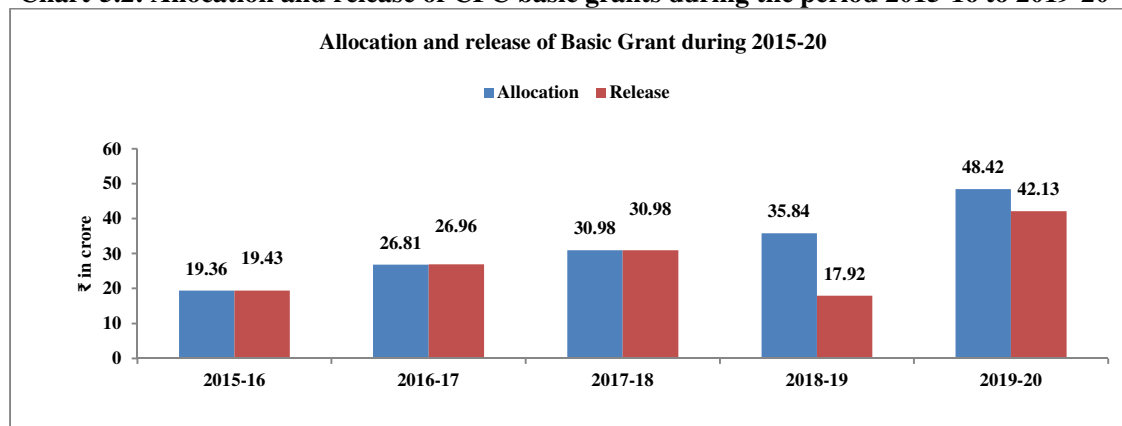
5.2.2.1 Allocation and release of CFC grants

Fourteenth Finance Commission (CFC) recommended a total allocation of ₹ 201.76 crore. Out of which ₹ 161.41 crore under basic grants for the period 2015-20 and ₹ 40.35 crore under performance grants for the period 2016-20 for the State of Himachal Pradesh.

Basic Grant

The **Chart-5.2** depicts the allocation and release of CFC basic grant during the period 2015-16 to 2019-20.

Chart-5.2: Allocation and release of CFC basic grants during the period 2015-16 to 2019-20



Source: Allocation/release of basic grant (14th FC)

The above chart shows that CFC had allocated basic grant of ₹ 161.41 crore to the ULBs of the State of HP for the period 2015-20. Against the allocated basic grant, an amount of ₹ 137.20 crore was released, besides interest of ₹ 0.22 crore (2015-16: ₹ 0.07 crore and 2016-17: ₹ 0.15 crore) on delayed release of basic grant was also released.

The basic grant and performance grant is released in two installments. It was observed that there was delay in release of grant of ₹ 17.92 crore (2nd installment) for the year

2018-19, which was released during the year 2019-20. Similarly, the grant of ₹ 42.13 crore i.e., ₹ 17.92 crore (2nd installment of 2018-19) and ₹ 24.21 crore (1st installment of 2019-20) was released during 2019-20. The 2nd installment of basic grant of ₹ 24.21 crore for the year 2019-20 was released during the year 2020-21. Thus, there was delay in release of 2nd installment of basic grants for the year 2018-19 and 2019-20.

Performance Grant (PG)

Performance grant was designed to serve the purpose of ensuring reliable audited accounts and data of receipts and expenditure, to encourage ULBs to generate own revenues and to improve the quality of basic services they deliver. The improvements in the quality of basic services are likely to lead to increase in the willingness of citizens to pay for the services.

The weightage for transformative urban reforms

The 14th FC laid down three mandatory conditions for ULBs to avail the performance grants. The mandatory conditions and their weightage are given in the **Table 5.3**.

Table 5.3: Detail of mandatory condition and their weightage

Sl. No.	Reform	Weightage
1.	Audit of Annual Accounts	10
2.	Increase in Own Revenue Sources	40
3.	Publishing of Service Level Benchmarks	50
Total (1+ 2 + 3)		100

ULBs getting a score of 60 and above in a year (performance year) would be eligible for the Performance Grant to be released in the subsequent financial year (release year). The ULBs getting a score of less than 60 will not be eligible for the Performance Grant. In case of ULBs of Northeastern States and Hill States (Himachal Pradesh), a score of 50 and above would make them eligible for the Performance Grant.

Allocation and Release of Performance grant

Audit observed that GoI had released performance grant of ₹ 7.91 crore unconditionally for the year 2016-17 (release year) and PG of ₹ 32.44 crore for the subsequent years (2017-20) was not released out of total allocation of ₹ 40.35 crore to the Govt. of HP for the period 2016-20.

In 14 test-checked ULBs, the records in respect of the achievement of three mandatory conditions for PG for performance year 2016-17 was not produced to audit. However, as per the records made available for the performance year 2017-18 and 2018-19, it was observed that seven out of 14 test-checked ULBs scored 50 marks during 2017-18 and nine scored 50 marks during 2018-19 for release year 2018-19 & 2019-20 respectively, as detailed in the **Appendix-5.1 (A & B)**.

Thus, as per benchmarks, the aforementioned test-checked ULBs were eligible for the performance grant for the release year 2018-19 and 2019-20. However, the correctness of the SLBs reported by ULBs was based on the data reported by ULBs. However,

Performance Grants for all the three years i.e., 2017-18 to 2019-20 was not released to State Government.

Role of State Government in release of Performance Grant

Although, it was the duty of each ULB to self-evaluate and submit its claim for performance grant to the State Govt. not later than 30 September of each year for which the performance grant is being claimed in the prescribed format. As per prescribed guideline in the para 04 of the Toolkit of Performance Grant, the State Governments are expected to send their consolidated report and claim of the performance grant after evaluation of performance of the ULBs and due verification, not later than 30th October of each year to Ministry of Housing and Urban Affairs (MoHUA) by uploading the data in SMARTNET, a website of MoHUA.

As per the claims submitted by State Government to MoHUA, it was noticed that 16, 12, 28 out of 54 ULBs had qualified for PG for release year 2017-18, 2018-19 & 2019-20, respectively. However, scrutiny of records on SMARTNET, revealed that data for all the years were not accessible, hence authenticity/correctness of the data and claims could not be verified.

The Director UDD stated (July 2021) that on receipt of necessary claims for the release of performance grant for the years 2017-18 to 2019-20, the same were submitted by the department to GoI online through SMARTNET. However, neither the PG amounting to ₹ 8.95 crore, ₹ 10.17 crore and ₹ 13.32 crore for the years 2017-18 to 2019-20 respectively, nor any clarification regarding non eligibility of ULBs of HP for the performance grant was received from the MoHUA.

The reply is not tenable as according to the letter from Secretary to GoI, MoHUA (12 June 2018), it was stated that even though the State of Himachal Pradesh had submitted claims for 16 ULBs for the year 2017-18 (eligible as per State Govt), these ULBs did not fulfil the mandatory conditions for the PG for the release year 2017-18. Thus, the PG for the year 2017-18 could not be released to the State Government. However, correspondences from MoHUA to State Government regarding release year 2018-19 and 2019-20 were not produced to audit.

The State Government should have made necessary efforts to pursue the proposal for the release of Performance Grants for eligible ULBs.

During the exit conference, the Government confirmed the facts and stated that the delayed receipt of Basic grant will be looked into and action for timely/ mandated release of share will be initiated and further, assured to inquire about the issue of non-release of Performance Grant and take it up with the Central Government.

5.3 Assigned Revenue

The term “assigned revenue” is used to refer to various tax/duty/cess/surcharge/levy etc. proceeds of which are collected by State Government on behalf of ULBs and subsequently assigned to ULBs.

Section 69 of HPM Act, provides that State Government may, by notification, determine a tax on consumption of electricity at the rate not exceeding twenty paise per unit, for electricity consumed by any person within the limits of the municipal area, which shall be collected by the Himachal Pradesh State Electricity Board. Although analogous provision of HPMC Act 1994 was omitted by the State Government, vide HP Act No. 32 of 2011, the tax was being collected by the HPSEB and provided to Municipal Corporations.

The State Government notifies Excise Policy every year. HP Excise Policy for the year 2015-16 to 2019-20 provides that out of additional retail excise duty on liquor an amount of ₹ 2 per bottle sold within MC area shall be allocated to ULBs.

The position of assigned revenue in the test-checked ULBs and in all the ULBs of the State is as per **Table-5.4**.

