
Chapter V
Financial Resources of Urban Local Bodies

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Functions can be carried out effectively by ULBs only when they are supported with sufficient financial resources such as grants from State and Central Governments. Funds received towards ULBs from Central Government were diverted by State Government. Funds released to ULBs were also delayed by State Government. Share of own revenue was observed as 59 per cent of the total revenue on average in test-checked ULBs. Due to costing of each municipal service was not assessed scientifically, variations occurred between estimates, resources and actual expenditure. Thus Budget preparation exercise was done unrealistically.

5. Financial Resources of Urban Local Bodies

Sustainable financing is paramount to ensure discharge of any function. The devolved functions can be carried out effectively by 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 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 2016-17 to 2020-21 are indicated in *Chart 5.1* and *Table 5.1* below:

Chart 5.1: Details of revenue of ULBs during the period 2016-17 to 2020-21

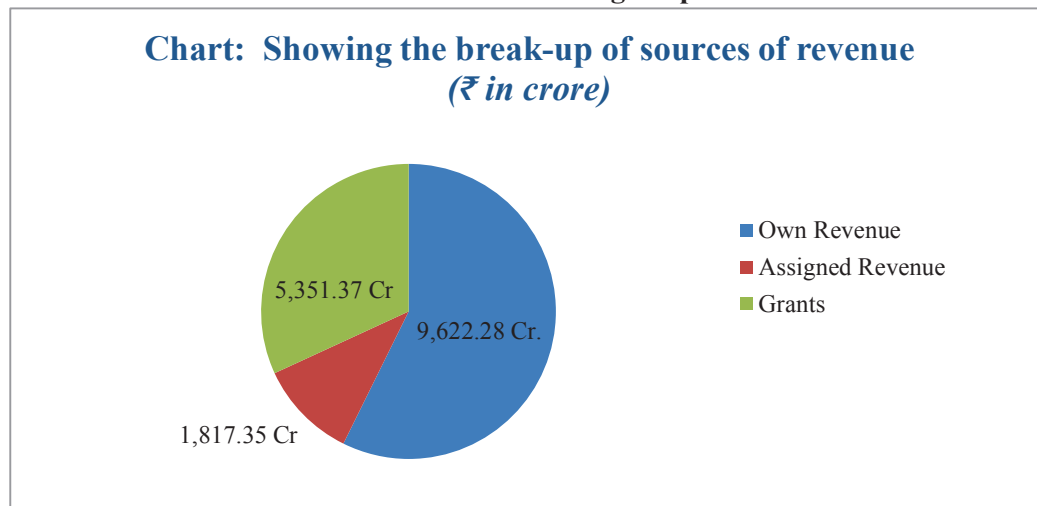


Table 5.1:
Details of revenues of Urban Local Bodies in the State during the period 2016-21

(₹ in crore)

Year	Grants	Own Revenue	Assigned Revenue	Total Revenue/ financial resources	Percentage of own revenue to total revenue/ financial resources	Percentage of fiscal transfer to total revenue/ financial resources
2016-17	1,030.75	1,931.85	345.01	3,307.61	58	31
2017-18	1,086.43	1,996.87	337.62	3,420.92	58	32
2018-19	1,330.71	2,123.88	374.53	3,829.12	55	35
2019-20	1,049.14	1,398.58	283.96	2,731.68	51	38
2020-21	854.34	2,171.10	476.23	3,501.67	62	24
Total	5,351.37	9,622.28	1,817.35	16,791.00	57	32

Source: Information furnished by CDMA for all ULBs in the State

The share of Own Revenue to total financial resources of the Urban Local Bodies is 57 per cent on average. Thus, the Urban Local Bodies rely significantly on other revenue resources also which are not under their control.

We observed that, the share of own revenue to total financial resources of test-checked ULBs is 59 per cent on average as detailed in **Table 5.2** below:

Table 5.2:
Details of revenues of test-checked Urban Local Bodies during the period 2016-21

(₹ in crore)

Year	Grants	Own Revenue	Assigned Revenue	Total Revenue/ financial resources	Percentage of own revenue to total revenue/ financial resources	Percentage of fiscal transfers to total revenue/ finance resources.
2016-17	517.59	904.78	127.94	1,550.31	58	33
2017-18	480.08	995.99	136.18	1,612.25	62	30
2018-19	595.90	1,089.96	210.99	1,896.86	57	31
2019-20	514.45	848.87	202.33	1,565.65	54	33
2020-21*	380.40	1,042.68	176.97	1,600.06	65	24
Total	2,488.42	4,882.29	854.41	8,225.13	59	30

Note: *Guntur Municipal Corporation figures were not included for 2020-21 as annual accounts were not finalised.

5.1.1 Fiscal transfers to urban local bodies

Funds were received by the ULBs by means of transfer by Central and State Governments in the form of grants. As can be seen from the **Table 5.1**, the fiscal transfers from Government in the form of grants constituted 30 per cent on average of total revenue. Own and assigned revenue constituted major portion of revenue (59 per

cent own revenue and 11 per cent assigned revenue) of ULBs in the State during the period 2016-17 to 2020-21.

We observed the following shortcomings in fiscal transfers to ULBs:

5.1.1.1 Central Finance Commission grants

Article 280(3)I of the Constitution of India mandates that the Central Finance Commission (CFC) should recommend measures to augment the Consolidated Fund of a State to supplement the resources of ULBs based on the recommendations of the State Finance Commission.

(a) 14th Finance Commission Grants

The Fourteenth Finance Commission (FFC) had recommended assured transfers to the local bodies for planning and delivering of basic services smoothly and effectively within the functions assigned to them under relevant legislations. The FFC has recommended Grants-in-aid to duly constituted ULBs in two parts; namely- (i) Basic Grant (80 per cent) and (ii) Performance Grant (20 per cent) for the award period 2015-20.

