

Summary

The 74th Constitutional Amendment Act does not make specific provisions about the type of taxes that ULBs should have and it was up to the State Governments to determine the revenue base of ULBs. The Own revenue of ULBs was only 14 to 18 *per cent* of total revenue during the period 2015-20, as a result they were largely dependent on Central and State grants to fulfil their requirements.

Fiscal transfers from the Central and State Governments in the form of Central and State Finance Commission Grants, constituted about 69 *per cent* of the revenue of ULBs during the period 2015-20. There was shortfall in release of CFC grants amounting to ₹ 1,704.65 crore (basic grant ₹ 53.60 crore and performance grant ₹ 1651.05 crore) during 2015-20 by the Central Government, however, reasons for the same were not available in the records. There was not only delay in the constitution of State Finance Commission but also in acceptance of its recommendations by the State Government. The release of assigned revenue by the State Government, on account of additional stamp duty, was also short by ₹ 2,573.44 crore during the period 2015-20. Besides, the State Government also transferred an amount of ₹ 854.55 crore to Dedicated Urban Transport Fund from the share of ULBs, realised on account of additional stamp duty during the period 2014-20. Moreover, the State Government did not provide any compensation to ULBs due to subsumption of Entry tax on goods under the Goods and Services Tax.

Due to poor state of finances, as own revenue of ULBs covered only 18 *per cent* of their total expenditure, ULBs failed to adhere to committed liabilities on account of loans obtained from revolving fund. Infructuous expenditure was also incurred by the ULBs through loans obtained from revolving fund in violation of guidelines. Despite having low own revenue base, possible sources of own revenue such as Conservancy tax, tax on vehicles (other than mechanically propelled), tax on dogs, tax on trades and calling, betterment tax, Service charge from railways, theatre tax *etc.* was not tapped by the test-checked ULBs.

The property tax on land and buildings was the mainstay of ULBs own tax revenue and contributed about 49 *per cent* in the own revenue of ULBs. However, out of test-checked ULBs, three ULBs did not impose house tax and 23 ULBs did not impose water tax as of March 2020. Besides, there was accumulated arrears of ₹ 2,318.72 crore on account of house tax in test-checked ULBs as of March 2020. Further, process of assessment of properties, revision in rates, billing and raising demands *etc.* were also deficient in test-checked ULBs. Required bye-laws were also not framed in test-checked ULBs for imposition and realisation of property tax and system of self-assessment of properties by the tax payers was also not implemented in test-checked NPPs & NPs. Service charge on properties of Government of India (GoI) was also not imposed in all test-checked ULBs.

ULBs were able to recover only 53 to 64 *per cent* of O&M expenditure on water supply through water charges during 2017-20. Besides, four test-checked ULBs did not impose water charges up to March 2020 and none of the test-checked ULBs had revised rate of water charges as stipulated by the State Government for recovery of expenses of O&M. There were also deficiencies in imposing trade license fee as 29 test-checked ULBs did not undertake any effort to levy license fee.

In test-checked ULBs budget estimates for each financial year involved during 2015-20 was either not prepared or prepared with delays. In none of the test-checked ULBs, budget estimates were prepared by scientifically estimating the cost of each municipal service and source of funds required for efficient delivery, resulting in unrealistic budget estimation. In none of the test-checked NNs, details of proposed works for ensuing financial year was prepared in format B-1 as envisaged under UP Municipal Corporation Accounts Rules (UPMCAR). None of the test-checked ULBs had adopted formats of UP Municipal Accounts Manual 2018 for preparation of budget estimates and financial accounts during the year 2019-20.

The ULBs were able to generate own resources only to the extent of 29 *per cent* of the revenue expenditure during the period 2015-20 and extent of utilization of available funds was 90 *per cent* during the period 2015-20. Many restrictions were also imposed on the financial and administrative powers of ULBs by the State Government.

7.1 Source of Revenue of Urban Local Bodies

Sustainable financial resourcing is a prerequisite to ensure discharge of any function and to meet the challenges of urban governance and development. The devolved functions can be carried out effectively by ULBs only when they are adequately empowered in terms of financial resources to fulfil the obligation/responsibilities associated with these functions.

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. Predictable fiscal transfers to ULBs need to be ensured through a robust State Finance Commission (SFC) mechanism and compliance with State and Central Finance Commission (CFC) recommendations. Access to own sources of revenue would include both the power to levy and collect from specific revenue streams.