Table-5.4: Statement showing status of Assigned Revenue (AR)

(₹ in crore)

Year	AR of Test-checked ULBs	AR of all the ULBs
2015-16	3.99	5.17
2016-17	2.27	3.81
2017-18	3.46	5.77
2018-19	4.45	5.84
2019-20	3.86	6.08

The following observations were made during audit:

- It was observed that HP State Electricity Board Ltd. (HPSEBL) levies and collects tax on consumption of energy at the rate 2 paise for every unit of electricity within the Municipality on behalf of ULBs. However, HPSEBL while making payments to Municipalities did not provide details of units of consumption of electricity to ULBs.
- Similarly, in case of Liquor Cess, the details of the units of bottles of liquor sold within the ULB was not provided and therefore, it cannot be ascertained that the releases of assigned revenue to ULBs were commensurate to sales made in the respective ULBs.

Commissioners/Executive Officers/Secretaries stated (September 2020 – March 2021) that units of consumption of electricity and number of bottles sold would be asked from the Board and Department.

During the exit conference, the Government assured that instructions will be issued for providing records pertaining to assigned revenue from the HPSEBL and State Excise & Taxation Department to ULBs.

5.4 Own Revenue of Urban Local Bodies

ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstay of ULB's own revenue. The own non-tax revenue of ULBs

comprises water charges, rent from commercial establishments, trade license, fee for sanction of plans/mutations, etc.

The State laws revealed that while the authority to collect certain taxes like property tax, advertisement fee vested with ULBs, the powers pertaining to the rates and revision thereof (advertisement fee), procedure of collection (property tax), method of assessment, exemptions, concessions (property tax, advertisement fee) etc., vested with the State Government.

The ULBs, thus, lacked complete autonomy in generating own revenue. The share of average own revenue (plus assigned revenue) to total revenue of all the ULBs for the period 2015-16 to 2019-20 was only 23 per cent as depicted in the **Chart 5.1**. Details of total revenue and its various components of test-checked ULBs is given in **Appendix-5.2**. Further, percentage of own revenue to the total revenue in test-checked ULBs for the period 2015-20 is given in the **Chart 5.3** and bifurcation of own revenue of test-checked ULBs is given in the **Chart 5.4**.

Chart-5.3: Percentage of own revenue to total revenue in test-checked ULBs(2015-20)

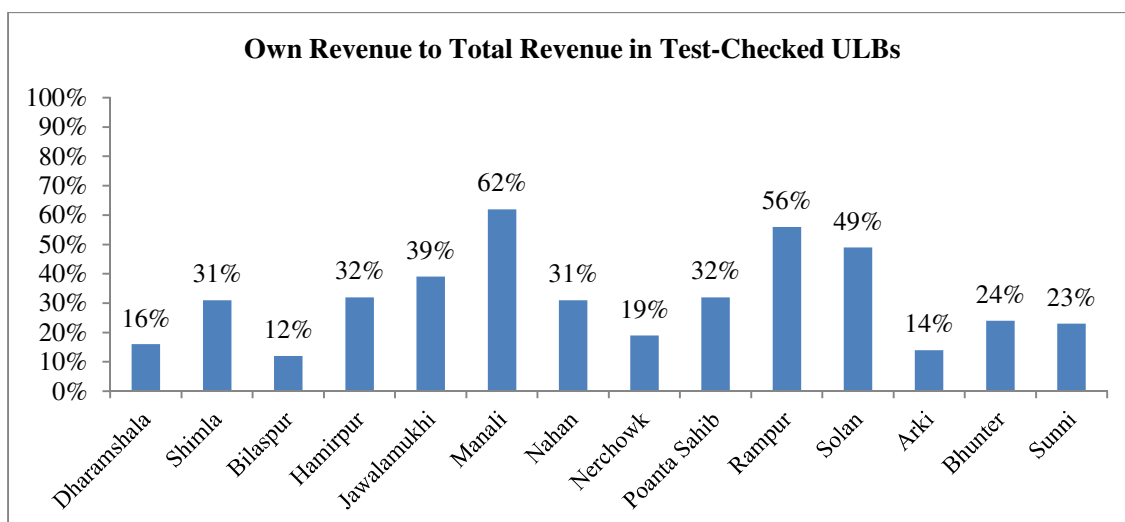
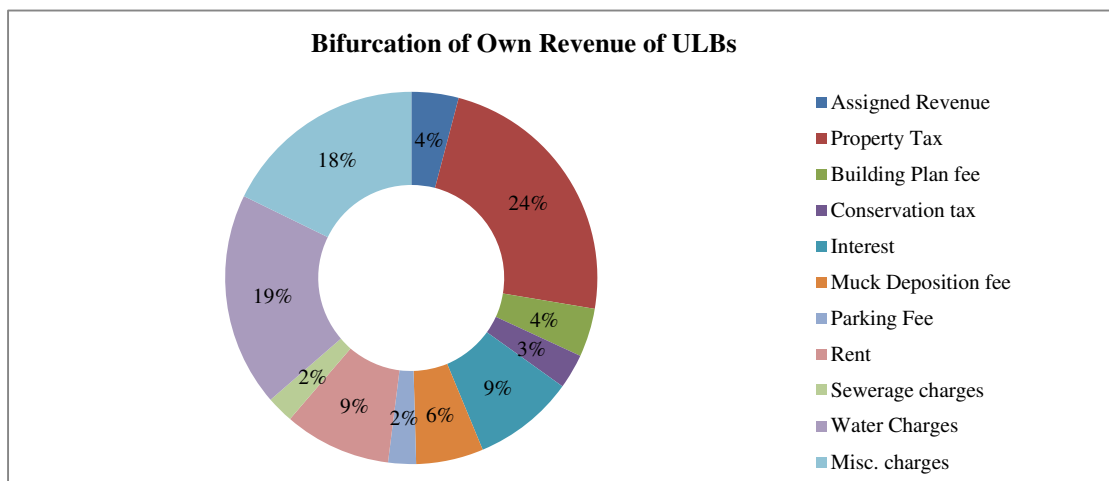


Chart-5.4: Position of different sources of Own Revenue in the test-checked ULBs



The constraints/deficiencies in realisation of own revenue in the test-checked 14 ULBs are discussed in the following paragraphs:

5.4.1 Property Tax (01 of 05 selected areas)

The ULBs were empowered to levy property tax every year on all buildings or lands or both situated within their jurisdiction under Sections 84 and 65 of HPMC/HPM Acts. This shall be between one *per cent* to 25 *per cent* of the rateable value of land and building, as may be determined by the municipality from time to time. The range of rates of Property Tax is decided by the State Government through statute. Further, the rate of Property Tax is decided by the ULBs. Property Tax is one of the major sources of own revenue to ULBs as depicted in the **Table 5.5**.

Table-5.5: Percentage of Property tax to own revenue and total revenue in test-checked ULBs
(₹ in crore)

Year	Property tax collection made during the year	Own Revenue	% of property Tax to own revenue
2015-16	30.54	81.55	37
2016-17	16.94	93.95	18
2017-18	19.00	85.80	22
2018-19	19.88	83.25	24
2019-20	16.90	75.96	22
Total	103.26	420.51	25

As can be seen from above table the share of property tax revenue in own revenue of the test-checked ULBs was 25 *per cent* during the period 2015-20.

5.4.1.1 Methods of calculating Property Tax in the Himachal Pradesh

In Himachal Pradesh, prior to amendment in HPMC/HPM Acts, 1994 (2011), ULBs followed Annual Rental Value System or Rateable Value System (ARV). After the amendment (2011) in the HPMC/HPM Act, 1994 Unit Area Value Method (UAV) was to be followed. The determination of rateable value of lands and buildings assessable to property tax under ARV method and UAV method is given in the **Appendix-5.3**.

The Unit Area Value method is based on the expected returns from the property depending on the five factors i.e., location, age, use, structure and occupancy of the property. The ARV of a property is gross annual rent at which the building or land may reasonably be expected to let. This assessment process was unscientific as there were no firm factors/guidelines to reach at reasonable rental value and brings in considerable discretion in the assessment of property tax. Thus, there are more chances of under reporting or under assessing of market rates in ARV Method. Status of methods adopted for determination of rateable value of property and assessment of property tax in 14 test-checked ULBs is as under:

ARV Method	UAV Method	Other than ARV & UAV Method
Arki, Bhuntar, Dharamshala, Hamirpur, Manali, Poanta Sahib, Rampur & Sunni	Bilaspur, Jawalamukhi & Shimla	Nahan

- Property tax was not being levied in two test-checked ULBs i.e., MC Solan and MC Nerchowk.
- As can be seen from the above table there is no uniformity among the ULBs in adopting the methods for calculating property tax. Out of 14 test-checked ULBs, eight ULBs followed Annual Rental Value Method (ARV), three ULBs followed Unit Area Value Method (UAV), MC Nahan followed a separate method other than these methods and two ULBs have not levied property tax. Whereas, as per the provisions contained in the Section 65 and 88 of HPM & HPMC Act, 1994 (Amendment Act 2011) made it mandatory for all ULBs to levy and collect property tax under Unit Area Value Method.
- In MC Nahan, instead of deriving the property tax as per the provision of the HPM Act, the property tax was being derived by just multiplying the covered area with prescribed rate of property tax. Thus, MC Nahan was following its own method instead of UAV method prescribed in the provisions of HPM Act 1994.
- In NP Sunni, *ausat* rate¹ of land fixed by revenue department was taken for calculating Annual Rental Value of the land, against the new provision of circle rates adopted after 2011, which is revised on yearly basis by the Deputy Commissioner of District. Further, the cost of erection of building was arrived at simple estimation of cost erection. Thus, NP Sunni was following ARV method using *ausat* rate instead of UAV method, which was prescribed in the provisions of HPM Act 1994.