Details of the allocation and release of Basic and Performance Grants by GoI as per FFC recommendations during the period 2015-16 to 2019-20 is depicted in **Table 5.3** below:

Table 5.3:
Details of the allocation and release of Basic and Performance Grants by GoI as per FFC recommendations

(₹ in crore)

Period	Basic Grants			Performance Grants		
	Allocation	Released by GoI	Short released	Allocation	Released by GoI	Short released
2015-16	348.92	331.47	17.45	-	-	-
2016-17	483.14	483.14	0.00	142.59	128.33	14.26
2017-18	558.23	504.94	53.29	161.36	146.69	14.67
2018-19	645.77	587.06	58.71	183.25	0.00	183.25
2019-20	872.57	872.57	0.00	239.95	0.00	239.95
Total	2,908.63	2,779.18	129.45	727.15	275.02	452.13

As per guidelines for implementation of recommendations of FFC issued (October 2015) by Ministry of Finance, GoI grants shall be released to State Government for the duly constituted¹⁰⁴ ULBs in two instalments *i.e.* 50 per cent of Basic Grants in June and remaining portion of Basic Grants and full Performance Grants in October every year. Release of second and subsequent instalments of grants (both Basic and Performance) will be facilitated on receipt of utilisation certificate for the previous instalment.

¹⁰⁴ a duly constituted Municipality means where elections have been held and an elected body is in place as provided in Part IXA of the Constitution.

Basic Grants

- There was short release of ₹129.45 crore of basic grants by GoI to the State Government during 2015-20 due to non-formation of elected bodies in all ULBs of the State.
- As per GoI guidelines¹⁰⁵, State Governments are required to release the grants to ULBs within 15 days of credit to their account by GoI. In case of delay, the State Governments are required to release the same along with interest (*i.e.*, bank rate of RBI). We observed that there were delays ranged from 16 to 523 days in release of funds to ULBs by State Government during 2015-19. However, the State Government did not release interest amounting to ₹28.20 crore¹⁰⁶ for delay in release of funds to ULBs in compliance with directions of GoI as detailed in *Appendix 5.1*.
- The guidelines *ibid* stipulate that there should not be any deductions at source from the grants due to the local bodies. However, we observed that the Government withheld amounts of ₹6.77 crore and ₹5.70 crore respectively in release of 1st and 2nd instalment of grants to ULBs during the year 2015-16. Further the Government withheld ₹3.02 crore (1st instalment of 2016-17) and ₹17.22 crore (2nd instalment of 2018-19) violating the provisions stipulated in the guidelines.
- GoI guidelines advised (October 2015) that the cost of technical and administrative support towards O&M and capital expenditure under basic grant should not exceed 10 *per cent* of allocation to Municipality under any circumstance. Out of 10 *per cent* allocation made to ULBs towards technical and administrative support, one *per cent* of total grant are to be earmarked for Information, Education and Communication (IEC) activities and one *per cent* for capacity building of stake holders in the ULBs, since the ULBs shall prepare action plans and achieve the set of goals to access performance grants, which needs more expertise.

We observed in test-checked ULBs that IEC and Capacity building activities were not taken up during the period 2016-17 to 2020-21, though funds were received under this component. Instead, the ULBs had transferred the earmarked funds under this component amounting to ₹7.98 crore (as detailed in *Table 5.4* below) to CDMA on the instructions of CDMA.

¹⁰⁵ para 17 of Government of India Lr. No. 13(32)FFC/PCD/2015-16 dated 08/10/2015

¹⁰⁶ both Basic Grant (₹22.24 crore) and Performance Grant (₹5.96 crore)

Table 5.4: Details of Basic Grants transferred to CDMA*(₹ in lakh)*

S.No.	Name of the ULB	Basic Grants transferred to CDMA towards IEC etc.,
1	Eluru Municipal Corporation	141.81
2	Tanuku Municipality	44.34
3	Hindupur Municipality	75.85
4	Tadipatri Municipality	32.21
5	Mangalagiri-Tadepalli Municipal Corporation	58.47
6	Tirupati Municipal Corporation	63.46
7	Guntur Municipal Corporation	126.11
8	Nandigama Nagar Panchayat	25.75
9	Chilakaluripet Municipality	24.26
10	Addanki Nagar Panchayat	33.51
11	Dharmavaram Municipality	27.49
12	Penukonda Nagar Panchayat	0.00
13	Peddapuram Municipality	22.53
14	Ponnur Municipality	30.43
15	Kavali Municipality	25.01
16	Bobbili Municipality	23.81
17	Palakonda Nagar Panchayat	26.09
18	Kuppam Municipality	0.00
19	Pedana Municipality	16.85
	Total:	797.88

Thus, funds to be earmarked for IEC activities & Capacity building under 14th FC were diverted. CDMA did not furnish the reply for the audit observation.

Performance Grants

Fourteenth Finance Commission recommended Performance Grants (PG) to ensure accountability of ULBs by specifying three performance criteria *i.e.*, timely availability of Audited Accounts, improvement in own revenues and publication of Service Level Benchmarks for basic services. These grants were to be disbursed with effect from 2016-17, so as to give sufficient time and enable the State Government and ULBs to put in place a scheme and mechanism for implementation of the guidelines.

- The State Government devised (March 2016) a scheme regarding release of Performance Grants as recommended by 14th FC. GoI released Performance Grant of ₹128.33 crore for the year 2016-17. The State Government distributed the amount among all ULBs.
- There was short receipt of Performance Grant of ₹28.93 crore during 2016-18 and entire allocation of ₹423.20 crore for the years 2018-19 & 2019-20 was not released by GoI to State Government. The CDMA did not furnish the reasons for short receipt/non-receipt of grants.

- The ULBs in the state did not utilise the 14th FC grant within time period of award. GoI accepted (June 2021) the proposal of State Government of AP for expending the funds remained with ULBs as a one-time dispensation for incurring expenditure up to March 2022. However, the ULBs did not utilise the grants within extended award period. Unutilised grants amounting to ₹275.34 crore was available in the State as of May 2022. The State Government requested (May 2022) the GoI to extend the time limit up to October 2022 for utilising the balance grant. The response is awaited from GoI.