While the Constitution specified the taxes to be divided between the Centre and State Governments, it does not specify the revenue base for ULBs. Even 74th Constitutional Amendment Act does not make specific recommendations about the type of taxes that ULBs should have. The provisions of 74th Constitutional Amendment Act simply requires States to enact laws to authorise a Municipality to levy, collect and appropriate taxes, duties, tolls and fees; to assign them such taxes, duties, tolls and fees levied and collected by the State Government; and for providing grants-in-aid to them from the consolidated fund of the state. Hence, the power for determining the revenue base of ULBs rests with the State Government.

The revenue resources of ULBs consists of Own tax revenue¹, Own non-tax revenue², Assigned (shared) Revenue³, Assistance under Centrally/ State sponsored schemes and Grants from SFC & CFC. The details of revenue of ULBs in the State during the period 2015-20⁴ are indicated in **Table 7.1** below:

Table 7.1: Details of revenues of ULBs during the period 2015-20

(₹ in crore)

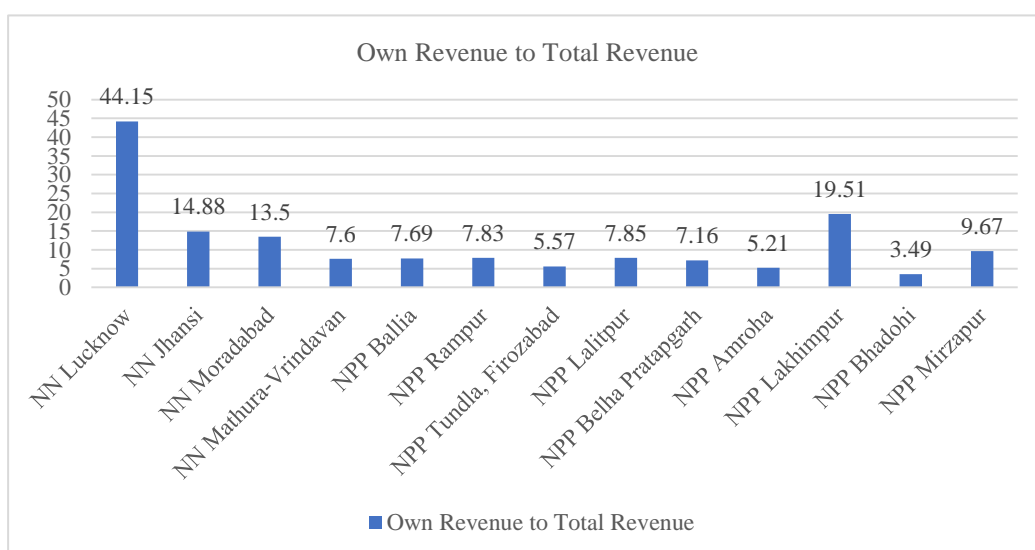
Year	SFC Grants	CFC Grants	Own Revenue	Assigned Revenue	Other Receipts from Governments (including assistance under Centrally/ State sponsored schemes, etc.)	Total Revenue	Percent-age of own revenue to total revenue	Percent-age of Govt. Grants to total revenue
2015-16	5,470.91	1,031.79	1,469.59	408.76	1,101.55	9,482.60	15.49	68.57
2016-17	5,532.23	1,177.09	1,672.46	401.60	1,395.17	10,178.55	16.43	65.91
2017-18	5,849.70	2,558.32	2,022.18	489.68	1,418.61	12,338.49	16.38	68.14
2018-19	6,135.91	1,855.69	2,185.73	190.05	1,746.65	12,114.03	18.04	65.96
2019-20	7,162.49	2,471.49	1,880.88	8.75	1,471.19	12,994.80	14.47	74.14
Total	30,151.24	9,094.38	9,230.84	1,498.84	7,133.17	57,108.47	16.16	68.72

(Source: *Karya Vivran* of UD Department)

It is evident from above that Own revenue of ULBs ranged between 14.47 to 18.04 *per cent* of total revenue during the period 2015-20. Therefore, ULBs have a minimal revenue base and are largely dependent on Central and State grants, which constrained the ability of ULBs to invest adequately in capital expenditure like creating infrastructure and thereby improving the quality of life in the cities.