5.4.1.2 Assessment of Property Tax

Section 77 of the HPM Act and Section 97 of the HPMC Act provide that it shall be in the discretion of the ULB to prepare new assessment list every year or to adopt the valuation and assessment contained in the list for any year, and it shall not be adopted for a period exceeding five years.

- Para 03 of Municipal Corporation Shimla (Property Taxation) bye-laws 2015 provides that Commissioner shall keep a book to be called as the "**Assessment List**" in which the following shall be entered in 'Form-A: (i) A list of all units of the lands and Buildings, distinguishing each, either by name or number and containing such particulars regarding the location or nature of each, which shall be sufficient for identification thereof. (ii) The rateable value of each unit of the lands and Buildings. (iii) The name of the person primarily liable for payment of property tax and rateable value as well as property tax demand on his/her unit of land or Building. (iv) Other details; if any.
- In MC Shimla, assessment of properties for the property tax, were based on returns filed by the owners in form E (as prescribed in bye-laws for Self-assessment of Property Tax). Based on number of Form E received, Form-A

¹ *Ausat* rate is the average rate of sale consideration (annually) of all the land within the NP Area.

(Assessment list) was prepared by MC Shimla, without doing physical surveys. Further, register containing assessment of properties was also not maintained.

The Corporation stated (October 2020) that Form A was being prepared by conducting regular inspections of the properties and 30 *per cent* of the assessment of properties on Form-A had been prepared and will be completed within two years.

- The details about year of last surveys conducted to maintain ‘**Assessment List**’ in the 14 test-checked ULBs is given below:

Sr. No.	Name of ULBs	Year of last survey for PT
1.	Bhunter, Dharamshala, Manali, Nahan, Poanta Sahib & Sunni (6 ULBs)	1964 to 2013
2.	Arki, Bilaspur, Jawalamukhi, Hamirpur & Rampur (5 ULBs)	Survey was conducted in recent past after 2015
3.	Nerchowk & Solan	Property Tax was not levied in both ULBs
4.	MC Shimla	Date of survey was not made available to audit further; the UAV was being implemented without conducting GIS survey as Property Tax was being levied on basis of self-assessment of property submitted by the owner as discussed in above paragraph.

- No regular updation of assessment list was being done by these ULBs.

As the assessment list was not regularly updated, the levy of property tax was being done on old-assessed value of properties, which entails the risk of short levy of property tax.

- **Digitizing property database using Geographic Information System (GIS) and automating property tax calculations:**

The 13th Finance Commission in its report stated that absence of a formal count of properties in municipalities is one of the major handicaps in exploiting the true potential of property tax in India. The States should institute a GIS system for mapping all properties in cities, which will result in increased coverage.

GIS was also a mandatory reform under Jawaharlal Nehru National Urban Renewal Mission scheme of Central Government wherein the ULBs and Parastatal agencies would undertake a proper mapping of properties using GIS, so that collection efficiency reaches at least 85 *per cent* of property tax demand.

It was observed that the GIS survey was conducted or was being conducted in six² out of 14 test-checked ULBs. The status of GIS surveys and use of the surveyed data for assessment of property tax is as given below:

- In MC Dharamshala final report from the firm was awaited and in MC Paonta Sahib the final approval of Director UDD on the report was awaited.

² Bilaspur, Dharamshala, Jawalamukhi, Nahan, Paonta Sahib and Rampur.

- In two ULBs (Jawalamukhi & Nahan) final report of GIS survey was prepared and submitted but surveyed data was not being used for assessing of property tax.
- In MC Bilaspur the report was being used for assessment of property tax.
- In MC Rampur the GIS survey was completed and demand notices of property tax, on the basis of survey, for 2020-21 was issued.
- In MC Nahan, GIS based survey and development of software/application for assessment of Property Tax was prepared for MC Nahan in 2019. The software/application generated a demand of ₹ 121.25 lakh on account of property tax for 2019-20. But due to non-adoption of GIS survey report by the Municipality, a manual demand of ₹ 37.71 lakh (2019-20) based on the assessment register could only be raised against the ₹ 121.25 lakh, resulting in short assessment of ₹ 83.54 lakh (₹ 121.25 lakh - ₹ 37.71 lakh). However, reasons for non-adoption of GIS survey report were not furnished to the audit.

Director UDD stated (April 2021) that an online GIS-based property tax management system under the Urban Development Department has been made functional for 17 municipalities out of 54 ULBs.

5.4.1.3 Collection and Arrears of Property Tax

Property tax was not being levied in two test-checked ULBs i.e., MC Solan and MC Nerchowk. In case of MC Paonta Sahib, no records of demand and collection of property tax were being maintained by the ULB.

The Collection and Arrears of Property Tax of the 14 test-checked ULBs are shown in **Table 5.6**.

Table 5.6: Detail of collection and arrears of property tax of 14 test-checked ULBs during period 2015-20

(₹ in lakh)

Name of ULBs	Demand	Collection	Rebate	Arrear	% of collection*
NP Arki	71.00	32.96	0	38.04	46
NP Bhutar	95.16	51.99	0	43.17	55
NP Sunni	97.07	34.72	0	62.35	36
MC Bilaspur	157.58	38.36	0	119.22	24
MC Jawalamukhi	192.38	52.65	0	139.73	27
MC Hamirpur	673.96	539.74	0	134.22	80
MC Manali	506.15	421.39	0	84.76	83
MC Nahan	381.81	195.84	0	185.97	51
MC Rampur	361.16	260.34	1.97	98.85	73
M Corp. Dharamshala	1,125.48	878.30	0	247.18	78
M Corp. Shimla	8,691.95	7,821.61	554.91	315.43	96
MC Solan	NA	NA	NA	NA	NA
MC Nerchowk	NA	NA	NA	NA	NA
MC Paonta Sahib	NA	NA	NA	NA	NA
Total	12,353.70	10,327.90	556.88	1,468.92	

*-inclusive of rebate

- As can be seen from the above chart, the collection of property tax for 14 test-checked ULBs was ₹ 108.85 crore (including rebate of ₹ 5.57 crore) against the demand of ₹ 123.54 crore (including opening balance of 2015-16), thereby resulting in total property tax arrears of ₹ 14.69 crore during 2015-20.

- In 11 ULBs³, the *per cent* of collection to demand raised ranged between 24 *per cent* (MC Bilaspur) and 96 *per cent* (MC Shimla).
- The recovery of arrears had been marred by the non-sanctioning of post of Tax Inspectors who could have helped in better realization of Property Tax.
- MC Bilaspur had not imposed property tax prior to 2017-18, however during 2017-18 & 2018-19 they had raised a demand of ₹ 50.49 lakh annually.

During the exit conference, the State Government assured for adoption of Unit Area Method for assessment of property tax in remaining ULBs and assured that all other observations regarding property tax will be looked into.

5.4.1.4 Conservancy Tax

In pursuance of notification (July 1964) based on provision of sub section (6a) of section 62 of Punjab Municipal Act, 1911, as applied to HP, MC Solan imposed conservancy tax at the rate of five *per cent* on the assessed annual rental value of the property with effect from 1st November 1964. Subsequently, the State Government had ordered (2003) all the ULBs to impose Property tax within their jurisdiction. The matter was discussed in the House of MC Solan, but the same was rejected, with the plea that conservancy charges / sanitary tax at the rate of five *per cent* of annual rateable value was already being charged in pursuance to the notification issued in July 1964.

However, all resolutions passed for imposing conservancy tax against property tax by the House were rejected by the Director (UD) with the direction to impose Property tax as, it was binding on ULBs as per HPM Act, 1994.