(b) 15th Finance Commission Grants:

The 15th Finance Commission recommended the grants to ULBs by dividing them into two categories viz., (i) Million-Plus Cities and (ii) all other cities and towns with less than one million population. The funds allocated by 15th FC to Non Million-Plus Cities and towns consist of two equal parts: (i) 50 *per cent* of the allocated amount is Basic Grant (untied) and (ii) 50 *per cent* of the allocated amount is Tied Grant. The State Government has issued (October 2020) comprehensive guidelines for utilization of grants. The allocation and release of 15th FC grants by GoI for the year 2020-21 is depicted in **Table 5.5** below:

Table 5.5: Fund allocation under 15th FC

(₹ in crore)

Year	Grants particulars	Allocation	Released by GOI
2020-21	Million plus cities	270	270
	Others	994	497

- We observed that GoI had not released the 2nd instalment (non million plus cities) of ₹497.00 crore due to non-payment of penal interest to ULBs towards belated transfer of grants to ULBs. GoI has requested (8th September 2021) the State Government to furnish a revised Grants Transfer Certificate (GTC) after payment of interest accrued due to late transfers of Grant to ULBs. As such, it is evident that the State Government could not get the 2nd instalment due to non-release of penal amount to ULBs.
- GoI¹⁰⁷ requires that the State (Finance Department) shall transfer grants-in-aid directly to all ULBs within 10 working days of receipt from the Union Government without any deduction and any delay beyond 10 working days will require the State Government to release the same with interest from its own funds as per effective rate of interest on market borrowings/State Development Loans (SDLs) for the previous year.

The State Government released funds in the year 2020-21 with delays ranged from 11-82 days to ULBs without the interest payable amounting to ₹6.63 crore for delay in compliance with directions of GoI as detailed in **Appendix 5.2**.

¹⁰⁷ vide Lr. No. F.15(3) FC-XV/FCD/2020-25 dated 19/05/2020

5.1.1.2 State Finance Commission Grants

The State has constituted three SFCs as indicated in the table below. While the first three SFCs had given recommendations, the fourth SFC is yet to give its report even after 12 years of its constitution. During the first three SFCs, the amounts recommended and released based on their recommendations formed a significant share of the resources of ULBs.

The details of funds recommended by the SFCs and actually released for three SFC periods are given in **Table 5.6** below:

Table 5.6: Details of funds released under SFC

SFC	Period covered	Funds recommended by SFC per annum (₹ in crore)	Funds released (₹ in crore)	Short release (₹ in crore)
First	1997-98 to 1999-2000	160.32	144.06	16.26
Second	2000-01 to 2004-05	626.61	245.00	381.61
Third	2005-06 to 2009-10	489.38	362.92	126.46
	Total	1,276.31	751.98	524.33

During the year 1997-98 to 2009-10, against the recommendation of ₹1276.31 crore, the State Government had released ₹751.98 crore (59 per cent) leading to short release of ₹524.33 crore.

Further, the State Government extended (December 2013) the recommendations of third SFC for the period 2010-11 to 2015-16¹⁰⁸ and an amount of ₹879.21 crore was released to ULBs due to non-constitution of 4th SFC. State Government has continued to release SFC grants ₹495.37 crore to ULBs during the period 2016-17 to 2019-20, without any recommendation for release of grants.

The constitutional mandate of forming an SFC for every five years has not been implemented by the Government within stipulated time and the funds were released without objective criteria.

The Department accepted (December 2022) the short release of funds recommended in three SFCs and the delay in constitution of 4th SFC.

5.1.2 Own revenue of Urban Local Bodies

APM Act and APMC Act empowers ULBs in the State to tap various sources of own revenue. 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 shops, building license fee, trade license fee *etc.* The AP State Laws revealed that, while the authority to collect certain taxes like property tax, advertisement tax vested with ULBs, powers pertaining to the rates and revision thereof (advertisement tax), procedure of collection (property tax), method of assessment, exemptions *etc.*, were vested with the State

¹⁰⁸ up to 2015-16 combined state figures

Government. Similarly, ULBs lacked in full autonomy with respect to Non Tax Revenue viz., Building License fees. The ULBs, thus lacked complete autonomy in generating own revenue. The share of own revenue to total revenue of ULBs for the period 2016-17 to 2020-21¹⁰⁹ in test-checked Urban Local Bodies is shown in **Table 5.7**.

Table 5.7:
Details of total own revenue against total financial resources for the period 2016-21
(₹ in crore)

Type of Urban Local Body	Assigned Revenue	Own Revenue	Government Grants	Total financial resources	Percentage of own revenue against financial resource	Total expenditure
Municipal Corporations	750.66	4,362.76	2,096.11	7,209.53	61	6,733.52
Municipalities	91.47	461.76	330.26	883.49	52	786.11
Nagar Panchayats	12.29	57.78	62.05	132.12	44	100.78
Total	854.42	4,882.28	2,488.42	8,225.12		7,620.41

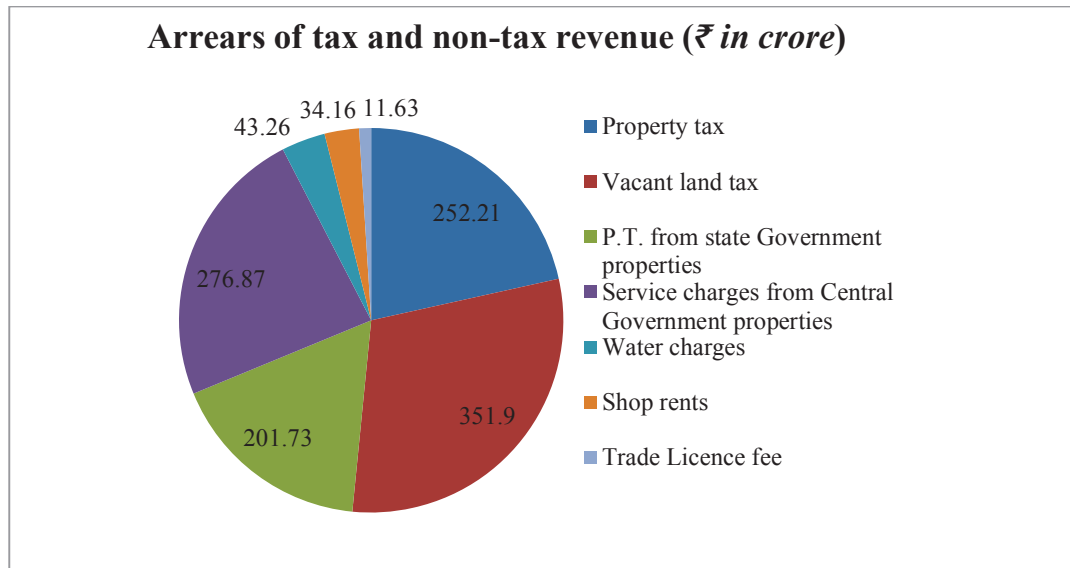
Source: Information provided by the test-checked Urban Local Bodies