Method of calculation of property tax and conservancy tax is as under:

Property tax- (10 <i>per cent</i> of cost of construction of Building and Land – 10 <i>per cent</i> rebate on repair & maintenance of building) * Rate (7.5 to 12.5 <i>per cent</i>)	Conservancy tax- (10 <i>per cent</i> of cost of construction of Building and Land – 10 <i>per cent</i> rebate by Municipality) * Rate (five <i>per cent</i>)
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1. Short levy of tax due to difference in rates of property and conservancy tax:

The rate of property tax for ARV method varied between 7.5 to 12.5 *per cent* and rate of conservancy tax was five *per cent*, thus there was a difference of 2.5 *per cent* to 7.5 *per cent* in the rates of property tax and conservancy tax. Even after calculating the property tax at the minimum rate of 7.5 *per cent* of the annual rental value of properties, and comparing the same with rate of conservancy tax at rate of five *per cent*, it was noticed that there was revenue loss of ₹ 9.51 crore during 2015-20 due to non-imposition of property tax. The calculation of revenue loss on account of non-levy of property tax is depicted in **Table 5.7**.

³ Arki, Bhunter, Bilaspur, Dharamshala, Hamirpur, Jawalamukhi, Manali, Nahan, Rampur, Shimla & Sunni.

Table-5.7: Detail showing short levy of tax due to difference in rates

(₹ in lakh)

Year	No. of household	Conservancy tax demand raised	Probable demand of Property tax	Difference
1	2	3	4	(4-3)
2015-16	9,230	338.90	508.35	169.45
2016-17	9,310	385.34	578.01	192.67
2017-18	9,782	390.08	585.12	195.04
2018-19	10,023	392.25	588.37	196.12
2019-20	10,273	395.10	592.65	197.55
Total		1,901.67	2,852.50	950.83

Calculation of probable property tax = Demand * 100/5(conservancy rate)*7.5/100(minimum rate of property tax).

2. Non-recovery of arrears of ₹ 3.82 crore:

The status of conservancy tax collection and arrears during 2015-16 to 2019-20 is given in the **Table 5.8**:

Table-5.8: Status of conservancy tax collected and arrears of MC, Solan

(₹ in lakh)

Year	No. of households	Opening Balance	Demand raised	Total demand	Collection	Arrear
1	2	3	4	5	6	7
2015-16	9,230	103.37	338.90	442.26	236.13	206.13
2016-17	9,310	206.13	385.34	591.49	325.44	266.04
2017-18	9,782	266.04	390.08	656.12	336.93	319.19
2018-19	10,023	319.19	392.25	711.44	351.08	360.36
2019-20	10,273	360.36	395.10	755.46	373.19	382.27
Total			1,901.67		1,622.77	

- The total arrears as of March 2020 was ₹ 382.27 lakh. Further, as can be seen from the above table, there is increasing trend in the arrears of conservancy tax to be collected, which is clearly indicative of ineffectiveness of the Municipality in collecting their own revenue.

5.4.2 Rent from commercial establishments

The ULBs were empowered to collect rent from own buildings let out to private agencies and the rent was to be revised periodically.

The following observations were made during audit:

- Rent amounting to ₹ 32.20 crore were collected by the 14 test-checked ULBs (2015-20) and ₹ 10.66 crore was in arrears at the end of March 2020.
- Audit observed that there was no standard protocol for entering into agreements with the tenants stipulating the terms and conditions including revision of rent. The rates of revision of rent varied amongst the different test-checked ULBs i.e.,

rent to be increased either five *per cent* per annum, 10 *per cent* after three years, 10 *per cent* after five years etc.

During the exit conference, the State Government assured to take requisite action for adoption of standard protocol in respect of rent from commercial establishment and take initiatives for collection of arrears.

5.4.3 Trade License Fee⁴

Section 324 of the HPMC Act provides that (1) No person shall use or permit to be used any premises for any of the following purposes without or otherwise than in conformity with the terms of a license issued by the Commissioner in this behalf, namely:- (a) any of the purposes specified in Part-I of the Schedule I;(b) any purpose which is, in the opinion of the Commissioner, dangerous to life, health or property or is likely to create a nuisance; (c) keeping horses, cattle or other quadruped animals or birds for transportation, sale or hire or for sale of the produce there of; or (d) storing any of the articles specified in Part II of the Schedule-I except for domestic use of those articles. Similarly, provisions⁵ of HPM Act provide that no place within a municipal area shall be used for offensive & dangerous trade, establishing new factories/workshops and cinematographs and dramatic performances except under a license, obtained by the owner or occupier from the municipality which shall be renewable annually.

Section 85 of the HPMC and Section 66 of the HPM Act provide that the Municipality may levy a fee and user charges for the services provided by it at such rates and in such manner as may be determined by the municipality from time to time.

The following observations were made during audit:

- Survey regarding trade license had not been conducted by any of the test-checked ULBs, hence, data regarding number of people running trade within the ULB was not available, hence, outstanding amount could not be ascertained.
- Seven⁶ out of 14 test-checked ULBs had collected amount of ₹ 21.74 lakh during 2015-20, which was due to *suo moto* registration of trader and thereafter deposition of the trade license fee. Further, ULBs had no control over registration and renewal of licenses of traders. Even in these seven ULBs, records relating to total number of assesseees were not maintained. This entails a risk of business establishments functioning without valid licenses.

The Commissioners/Executive Officers/Secretaries stated that the survey regarding running of commercial establishments within Municipal area could not be conducted due to shortage of staff. The executing authorities further stated efforts are being made for the proper assessment and collection of trade license fee. Commissioner, Municipal Corporation, Dharamshala stated that since the bye-laws were not notified, hence fees could not be charged. The bye-laws have been notified now (April 2021).

⁴ A trade license is document / certificate that gives the permission to an applicant to commence a particular trade or business in particular area/locations.

⁵ Section 125, 126 and 127 of HPM Act.

⁶ Bhunter, Jawalaji, Hamirpur, Nahan, Paonta Sahib, Shimla and Solan.

During the exit conference, the State Government assured to take proper action in the matter and to devise mechanism to monitor the registration and renewal of Trade License fee.

5.4.4 Advertisement Fee

Section 115 of HPMC Act provides for fees on advertisements. Every person, who erects, exhibits, fixes any advertisement, shall pay for every advertisement a fee calculated at such rates, as may from time to time, be specified by the Corporation. No similar provision has been incorporated in the HPM Act. However, Section 66 of HPM Act provides that municipality may impose fee, tolls and user charges for the services provided by it at such rate and in such manner as may be determined by the municipality from time to time.

The following observations were made during audit:

- Out of two⁷ test-checked Municipal Corporations, MC Shimla had collected ₹ 496.33 lakh by letting out the Advertisement sites during 2015-20. However, MC Dharamshala has neither levied nor collected advertisement fee during the audit period.
- Further, seven⁸ test-checked Municipalities had also allocated advertisement sites, for which fee of ₹ 57.82 lakh was collected during 2015-20.
- However, none of the above test-checked ULBs conducted any new survey for levy of advertisement fee. Therefore, potential earning of revenue could not be quantified.

During the exit conference, the State Government agreed with the observation and assured to conduct survey and levy Advertisement fee for increasing potential earnings and revenue of the ULBs.

5.5 Water Supply (02 of 05 selected areas)

As per Article 243W of the 74th Constitutional Amendment the function of providing water supply for domestic, industrial and commercial purposes was one of the functions mandated to be performed by the ULBs. However, in the State function of water supply is carried out pre-dominantly by other executing bodies, as given below:

Functions	Body executing	No. of ULBs
Work of execution, augmentation and further distribution of water, Operation & Maintenance and collection of user charges	Jal Shakti Vibhag (JSV)	51 ULBs
Distribution of water, Operation & Maintenance and collection of user charges	MC Solan and Palampur	2 ULBs
Work of execution, augmentation and further distribution of water, Operation & Maintenance and collection of user charges	SJPNL	MC Shimla
Besides, several projects of Water supply approved under AMRUT are being executed by SJPNL and Jal Shakti Vibhag in respect of MC Shimla and MC Kullu (non-selected), respectively. Thus, both the ULBs are only providing the funds received under AMRUT to these agencies for execution of capital works within their jurisdiction.		
Similarly, some projects of water supply approved under smart city mission in MC Dharmashala are being executed by Dharamshala Smart City Limited.		

⁷ MC Dharamshala and Shimla.

⁸ Bilaspur, Hamirpur, Manali, Nahan, Poanta Sahib, Rampur & Solan.

5.6 Water Tax/Charges (03 of 05 selected areas)

Section 5 of Himachal Pradesh Water Supply Act 1968, (HPWS) provides that the State Government shall levy a charge for water supplied to a consumer, by a water supply scheme managed directly by the Government or by the beneficiary to whom the scheme may be entrusted, at such rates as may be specified by the State Government, by notification published in the Official Gazette, from time to time.

In exercise of powers vested under Section 5 of HPWS Act 1968, the State Government notified (June 2005) the rates of Water Supply by the Irrigation and Public Health Department, (Now Jal Shakti Vibhag) to the rural areas, all the Nagar Panchayats and Municipalities except Municipal Corporation Shimla, MC Solan & Palampur. Similarly, for the Municipalities i.e., Municipal Corporation Shimla, Municipal Council, Solan & Palampur where the powers of JSV has been delegated completely/partially to these ULBs as stated in the **Para 5.5**, the rates for bulk water supply to these ULBs got notified (June 2005).

The notification further states that rates will increase by 10 *per cent* on the 1st of April every year. In pursuance of this notification the JSV prescribes the rates of water supply every year by enhancing it 10 *per cent* every year.

Similarly, the ULBs to which bulk water is supplied by JSV, decide and revise the rates of water supply by passing it in their General House. These ULBs were also enhancing the rates of water supply by 10 *per cent* each year.

The following audit observation was made during the audit of the test-checked ULBs.

1. MC Solan:

a. Charging of domestic/commercial rates for the commercial bulk water supplied by JSV resulting in accrued liability

As stated above, in MC Solan, the distribution of water, operation and maintenance, and collection of user charges was delegated to MC Solan by Jal Shakti Vibhag. It was noticed that Jal Shakti Division, Solan provided bulk water supply to MC Solan at the rates between ₹ 20.82⁹ and ₹ 30.48 per kilolitre (KL) during 2015-16 to 2019-20, for which JSV (Solan Division) raised total bill of ₹ 41.76 crore. However, MC Solan made distribution of water to consumers at two different rates i.e., domestic ₹ 13.50 to 20.00 per KL and commercial ₹ 19.97 to 29.24 per KL during 2015-16 to 2019-20. Majority of the connections (90 *per cent*) were domestic¹⁰. MC Solan had raised a demand of ₹ 15.47 crore from the consumers, thus leading to accrued liability of ₹ 26.29 crore (₹ 41.76 crore - ₹ 15.47 crore) towards JS Division, Solan (March 2020). The charging of domestic rates from the consumers, where the supply was at

⁹ ₹ 20.82, ₹ 22.90, ₹ 25.19, ₹ 27.71, and ₹ 30.48 per kilolitre for the years 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20.

¹⁰ Information provided by MC Solan.

commercial rates, will eventually lead to unsound financial health of Municipal Council Solan.

It was also noticed that even the commercial rates charged by the MC Solan from the commercial consumers was charged were approximately less by one rupee and was not commensurate with the rates of Jal Shakti Division.

b. Loss due to lack of active leakage control in MC Solan

The Jal Shakti Vibhag supplied bulk water to three main water storage tanks of MC Solan from two sources i.e., Ashwani Khad and Giripul during the period 2015-20 which was further distributed to the households within the MC area by Municipality.

Audit observed that there was huge difference between water received from the JSV and further distributed to the households by the Municipality. The bulk water supply bills generated by JSV and the consumers ledger (water) maintained by the MC Solan revealed difference between water supplied by JSV and actual distribution made by MC Solan to consumers, which ranged between 34.05 per cent and 47.33 per cent. As per the manual of Water Supply and Treatment of Central Public Health and Environmental Engineering Organisation (CPHEEO), as followed by both the Jal Shakti Vibhag and ULB, wastage upto 10 per cent in water supply is considered as low and remedial action is needed when wastage is above 10 per cent. Details of non-revenue water after allowing deduction of 10 per cent leakage in water supply for calculation of revenue loss is depicted in **Table 5.9**.

Table-5.9: Status of water received and distributed and percentage of non-revenue water

Year	Water supplied by the Jal Shakti Vibhag (ML)	Quantity after relaxation of 10 per cent distribution loss (ML)*	Water supplied to users by MC (ML)	Difference (ML)	Minimum rates of water (KL)	Amount calculated (in Rs. lakh)	Per cent
	A	B	C	D=B-C	E	F=D*E/100	G=(A-C)/A
2015-16	2,826.61	2,543.95	1,488.67	1,055.28	13.5	142.46	47.33
2016-17	2,732.47	2,459.22	1,553.77	905.45	15	135.82	43.14
2017-18	2,648.72	2,383.85	1,746.92	636.93	16.5	105.09	34.05
2018-19	3,192.26	2,873.03	1,776.89	1,096.14	18.5	202.79	44.34
2019-20	3,408.75	3,067.88	1,832.74	1,235.14	20	247.03	46.23
	14,808.81	13,327.93	8,398.99	4,928.94		833.19	43.28

Note: ML (Million Litres) & KL (Kilo Litres).

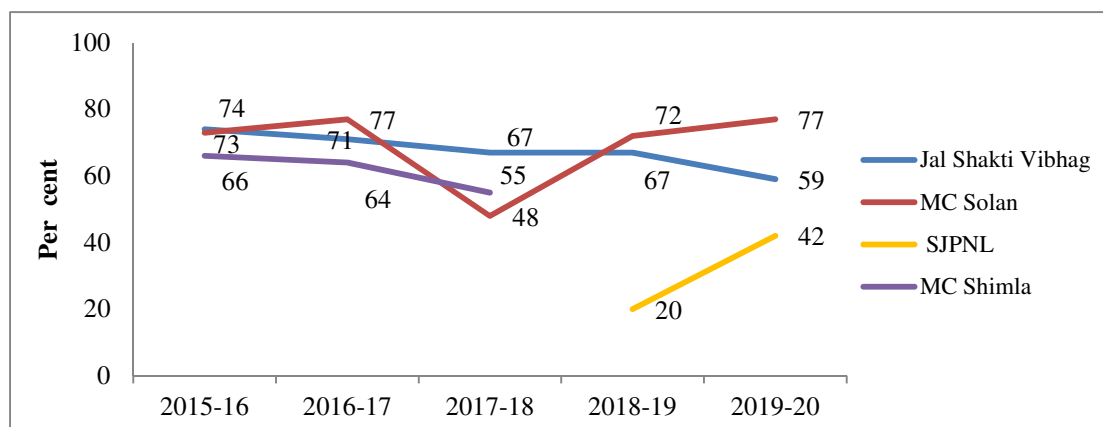
* As per sec 10.10.2 (a) of CPHEEO in respect to Water Supply and Treatment provides that 10 per cent of leakage in water supply is satisfactory.

Even considering the lowest rate of water charges (domestic water charges) on yearly basis for the quantities of Non-Revenue Water, it was noticed that the Municipality had incurred probable revenue loss of at least ₹ 8.33 crore (2015-20).

2. Comparative analysis of revenue collection against the water charges demand raised by MC Solan, SJPNL & Jal Shakti Divisions

The comparative analysis of revenue collection against the demand made by the MC Solan, SJPNL & Jal Shakti Divisions is given in the **Chart 5.5**.

Chart-5.5 Comparative analysis of collection made against the demand raised



As can be seen from above, the effectiveness of collection of Water charges against total demand raised by the MC Solan was 93 per cent, MC Shimla was 79 per cent, SJPNL was 49 per cent and Jal Shakti Divisions, it was 87 per cent during 2015-16 to 2019-20. The year-wise details of water charges demand raised, and collection made during 2015-20 are given in **Appendix-5.4**. Thus, collection efficiency of water charges was better in MC Solan in comparison to the line department/corporation.

3. Liability of ULBs to Jal Shakti Vibhag

Audit further observed that there was huge liability on account of bulk water supply payment to be paid to the JSV by ULBs as detailed below:

Name of ULB	Liability to Department	Liability on account off	Amount in crore
MC Shimla	Jal Shakti Vibhag	Bulk water supply	₹ 229.64
MC Solan	Jal Shakti Vibhag	Bulk water supply	₹ 78.67

As evident from above table liability of ₹ 308.31 crore on account of bulk water supply is lying pending to be paid to JSV by these ULBs as of date. The liability was due to charging of commercial rates on bulk water supply made by the JSV from ULBs, whereas the ULBs were charging two different traffic rates of water i.e., domestic and commercial.

5.7 Public Health, Sanitation (04 of 05 selected areas) Conservancy and Solid Waste Management

The function “Public Health, Sanitation Conservancy and Solid Waste Management” is divided into six sub-activities. In two i.e., Maintaining Hospitals, Dispensaries & Immunization/Vaccination the ULBs had no role, in two i.e., Registration of birth and

death & Sewerage management it had partial/dual role and in two i.e., cleaning and disinfection of localities effected by infectious diseases and Solid waste management ULBs were solely responsible.

In Sewerage Management, JSV was planning and executing new schemes, undertaking operation and maintenance of existing schemes and collecting sewerage charges except ULBs Shimla, where this function is being discharged by Shimla Jal Prabhandan Nigam Ltd. and MC Solan where collection of sewerage charges was the responsibility of MC, which are discussed in succeeding paragraphs.