It is evident from the above table that Nagar Panchayats and Municipalities were dependent on the Government Grants to an extent of 47 per cent and 37 per cent of their total financial resources respectively, during the period 2016-21. The corporations were dependent to an extent of 29 per cent of total financial resources. During the period 2016-21, four test-checked Nagar Panchayats had incurred expenditure of ₹100.78 crore, out of which, they met ₹62.05 crore (62 per cent) from Government grants. Similarly, the Municipalities made 42 per cent of expenditure from Government Grants, while in case of corporations it was only 31 per cent of the expenditure.

In test-checked ULBs we observed that an amount of ₹895 crore as arrears collectable to the end of March 2021 as depicted in **Chart 5.2** below:

¹⁰⁹ Guntur Municipal Corporation did not furnish the figures of 2020-21

Chart 5.2: Arrears collectable of own revenue



5.1.2.1 Property tax

The ULBs were watching the collection of property tax through Demand, Collection and Balance (DCB) register. The status of collection of property tax during the period 2016-17 to 2020-21 is given below:

i. Property Tax on buildings

In test-checked ULBs, the collection of property tax on buildings showed that the pending arrears collectable were ₹248.52 crore¹¹⁰ against the demand ₹684.62 crore as of March 2021. The average collection efficiency was 60 per cent in test-checked ULBs during the period 2016-21. The closing balance at the end of the year had not been correctly carried forward as opening balance for the subsequent year in all the test-checked ULBs.

The details of tax on buildings demanded and collected by test-checked ULBs are given in **Table 5.8**.

Table 5.8:
Demand, Collection and Balance of Property Tax on Buildings in test-checked ULBs
(₹ in lakh)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Demand	49,144.54	53,513.62	56,909.96	60,693.73	68,462.45
Collection	27,356.44	28,114.74	37,951.82	34,290.57	43,610.09
Balance	21,788.10	25,398.88	18,958.14	26,403.16	24,852.36
Percentage of collection	56	53	67	56	64

¹¹⁰ Addanki NP, Guntur Corporation and Palakonda NP furnished for the period 2018-21, Nandigama NP did not furnish information separately for private properties and Tanuku Municipality did not furnish complete information.

ii. Property tax on lands (Vacant Land Tax)

In test-checked ULBs, collection of Vacant Land Tax (VLT) showed that arrears ₹351.90 crore¹¹¹ was collectable against the demand of ₹385.39 crore as of March 2021. The average collection efficiency of VLT was only nine *per cent* during the period 2016-21.

The details of vacant land tax demand raised and collected by test-checked ULBs are given in **Table 5.9**:

Table 5.9:
Demand, Collection and Balance of vacant land tax in test-checked ULBs.
(₹ in crore)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Demand	366.94	240.00	280.22	280.07	385.39
Collection	18.12	25.75	23.93	27.76	33.49
Balance	348.82	214.25	256.29	252.31	351.90
Percentage of collection	5	11	9	10	9

iii. In all test-checked ULBs, it was also noticed that the closing balance was not carried forward correctly to subsequent year as opening balance relating to Demand, Collection and Balance (DCB) of Property Tax, Water charges *etc.*, during the period 2016-21. Due to this the true picture of DCB could not be ascertained.

iv. Property Tax from State Government properties

Though the MA&UD Department has issued instructions to ULBs from time to time for collection of property tax from State Government owned properties, the ULBs have not collected property tax by duly approaching the concerned departments.

We observed that an amount of ₹166.28 crore was due from State Government in respect of properties in test-checked ULBs as of March 2021.

v. Service Charges

Central Government properties located in the vicinity of municipal area are exempted from payment of Property Tax and in lieu of the property tax, service charges are required to be levied at the rate of 33, 50 and 75 *per cent* of the total Property Tax where no services, partial services and all services are being provided by the Municipal Corporations/ Municipalities/Nagar Panchayats respectively. For this purpose, agreements required were to be entered with concerned Central Government Departments. State Government has issued instructions to ULBs from time to time for levy and collection of service charges before entering into

¹¹¹ Hindupur Municipality and Addanki NP did not furnish the information; Kuppam and Penukonda NPs furnished for the year 2020-21; and Palakonda NP furnished for the period 2018-21

Memorandum of Understanding (MoU) with the concerned Departments within the jurisdiction of respective Urban Local Bodies where the property was located.

We observed that the test-checked ULBs did not collect service charges except raising of demand in respect of the Central Government properties. As of March 2021, an amount of ₹276.87 crore was due from Central Government properties in test-checked ULBs.

vi. Library Cess

The ULBs shall levy¹¹² and collect library cess at eight *per cent* of PT and remit it to the Zilla Granthalaya Samstha (ZGS) concerned within a month from the date of collection of PT. In test-checked ULBs (10)¹¹³, an amount of ₹58.28 crore was collected towards Library Cess during the period 2016-17 to 2020-21. Out of this, an amount of ₹15.59 crore was transferred to the concerned ZGS leaving a balance of ₹42.68 crore which was credited into General Fund of the concerned ULBs. The details of amount collected, remitted and pending to be remitted are given in **Table 5.10** below:

Table 5.10: Particulars of library cess in test-checked ULBs

Sl. No.	Name of the ULB	Library Cess Collected	Remitted	Library Cess to be remitted	Pending year
1	Guntur Municipal Corporation	39.14	12.43	26.71	2007-21
2	Tirupati Municipal Corporation	9.14	1.28	7.86	2016-21
3	Eluru Municipal Corporation	4.73	0.86	3.87	2016-21
4	Hindupur Municipality	0.49	0	0.49	2019-21
5	Tadipatri Municipality	0.23	0.21	0.02	2020-21
6	Chilakaluripet Municipality	2.67	0.40	2.27	
7	Kavali Municipality	0.99	0	0.99	2016-21
8	Pedana Municipality	0.17	0.09	0.07	2016-21
9	Addanki Nagar Panchayat	0.18	0	0.18	2017-21
10	Nandigama Nagar Panchayat	0.54	0.32	0.22	2016-21
	Total	58.28	15.59	42.68	