5.7.1 Sewerage Management

As discussed in preceding paragraphs the distribution of water and collection of water charges were vested with MC Solan, therefore, the levying and collection of sewerage charges along with the water charges at the rate of 50 *per cent* of water bills was to be discharged by MC Solan.

Non levy of sewerage charges resulting in revenue loss ₹ 38.30 lakh

Under section 5 of Himachal Pradesh Water Supply Act, 1968, the State Government notified (June 2005), the tariff structure for sewerage disposal effective from 01.06.2005. According to the above Act, monthly sewerage charges at the rate of 50 *per cent* of water billing per month were recoverable from the domestic and commercial consumers.

The following observations were made during the audit of MC Solan:

- MC Solan had not levied sewerage charges since commissioning of the sewerage scheme (December 2009), thus depriving itself of an important source of revenue.
- Further, resolution on non-levying of sewerage charges had not been passed by the House of MC Solan.
- JSV (Solan Division) had released connection to 456 number of users, out of which MC Solan had provided NOC to 303 connections, however, water charges were being charged from 241 connection by the MC Solan and thus, sewerage charges were also to be collected from these connections.
- After working out the amount of sewerage charges to be collected against eligible connections at the rate of 50 *per cent* of water charges made available by MC Solan (01 April 2016), it was noticed that an amount of ₹ 38.03 lakh was due to be collected.

Collection of charges was commented upon in previous report¹¹ of C&AG of India, however, the State Government had not taken any remedial action in this regard as irregularities were persisting in MC Solan.

¹¹ Para 2.2.6.6 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2018 (Report No. 4 of the year 2019), Government of Himachal Pradesh.

5.8 Solid Waste Management (05 of 05 selected areas)

Solid Waste Management is sub-activity of the function 'Public Health, Sanitation, Conservancy and Solid Waste Management' under section 42 (b (vi)) of HPMC and 48 (ii (6)) of HPM Act. The sub-activity was devolved fully (August 1994) to ULBs in the State. The ULBs are involved in planning and execution of Municipal Solid Waste Management.

The sub-activity had been outsourced by the ULBs mainly due to shortage in manpower and machineries, further the ULBs are monitoring and providing technical assistance through some of its technical staffs.

5.8.1 Financial Management of Solid Waste Management

The recurring expenditure for management of Solid Waste is being done from the grants received from the Finance Commission and State Finance Commission. The Basic Grant in 14th FC recommends utilization of grant for support and strengthening the delivery of basic civic services including solid waste management and storm water drainage. Similarly, the State Finance Commission grants were also released with same condition of expenditure as in 14th FC.

During 2015-16 to 2019-20 the ULBs (Hamirpur & Solan), had raised demand for cost extensive machineries and equipment needed for management of Solid waste such as Trammel, Shedder etc. In response to demand the State Government released (July 2019) an amount of ₹ 468.30 lakh to all ULBs for construction of compost pits, Material Recovery Facility Centre, Kiosks for Domestic Hazardous waste & e-waste and management of Legacy Waste within the jurisdiction.

5.8.2 Collection of user charges

The bye-laws provide that primary collection of Municipal Solid Waste from each and every house in the city/town should be done through door to door collection of waste. For the services rendered, user charges have been defined in the bye-laws. The rates of user charges have been defined according to size of property, usability of properties etc. which varied between ₹ 50 and ₹ 15,000.

Methodology adopted for arriving at Collectible amount

Various categories of properties are multiplied by the rates as specified in the bye-laws, which is multiplied by the number of months for calculation of applicable charges. The data regarding various categories of properties were collated by Audit from Solid waste Action Plan of ULBs, GIS surveys conducted by ULBs for property tax, Electricity Department records, Tourism Department.

The following observation was made during the audit:

- The collection of user charges by test-checked ULBs varied between 1 *per cent* and 60 *per cent* of amount collectible i.e., amount collected ₹ 21.85 crore (36 *per cent*), against amount collectible ₹ 60.43 crore.
- Collection was between 01 *per cent* and 58 *per cent* of the revenue expenditure on the Door-to-Door Collection of Solid Waste.

- The main reason was non-survey of properties/households within the jurisdiction of ULBs and non-maintenance of database/Individual ledgers of users.

Details of collection of user charges and revenue expenditure incurred on Solid Waste Management are given in the **Appendix-5.5**.

Other observation noticed in the test-checked ULBs are as under:

- Seven¹² out of 14 test-checked ULBs were unaware of number of service users within their jurisdiction as they had not conducted any survey which resulted in collection of user charges from few of the households/service users.
- 13¹³ out of 14 test-checked ULBs had not maintained any record/register/individual ledger for collection of user charges.

- **Good practices:**

Nagar Panchayat, Sunni had conducted house to house survey and prepared register/records and prepared ledger for collection of user charges with effect from January 2019 and raised demand for the year 2019-20 amounting to ₹ 11.56 lakh against which an amount of ₹ 2.78 lakh had been collected. Thus, it was the only ULB out of the 14 test-checked ULBs, where exact amount of user charges applicable and the arrears of user charges could be worked out.

The Commissioners/Executive Officers/Secretaries of the ULBs¹⁴ accepted the facts and stated that shortage of collection of user charges was mainly due to non-support of public, not knowing of households which were handing over the waste and because of pandemic situation created by the Covid-19. The ULBs attributed non-preparation of individual ledger for user charges of door-to-door collection to shortage of staff.

During the exit conference, the State Government assured that the matter would be looked into and all the observations raised would be considered on priority basis.

5.9 Preparation of Budget

In accordance with the provisions of Sections 80 of HPMC Act and 249 of HPM Act, the Corporation/Finance, Audit and Planning Committee of the Council shall prepare the budget estimates indicating the receipt of funds from various sources and allocate the resources to various activities undertaken by it and present it to the Governing Council for approval. After the approval by the Governing Council, ULBs have to forward the budget through the Deputy Commissioner to the Government (in respect of Corporation) and Director (in respect of Municipal Councils & Nagar Panchayats), Urban Development for approval. This shows that the HPMC and HPM Acts, are not in consonance with the provisions of the 74th CAA, as the Constitution provisions are

¹² Arki, Bilaspur, Jawalamukhi, Manali, Nerchowk, Shimla and Solan.

¹³ Arki, Bhunter, Bilaspur, Dharamshala, Hamirpur, Jawalamukhi, Manali, Nahan Nerchowk, Poanta Sahib, Rampur, Shimla & Solan.

¹⁴ Arki, Bhunter, Bilaspur, Dharamshala, Hamirpur, Jawalamukhi, Manali, Nerchowk, Poanta Sahib, Rampur, Solan, Sunni.

silent about the approval of the budget, while both the Acts specifically mention role of the State Government in sanctioning/modifying the budget.

5.9.1 Unrealistic budget exercise

Expenditure estimation depends on services to be provided by the local government and the costs associated with the provision of these services. Para 33.4 of National Municipal Accounts Manual prepared by Ministry of Urban Development in November 2004 provide that “the objective of the budgeting system of an ULB is to arrive at a scientific basis for building linkage between the nature of receipt or payment with the functions / services or other Budget control centres”. Budget shall reflect the principles and programmes of the ULB. The details of budget estimates *vis-à-vis* actuals in respect of receipts and expenditure of the 14 test-checked ULBs is depicted in the **Appendix-5.6**.

- Audit observed that in two¹⁵ test-checked Municipal Corporations, the variation in actual receipts *vis-à-vis* budget estimate ranged between 28 and 403 *per cent* during the period 2015-20. On the other hand, variation in expenditure *vis-à-vis* budget estimate ranged between 25 and 274 *per cent* during the period 2015-20.
- Similarly, in eight¹⁶ test-checked Municipal Councils, variation in actual receipts *vis-à-vis* budget estimates ranged between 21 and 260 *per cent* during the period 2015-20 whereas variation in actual expenditure *vis-à-vis* budget estimate ranged between 22 and 189 *per cent*.
- In two¹⁷ test-checked Nagar Panchayats, variation in actual receipts *vis-à-vis* budget estimate ranged between 76 and 146 *per cent* during the period 2015-20 whereas variation in actual expenditure *vis-à-vis* budget estimate ranged between 57 and 112 *per cent*.

5.9.2 Non-preparation, non-presentation of budget and accounts

The following observations were made during the course of audit in the test-checked ULBs’ budget documents:

- Two ULBs Nerchowk and Bhuntar had not prepared budget for the years 2015-16 to 2020-21. In the absence of Budget it could not be ascertained whether there were adequate and suitable provisions for such services, as required for the fulfillment of the several duties imposed on the municipality by the HPM Act.