¹¹² as per sections 20(1) and (2) of AP Public Library Act, cess shall be levied and collected in the form of surcharge on the Property tax by the respective jurisdictional ULBs. Section 20(3) of the Act stipulates that the amount of library cess collected by the ULBs shall be paid to the ZGS concerned

¹¹³ GVMC has not produced the information and remaining nine ULBs (Mangalagiri-Tadepalli Municipal Corporation, Tanuku, Dharmavaram, Peddapuram, Ponnur, Bobbili, Kuppam Municipalities, Palakonda and Penukonda Nagar Panchayats) stated that there were no amount pending

5.1.3 Non-release of Advertisement Tax subsumed in Goods and Services Tax (GST)- ₹31.89 crore

As per Section 197(1)(f) of APMC Act and Section 114, 119 of APM Act, the ULBs were empowered to levy and collect the advertisement tax. Further GoI introduced GST w.e.f. 1 July 2017 and the Advertisement Tax was subsumed in GST through (101st) Constitutional Amendment. As such, Commissioner of ULB is not entitled to collect Advertisement Tax. In order to claim the compensation from GoI, the Commissioner of Commercial Taxes (CCT) requested (December 2016) CDMA to furnish the collection particulars for the year 2015-16. The CDMA had furnished the collection particulars along with certificate of collection in a prescribed format to CCT in February 2018. However, the CCT had not released the estimated compensation of ₹31.89 crore¹¹⁴ as of September 2021. We observed from the records that the CDMA had not pursued the matter with Government for release of compensation to ULBs.

The Government vide Act No. 09 of 2020 amended the APM Act and the words 'advertisements' is substituted with 'Display Devices' wherever occur in the section 115 to 119 of APM Act. Further Section 119 *ibid* is substituted and empowered the Commissioner of ULB to collect registration fees and permission fees on Display Devices, for any period not exceeding one year at a time on such terms and conditions as may be determined by the Council.

However, in test-checked ULBs, the process of registration and collection of this fee was not completed as of February 2022. Due to which Audit could not assess the revenue foregone by the test-checked ULBs.

5.1.4 Entertainment Tax

Section 258 and 686A(3)(xv (d)) of APMC Act stipulates that Entertainment Tax (ET), shall be levied and collected by State Government (Commercial Tax Department) and remitted it to ULB. During GST regime, the Entertainment Tax is subsumed under the GST as Entry 62¹¹⁵ in List II of Schedule VII to the Constitution of India. The Andhra Pradesh Entertainments Tax Act 1939 was also repealed under Section 174(ii) of APGST Act 2017 w.e.f. 1 July 2017.

In order to claim the loss, the CDMA requested (November 2018) the Government to release compensation to ULBs. As per the instructions of Government, the CDMA requested (March 2019) the CCT to release the compensation in lieu of loss incurred towards Entertainment Tax.

However, the CCT has not released the compensation as of February 2022. Thus, loss was on average estimated loss at ₹130.00 crore per annum in respect of ULBs in the State. Further, the CDMA did not pursue the matter with Government since March 2019.

¹¹⁴ amount collected by ULBs in the year 2015-16

¹¹⁵ taxes on luxuries, including taxes on entertainments, amusements, betting and gambling

5.1.5 Water charges

As per Section 214(f) of APMC Act and Section 141 of APM Act, the ULBs may fix water charges for supply of water to the public. The ULBs were collecting fixed monthly water charges through issue of Gazette Notification/Council Resolution.

In test-checked ULBs, the collection of water charges is not effective and showed arrears as ₹43.26 crore¹¹⁶ as of March 2021. The details of water charges demanded and collected by test-checked ULBs are given in **Table 5.11** below:

Table 5.11: Details of collection of water charges in test-checked ULBs
(₹ in crore)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Demand	67.47	71.21	79.81	93.55	87.30
Collection	28.59	28.22	22.43	28.62	44.04
Balance	38.87	42.99	57.38	64.93	43.26
Percentage of collection	42	40	28	31	50

5.1.6 Rents from commercial establishments

The ULBs were empowered to collect rent from the buildings let out to private persons/agencies and the rent was to be revised periodically. While the ULBs have been revising the rents regularly as per the extant instructions of the Government, we observed that rent amounting to ₹34.16 crore was in arrears as at the end of March 2021 in 20 test-checked ULBs¹¹⁷ as detailed in **Table 5.12** below:

Table 5.12: Details of arrears of rent in test-checked ULBs

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Number of shops	4,875	4,910	4,970	5,012	4,909
Shops occupied	4,603	4,643	4,725	4,729	4,586
Vacant	272	267	245	283	323
Demand (₹ in crore)	32.68	38.67	33.58	40.72	51.96
Collection (₹ in crore)	17.31	22.29	17.30	19.91	17.80
Balance (₹ in crore)	15.37	16.38	16.28	20.82	34.16
Percentage of collection	53	58	52	49	34

Further, out of 4,909 shops in test-checked ULBs, 323 shops were vacant at the end of March 2021 and generated no revenue.

¹¹⁶ Addanki Nagar Panchayat and Visakhapatnam Corporation did not furnish information, Eluru Corporation furnished for the period 2016-20 and Penukonda Nagar Panchayat furnished for the year 2020-21

¹¹⁷ Mangalagiri-Tadepalli Municipal Corporation has not furnished the information with respect to erstwhile Mangalagiri Municipality

5.1.7 Trade licence

As per Section 521 and 622 (2) of APMC Act and Section 279 to 280 of APM Act, for every trade licence or written permission, a fee may be charged at such rate from time to time be fixed by the Commissioner, with the sanction of the Corporation.

Scrutiny of records/information of test-checked ULBs (15)¹¹⁸ showed that arrears in collection of trade licence fees of ₹11.63 crore as at the end of March 2021 as detailed in **Table 5.13** below:

Table 5.13:
Demand, Collection and Balance Particulars of Trade licence in test-checked ULBs
(₹ in crore)

Year	Demand	Collection	Balance
2016-17	17.43	13.39	4.03
2017-18	21.25	15.90	5.35
2018-19	25.23	18.15	7.08
2019-20	29.47	21.14	8.33
2020-21	34.43	22.80	11.63

Thus, we observed that business establishments continued to function without valid licences and no mechanism existed for monitoring the renewal of trade licenses.