The Section 161 of HPMC and Section 252 & 255 of HPM Act provides for maintenance of accounts by the Municipalities and auditing of such accounts.

- Audit observed that none of test-checked ULBs (except MC Shimla till the year 2017-18) had prepared annual accounts i.e., Receipt and Payment Accounts, Income and Expenditure Account and Balance Sheet for any of the financial years.

¹⁵ Municipal Corporation Dharmashala & Shimla.

¹⁶ Bilaspur, Jawalamukhi, Hamirpur, Manali, Nahan, Paonta Sahib, Rampur & Solan.

¹⁷ Arki and Sunni.

- There was no institutional arrangement for certification of accounts of ULBs.

The Executive Officer, Nerchowk stated (January 2021) that Nerchowk was a newly constituted Council and it lacked staff whereas Secretary Bhunter stated (February 2021) that there was no expert staff dealing with accounts, hence annual budget could not be prepared.

During the exit conference, the State Government assured that instructions would be issued to the ULBs that budget would be vetted from the Standing Committee and the proceeding of the Committee would be enclosed with the budget. Instructions would be issued to ULBs for the preparation of accounts as per accounting system as well.

5.10 Expenditure of Urban Local Bodies

The expenditure of ULBs can be categorised into five major categories such as programme expenses, operations and maintenance, general expenses, human resource expenses and interest and finance charges. The detail of expenditure incurred by ULBs in the State for the period 2015-16 to 2019-20 is exhibited in **Table-5.10**.

Table-5.10: Details of expenditure incurred by all the ULBs

(₹ in crore)

Year	Human Resources Expenses	General Expenses	Operation & maintenance	Interest/finance charges	Programmes/scheme/Grants expenses	Total expenditure
2015-16	104.94	11.62	22.65	3.93	127.69	270.83
2016-17	128.42	19.30	72.36	2.04	159.12	381.24
2017-18	133.61	14.45	79.38	1.73	176.10	405.27
2018-19	132.19	17.50	61.97	1.89	152.64	366.19
2019-20	127.79	17.42	79.68	0.32	171.04	396.25
Total	626.95	80.29	316.04	9.91	786.59	1,819.78
<i>Per cent of Total Expenditure</i>	35	4	17	1	43	

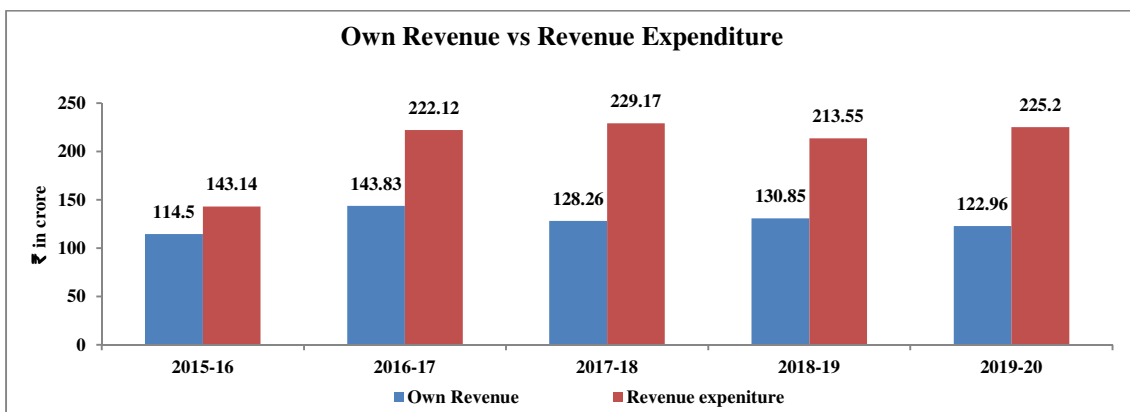
Source: Information furnished by UDD for all ULBs

The capital expenditure i.e., programme expenses and expenses out of grants incurred by ULBs constituted about 43 *per cent* of the total expenditure followed by revenue expenditure i.e., human resource expenses, General expenses and Operation & maintenance and finance charges, which was about 57 *per cent* of all ULBs.

5.11 Resource-expenditure gap

During the period 2015-16 to 2019-20, the ULBs were able to meet only about 62 *per cent* of the revenue expenditure from its own revenue resources. A comparison of the own revenue to revenue expenditure showed large gaps as depicted in **Chart 5.6** which needs to be addressed by ULBs.

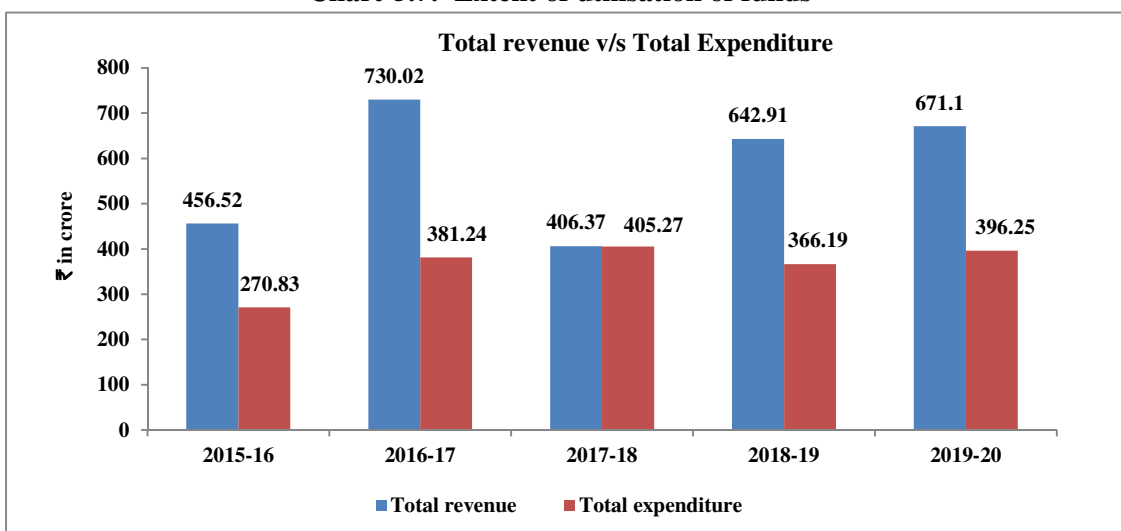
Chart 5.6: Resource-Expenditure gap in all the ULBs



5.12 Extent of utilisation of funds

A comparison of the total expenditure with total revenue for the period 2015-16 to 2019-20 showed that ULBs were able to utilise on an average about 63 per cent of the available funds each year as depicted in **Chart 5.7**.

Chart-5.7: Extent of utilisation of funds



The constraints in utilisation of funds could be attributed to the following:

- ✓ The restrictions/limitations on financial and administrative powers of ULBs as discussed subsequently in **Para 5.14**.
- ✓ The large number of vacancies in various cadres, as discussed in the **Para 6.4**.

5.13 Analysis of financial data of Urban Local Bodies

The revenue and expenditure of the test-checked ULBs for the period 2015-16 to 2019-20 were analysed to study the fiscal autonomy in the ULBs.

The following four ratios were considered to establish the fiscal autonomy in ULBs.

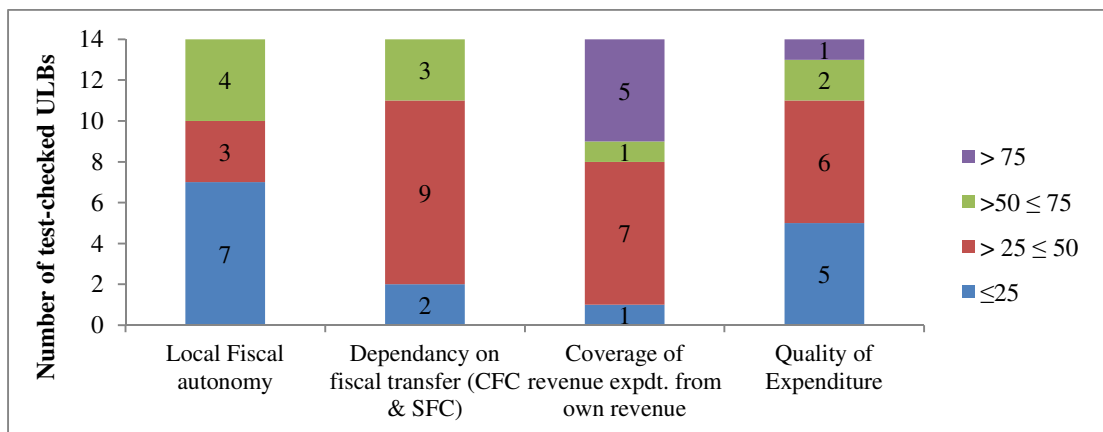
- 1. Local fiscal autonomy:** This is the share of own revenue to the total revenue of the ULB.

2. **Local dependency on fiscal transfer:** This is the share of Central Finance Commission (CFC) and State Finance Commission (SFC) grants to the total revenue of the ULBs.
3. **Coverage of revenue expenditure from own revenue sources (self-reliance):** This is the proportion of revenue expenditures that are covered through the own revenue sources.
4. **Quality of expenditure:** This is the share of Operation and Maintenance (O&M) expenditure in total revenue expenditure.

Local fiscal autonomy and local dependency on fiscal transfer are inversely proportional to each other. Higher the fiscal autonomy lesser is the dependency on fiscal transfer.

The ratio-wise performance of ULBs for the year 2019-20 has been depicted in **Chart-5.8:**

Chart-5.8: Ratio-wise performance of ULBs for 2019-20



- As can be seen from above chart, in four¹⁸ ULBs the share of own revenue was 50 to 75 per cent of the total revenue. They therefore, were less dependent on fiscal transfers. In seven¹⁹ ULBs the share of own revenue to total revenue was less than 25 per cent Therefore, these were heavily dependent on fiscal transfers.
- In nine²⁰ ULBs the dependency on Central Finance Commission (CFC) and State Finance Commission (SFC) grants ranged between 25 per cent and 50 per cent and in three²¹ ULBs the dependency was 50 to 75 per cent.
- In five²² ULBs, the coverage of revenue expenditure from own revenue sources was above 75 per cent, MC Nahan had coverage between 50 per cent and 75 per cent, seven²³ ULBs had coverage between 25 per cent and 50 per cent and Bilaspur ULB had coverage of less than 25 per cent.

¹⁸ Jawalmukhi, Hamirpur, Manali, and Solan.

¹⁹ Arki, Bilaspur, Bhuntar, Dharamshala, Nerchowk, Shimla and Sunni.

²⁰ Arki, Bhuntar, Dharamshala, Hamirpur, Nahan, Rampur, Shimla, Solan and Sunni.

²¹ Bilaspur, Nerchowk and Paonta Sahib.

²² Jawalamukhi, Hamirpur, Manali, Rampur and Solan.

²³ Arki, Bhuntar, Dharamshala, Nerchowk, Paonta Sahib, Shimla and Sunni.

- In three²⁴ ULBs the quality of expenditure i.e., expenditure on O&M, was above 50 per cent, in six²⁵ ULBs the expenditure was between 25 per cent and 50 per cent and in five²⁶ ULBs less than or equal to 25 per cent.

5.14 Financial powers of Urban Local Bodies

Fiscal autonomy can be complete only when supported by decentralisation of financial and administrative powers. Decentralisation provides for:

- ✓ Creating an efficient and reliable administration,
- ✓ Intensify and improve local governance,
- ✓ Enhances accountability and responsiveness.

The administrative approval powers for undertaking basic infrastructure works are as per **Table 5.11**.

Table-5.11: Statement showing administrative approval powers for ULBs

(₹ in Lakh)

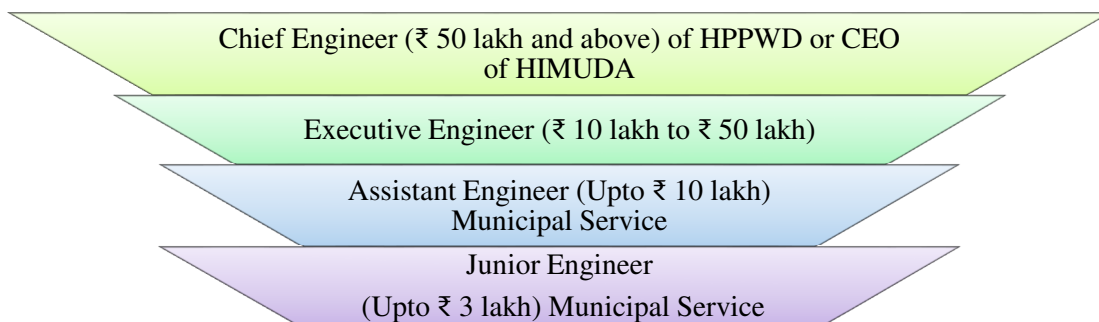
Category of ULB	Commissioner/ Executive Officer/ Secretary	House	Director UDD	State Government
Municipal Corporation	<10.00	>10.00	--	--
Municipal Council	--	<5.00	>5.00 and <100.00	>100.00
Nagar Panchayat	--			

- The administrative approval for work costing ₹ 10 lakh is accorded by the Commissioner and above ₹ 10 lakh is accorded by House for Municipal Corporation.
- The administrative approval for work costing upto ₹ 5 lakh is accorded by the Council, between ₹ 5 lakh to ₹ 100 lakh is accorded by Director, UDD and above ₹ 100 lakh is accorded by State Government for Municipal Council & Nagar Panchayat.

5.14.1 Powers to accord Technical Sanction

As regards the powers for according to technical sanction to estimates the powers are given **Figure 2**.

Figure-2: Powers to accord technical sanction in ULBs



²⁴ Dharamshala, Nerchowk and Sunni.

²⁵ Bhuntar, Jawalamukhi, Hamirpur, Manali, Paonta Sahib and Shimla.

²⁶ Arki, Bilaspur, Nahan, Rampur, and Solan.

The technical sanction for work costing up to ₹ 3 lakh is accorded by the Junior Engineer of Municipality, up to ₹ 10 lakh is accorded by the Assistant Engineer of Municipality, between ₹ 10 lakh to ₹ 50 lakh is accorded by the Executive Engineer and above ₹ 50 lakh is accorded by Chief Engineer of HPPWD or CEO of HIMUDA.

5.15 Summary of Audit Findings

- ULBs were largely dependent on fiscal transfers, which constituted about 78 *per cent* of their total revenue.
- There was a shortfall of ₹ 1.99 crore in fiscal transfers during the period 2015-16 to 2019-20 *vis-à-vis* the recommendations of the SFC.
- Allocation of performance grants of ₹ 32.44 crore for the year 2017-18, 2018-19 & 2019-20 was yet to be received, the reasons for which was mainly due to non-achievement of the target fixed by the ULBs.
- Adhoc payment of assigned revenue had been noticed in all test-checked ULBs.
- Own revenue of ULBs constituted only 22 *per cent* of their total revenue.
- The State laws did not provide complete autonomy to ULBs in generating their own revenue. Omissions attributable to ULBs such as absence of reliable database, non-revision of rates etc., also contributed to lesser revenue generation.
- Budget exercise was flawed and resulted in preparation of unrealistic and unscientific budgets.
- ULBs had spent on an average about 63 *per cent* of the funds available with them.
- The State Government limited the financial and administrative powers of ULBs which hampered the utilisation of funds.
- None of the ULBs except MC Palampur, Solan and Municipal Corporation, Shimla (SJPNL) had been devolved with function of water supply.
- Non-Revenue Water ranging between 34 *per cent* and 47 *per cent* in a test-checked unit i.e., MC Solan.
- Supplying of bulk water from source to ULB's tanks at the rate charged for commercial activity resulted in accrued liability on Municipalities.
- Sewerage management in the State totally performed by Jal Shakti Vibhag except MC Shimla (GWSSC/SJPNL) and MC Solan (where providing of sewerage connection and collection of user charge lies with the MC).
- Non-levy of sewerage charges (MC Solan) resulting in revenue loss of ₹ 38.30 lakh.
- Collection of user charges for door-to-door collection of garbage varied between 01 *per cent* and 60 *per cent* of amount collectible in test-checked ULBs.

- The powers of ULBs were limited in respect of administrative approvals and technical sanctions.

5.16 Recommendations

In the light of the audit findings, the State Government may like to consider:

- (i) ensuring release of mandated share to the ULBs as per the recommendations of State Finance Commission;
- (ii) initiating action for meeting mandatory provision prescribed for obtaining Performance Grant by the ULBs;
- (iii) placing an effective mechanism for the recovery of outstanding dues by the ULBs to augment their own revenue;
- (iv) GIS mapping of the properties within the jurisdiction of the Municipalities needs to be made mandatory so that property tax management can be improved;
- (v) removing limitations on the ability of the ULBs to raise revenues through sources such as property tax, advertisement fee, solid waste management cess etc.;
- (vi) ensuring preparation of realistic budget estimates by ULBs in a scientific manner taking into account requirements of capital expenditure as well as a realistic projection of funds expected to be mobilised; and,
- (vii) providing adequate powers and enhancing role of ULBs in administrative and executive spheres to enable them to function as an institution of self-government.