5.1.8 Layout Regularisation Scheme

The State Government issued (January 2020)¹¹⁹ the Andhra Pradesh Regularisation of unapproved layouts and plots Rules 2020. The scheme was monitored through online module by Directorate of Town and Country Planning (DTCP). However, we observed Rule 14 requires that the amount collected shall be kept in a separate account and utilised only for improvement of amenities as prescribed by Government. Rule 15 specified that the amount collected towards open space charges shall be utilised for the purpose for which it is collected. Rule 16 also specified that the proceeds arising from the regularization are exclusively utilised for capital works leading to revenue generation for the concerned UDAs/Local Bodies, helping them to become self-sustaining.

As of February 2022, the ULBs/UDAs approved 10,135 unauthorised layouts/plots under Layout Regularisation Scheme 2020. The penal amount of ₹278.46 crore (₹124.27 crore towards UDAs and ₹154.19 crores towards ULBs) realised under the scheme is credited to DTCP account. However, we observed that the DTCP had not transferred the amount collected to ULBs and UDAs for utilizing it towards capital works leading to revenue generation in their respective areas.

¹¹⁸ five ULBs (Hindupur, Addanki, Pendukonda, Visakhapatnam and Mangalagiri-Tadepalli) have not furnished information.

¹¹⁹ vide G.O.Ms.No.10 dated 08/01/2020

5.1.9 Building Penalization Scheme (BPS)

The State Government issued (January 2019)¹²⁰ Rules/Regulations for penalization of Building constructed unauthorisedly and in deviation from the sanctioned plan. The penal charges are levied for the total violated built up area on all floors for the building constructed. Rule 15 of the Building Penalization Scheme requires that the amount collected by the Competent Authority¹²¹ under these rules shall be kept and maintained under the control of the Competent Authority in a separate account and utilised only for improvement of amenities as prescribed by the Government. According to Rule 16, the DTCP is the monitoring authority to address any grievances resulting out of the software and other issues related to the scheme.

- Test-checked ULBs did not produce records/information relating to finalisation of applications for BPS due to non-functioning of website. Reasons for non-functioning of website was not furnished to audit by DTCP though requisitioned.

From the available information in test-checked ULBs (14), we observed that an amount of ₹74.11 crore was not received from DTCP towards penal charges under BPS. Details of receipt of BPS to be received from DTCP is given in the *Table 5.14* below:

Table 5.14: Details of amounts to be received from DTCP in test-checked ULBs
(₹ in crore)

Sl. No.	Name of the ULB	No. of applications disposed off	Amount credited and retained with DTCP
1	Guntur Municipal Corporation	2,176	24.00
2	Tirupati Municipal Corporation	1,393	21.90
3	Eluru Municipal Corporation	339	6.82
4	Mangalagiri-Tadepalli Municipal Corporation	103	0.57
5	Hindupur Municipality	114	1.64
6	Tadipatri Municipality	79	1.40
7	Tanuku Municipality	338	4.86
8	Dharmavaram Municipality	61	0.53
9	Peddapuram Municipality	130	0.92
10	Ponnur Municipality	97	0.87
11	Kavali Municipality	731	8.80
12	Bobbili Municipality	99	1.49
13	Pedana Municipality	28	0.18
14	Palakonda Nagar Panchayat	17	0.13
	Total		74.11

Notes: GVMC, Chilakaluripet Municipality and Kuppam, Penukonda, Addanki and Nandigama Nagar Panchayats did not furnish information.

¹²⁰ vide GO Ms. No. 14, MA&UD (M) Department, dated 04/01/2019

¹²¹ 'Competent Authority' means Municipal Commissioner in case of areas falling under ULBs.

5.1.10 Labour cess

The Building and Other Construction Workers' Welfare Cess Act, 1996 provides for the levy and collection of a cess on the cost of construction incurred by employers with a view to augmenting the resources of the building and other Construction Workers' Welfare Board.

Rule 5(2) of the Building and Other Construction Worker Welfare Cess Rules, 1998 provides that the proceeds of the Cess collected under Rule 4 shall be transferred by such government Office, Local Authority or Cess Collector to the Andhra Pradesh Building and other Construction Workers Welfare Board (APBOCWFB) and such office may deduct from the Cess collected or claim from the Board, as the case may be, actual collection expenses not exceeding one *per cent* of the total amount collected.

Out of 20 selected ULBs¹²², Labour Cess collected in 15 ULBs amounting to ₹55.39 crore towards was not transferred to Andhra Pradesh Building and Other Construction Workers' Welfare Board for the period 2016-17 to 2021-22 as of January 2022. The ULB-wise pending transfer of labour cess is given in **Table 5.15** below:

Table 5.15: Collection of Labour Cess in test-checked ULBs

(₹ in crore)

Sl. No.	Name of the ULB	Labour Cess collected
1	Guntur Municipal Corporation	6.81
2	Tirupati Municipal Corporation	13.57
3	Eluru Municipal Corporation	3.91
4	Mangalagiri Tadepalli Municipal corporation	12.55
5	Tanuku Municipality	1.71
6	Hindupur Municipality	2.50
7	Tadipatri Municipality	0.60
8	Chilakaluripet Municipality	2.18
9	Dharmavaram Municipality	1.49
10	Kavali Municipality	3.09
11	Pedana Municipality	0.28
12	Addanki Nagar Panchayat	1.13
13	Nandigama Nagar Panchayat	1.07
14	Peddapuram Municipality	3.67
15	Ponnur Municipality	0.83
	Total	55.39

Due to non-transfer of labour cess collected by ULBs, the intended objective of the Act to augment the financial resources for the Board is defeated.

¹²² three ULBs 1)Bobbili Municipality, 2)Kuppam Municipality and 3)Palakonda Nagar Panchayat have remitted Labour Cess to the Board and two ULBs 1) Penukonda and 2) Visakhapatnam did not furnish the data

5.1.11 Green Fee

The Government instructed (August 2017)¹²³ all ULBs to levy and collect Green Fee at rupees three per square feet at the time of issue of building permissions in respect of constructions having built up area 5,000 sqft or more and meant for parking and other allied services under Consolidated State Head of Account.

From the information provided to audit by the test-checked ULBs, we observed that 15 test-checked ULBs had collected Green Fee of ₹12.91 crore from the concerned applicants while issuing building permissions during the period 2018 to 2022. However, the ULBs misclassified the collected Green Fee and did not transfer the amount to the respective heads as of January 2022. The ULB-wise pending remittance of Green Fee is given in table below:

Table 5.16: Particulars of Green Fee collected in test-checked ULBs

(₹ in crore)

Sl. No.	Name of the ULB	Green Fees to be remitted
1	Guntur Municipal Corporation	5.42
2	Tirupati Municipal Corporation	2.87
3	Eluru Municipal Corporation	0.49
4	Mangalagiri-Tadepalli Corporation	2.55
5	Tanuku Municipality	0.38
6	Hindupur Municipality	0.06
7	Chilakaluripet Municipality	0.32
8	Dharmavaram Municipality	0.00
9	Kavali Municipality	0.16
10	Kuppam Municipality	0.01
11	Palakonda Nagar Panchayat	0.00
12	Addanki Nagar Panchayat	0.32
13	Nandigama Nagar Panchayat	0.12
14	Peddapuram Municipality	0.14
15	Ponnur Municipality	0.07
	Total	12.91

Note: GVMC and Penukonda ULBs did not furnish information

5.1.12 Mis-appropriation

Article 3(3) of Andhra Pradesh Finance Code (APFC) specified that public moneys should not be utilised for the benefit of a particular person or section of the community. Articles 5, 273, 294, 300, 301 and 302 of APFC also lay down the responsibilities of the Government servants in dealing with Government money, the procedure to fix responsibility/accountability for any loss sustained by Government servant, procedure to be followed and action to be initiated for recovery of money.

¹²³ vide G.O.Ms.No.112 dated 30/08/2017

Government also decided (February 2006) that recovery from the Government servant for the losses by misappropriation of Government money shall be recovered at bank rate as fixed by RBI plus two *per cent* in addition to misappropriated amount/loss caused. The loss/misappropriation shall be determined by the disciplinary authority as per Rules, and the recovery proposed is at the cost of fund for the Government.

We observed in Tadipatri Municipality that an amount of ₹28,21,559/-¹²⁴ collected during May to July, 2019 was not remitted into bank/treasury. The Municipality identified the official responsible (the then Sharoff) for not remitting the collected amount and Municipality had not taken steps to recover the amount from the concerned official except lodging of complaint with Police Department as of November 2021. Loss of revenue ₹28,21,559/- to the Municipality had not been replenished by recovery from the concerned official.

Besides, an amount of ₹14,45,375/- was not remitted into bank/treasury immediately after collecting the amount but with a delay of 36 days to 63 days which is also violation of code.

5.2 Estimation of requirement of funds/expenditure

In accordance with the Rules¹²⁵, the Commissioner shall in each year, prepare a budget estimate showing the probable receipt and expenditure during the ensuing year. The working balance to be provided for in the budget shall not be less than five *per cent* of the estimated receipts of the year excluding receipts from endowments, government grants and debt heads. The budget shall be placed before the council by the Commissioner ordinarily not later than 15th November. The Chairperson shall submit a copy of the budget as approved by the council to the Government through the Commissioner and Director of Municipal Administration not later than 31st December of each year. In case of Municipal Corporation, the Commissioner on or before 10th day of November each year shall cause to prepare and lay budget estimates for the ensuing year before the Standing Committee.

However, we observed that there was delay in preparation, submission and approval of Budget Estimates by the Council from three to 458 days and onward submission to Government ranged from two to 407 days in 18 out of 20 test-checked ULBs¹²⁶. Since Budgetary planning is a timely exercise, delay extending into the year of implementation would serve no purpose for the intended year.

5.2.1 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. It should include both the

¹²⁴ 25/06/2019-₹394426; 29/06/2019-₹588779; 30/06/2019-₹569809; 07/05/2019-₹313502; 10/05/2019-₹366937; 11/07/2019-₹288106 and 04/06/2019-₹3,00,000

¹²⁵ Andhra Pradesh Municipalities (Preparation of Budget, Allotment and Transfer of Funds) Rules, 1967

¹²⁶ Kuppam and Penukonda NPs have not furnished information. These are newly constituted ULBs

capital and O&M expenditure that the local body will have to incur to achieve appropriate service levels.

During the early 1960s, the Zakaria Committee formulated minimum standards of services for different levels of ULBs and estimated the annual recurring requirements for each municipal service to be provided by the ULBs. The Committee also felt that it was possible to maintain the various services if adequate taxes and charges were levied for services provided. Since the delivery of municipal services comes at a cost, it was necessary to scientifically estimate the cost of each municipal service to assess the requirement and source of funds for efficient delivery. We observed that test-checked ULBs had not prepared the budget estimates according to the requirement of services.

Instead, the budget was prepared on the basis of expected allocation of funds/grants by Government. Further, the stipulated date for approval of the budget for the ULBs was 31st December of preceding financial year whereas the State budget was usually placed before the Legislature in the month of February/March. Since the ULBs allocate resources for various activities basing on the expected receipt of funds instead of on the actual receipt of funds, shortfall of any, in receipt of funds would impact the execution/implementation of the activities planned. Thus, this method of budget preparation suffered from a basic flaw.

We observed variations existed between the budget estimates and actual Receipts and Expenditure figures in test-checked ULBs.

The component wise percentage of variations between Budgeted Estimates and actual figures of test-checked ULBs is shown in *Table 5.17* below:

Table 5.17:
Particulars of variations between budgeted estimates and actuals in test-checked ULBs.
(₹ in crore)

Year	Receipts			Expenditure		
	Budget Estimate	Actual Receipt	Percentage of actuals to Budget Estimate	Budget Estimate	Actual Expenditure	Percentage of actuals to Budget
2016-17	3,442.34	1,496.73	43	3,378.75	1,343.21	40
2017-18	2,695.26	1,440.59	53	2,900.57	1,291.00	45
2018-19	3,374.44	1,416.13	42	3,745.92	1,357.38	36
2019-20	4,463.58	1,266.96	28	4,351.41	1,124.24	26
2020-21	4,337.64	1,184.17	27	6,679.69	1,570.51	24

Source: information furnished by test-checked ULBs

It can be seen from the above, percentage of variation between BE and actual with respect to receipt figures ranged from 27 per cent to 53 per cent. Whereas for Expenditure, variation ranged from 24 per cent to 45 per cent during the years 2016-21.

The Department accepted (December 2022) audit observations.

5.2.2 Annual Accounts

As per Rule 83 of AP Municipalities (Preparation of Account) Rules, 2017, Preparation of Annual Account comprising various Financial Statements is the responsibility of Head of Accounts Section. However, the ultimate responsibility lies with the Commissioner of the Municipality. The Annual Accounts shall be prepared before the end of June following the year of accounts.

We observed that -

- Annual Accounts were not prepared in time in three test-checked ULBs¹²⁷ during the year 2016-21. Further, Annual Accounts of 2020-21 were not finalised as of February 2022 by five test-checked ULBs in Tanuku, Hindupur and Pedana Municipalities and in Guntur and Eluru Municipal Corporations.
- As per Section 193 of APMC Act, the Municipal Examiner of Accounts shall conduct a weekly examination and audit of the municipal accounts and shall report thereon to the Standing Committee which may also from time to time and for such period as it thinks fit conduct independently an examination and audit of the municipal accounts,

However, it is noticed that, Examiner of Accounts has not been conducting weekly examination and audit of municipal accounts and not reporting there on to Standing Committee in test-checked Municipal Corporations.

- As per Section 195(3), as soon as may be after the commencement of each financial year the Municipal Examiner of Accounts shall deliver to the Standing Committee a report upon the whole of the municipal accounts for the previous financial year.

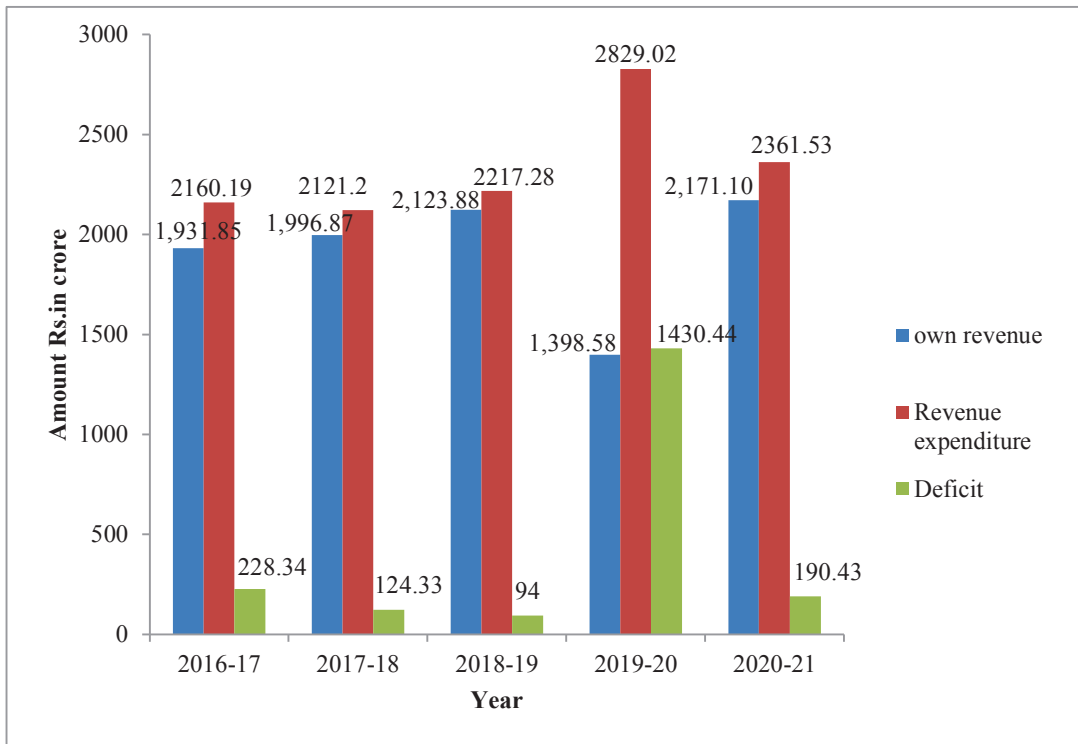
However, reports of municipal accounts have not been delivered to Standing Committee in any financial year by the Examiner of Accounts in test-checked Municipal Corporations.

5.3 Resource-expenditure gap

The ULBs were able to generate own resources only to meet the revenue expenditure during the period 2016-17 to 2020-21. In the year 2019-20, the ULBs generated own revenue to an extent of 51 *per cent* of revenue expenditure. The ULBs were not able to generate the own revenue to incur for development activities towards devolved functions. A comparison of the own revenue to revenue expenditure showed gaps as depicted in **Chart 5.4** below, which needs to be reduced to optimal level by ULBs.

¹²⁷ Tanuku, Hindupur Municipalities and Eluru Municipal Corporation

Chart 5.4: Comparison of the own revenue to revenue expenditure of ULBs



Resource: expenditure gap in ULBs

Conclusions:

- *The ULBs are largely dependent on fiscal transfers. Allocated fiscal transfers were not received due to non-conduct of elections in time from the GoI. The State Government had released the Finance Commission grants to ULBs with a delay.*
- *Budget preparation exercise was unrealistic. Costing of each municipal service was not assessed scientifically, leading to variations between estimate and actual, in respect of both receipts and expenditure.*

Recommendations:

- *Government may ensure timely transfer and availability of fiscal grants to Urban Local Bodies. Government should constitute State Finance Commissions within time frames to review the financial position of ULBs and pursue the constituted State Finance Commission to issue timely recommendations, for provision of funds to ULBs*
- *Government may motivate Urban Local Bodies to prepare realistic budgets taking into account income and expenditure after ascertaining the realisable receipts and properly costing all the municipal service to be offered to the public.*