The *percentage* of own revenue to total revenue in test-checked city based ULBs is shown in the **Chart 7.1** below:

Chart 7.1: Percentage of own revenue to total revenue in test-checked city based ULBs



¹ Property tax, Vacant land tax, Tax on animals, Taxes on carriages and carts *etc.*

² User charges, License fees, Lease amounts *etc.*

³ A tax collected by the State Govt. on behalf of ULBs such as Surcharge on stamp duty *etc.*

⁴ UD Department is in the process of compiling data for the year 2020-21 and for the year 2021-22, it is yet to be started.

It is evident from above that in test-checked NNs, share of Own revenue in total revenue ranged between eight and 44 *per cent*, while in NPPs it was between three and 20 *per cent* only. The constraints in realisation of Own revenue in test-checked ULBs has been discussed in *paragraph no. 7.2*.

The Urban Development (UD) Department replied (November 2022) that the efforts are being made for increasing the own revenue of ULBs.

Recommendation 8:

To promote financial autonomy of the ULBs, concrete steps with milestones may be undertaken.

7.1.1 Fiscal transfers to Urban Local Bodies

Funds are devolved to ULBs through transfer by the Central and State Government in the form of grants. As can be seen from the **Table 7.1** above, the fiscal transfers from Government formed the major portion of the revenue (averaging 69 *per cent*) of ULBs in the State during the period 2015-20. Audit observed SFC grants, preliminary meant for payment of salaries and pension liabilities of staff of ULBs, constituted 77 *per cent* of the total grants during the period 2015-20. Further, 67 *per cent* of SFC grants were spent to meet out human resources expenditure during the period 2015-20 leaving less amount for development work.

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

7.1.1.1 State Finance Commission grants

Article 243Y (read with Article 243 I) of the Constitution makes it mandatory for the State Government to constitute a State Finance Commission (SFC) within one year of the commencement of the 74th Constitutional Amendment Act and thereafter on expiry of every five years. The mandate of the SFC is to review the financial position of the local bodies (ULBs and Panchayats) and to make recommendations for improving the revenue base of local bodies, which may include assignment of taxes, sharing of net proceeds of tax and non-tax revenue of the State and grants-in-aid from the Consolidated fund of the State.

The State Government through amendments in UPM Act (Section 127C) and UPMC Act (Section 138A) provided for constitution and working of SFC. Every recommendation of the SFC together with an Action Taken Report⁵ (ATR) was to be laid before both the Houses of the State Legislature.

Audit observed that all the SFCs constituted so far in the State, had recommended about sharing of net proceeds of tax and non-tax revenue of the State with local bodies and no recommendations were made about taxes to be assigned to local bodies or grants-in-aid to be given to them from the Consolidated fund of the State, though the Terms of reference of constitution of respective SFCs desired to do so. As a result, SFCs recommendations lacked holistic approach in augmenting the financial position of ULBs.

⁵ An explanatory memorandum of action taken on recommendations by the State Government.

The UD Department replied (November 2022) that the required action has been taken on the recommendations of the SFCs.

Delay in constitution and implementation of recommendations of SFC

Timely constitution of SFC and acceptance of its recommendations have a bearing on the assured transfer of funds to ULBs. As per the constitutional provisions, implementation of the recommendations of the 6th SFC was due in the State from the year 2019-20. However, as on date, recommendations of the 5th SFC were implemented in the State from the year 2020-21 with a delay of six years. Besides, recommendations of 5th SFC were also implemented after expiry of its award period. This was on account of delay in constitution and implementation of SFC recommendations as detailed in **Table 7.2** below:

Table 7.2: Showing delay in constitution and implementation of recommendations of SFCs

SFC	To be constituted as per constitution	To be constituted with reference to previous SFCs	Actually constituted	Delay in months	Due date for submission of report	Date of submission of report	Delay in months	Date of acceptance	Award Period
1 st	By 31 May 1994	Not applicable	October 1994	05	April 1995	December 1996	20	20.01.1998	1997-2001
2 nd	1999-2000	October 1999	February 2000	04	Not available	June 2002	Not available	30.04.2004	2001-2006
3 rd	2004-05	February 2005	December 2004	No delay	December 2005	August 2008	32	09.02.2010	2006-2011
4 th	2009-10	December 2009	December 2011 ⁶	24	December 2014	December 2014	No delay	23.03.2015	2011-2016
5 th	2014-15	December 2016	October 2015	No delay	September 2016	October 2018	25	03.04.2020	2016-2021

(Source: SFC reports)

It is evident from above that there was not only delay in constitution and submission of report of SFCs, but the State Government also took 13 to 22 months to decide on recommendations of SFCs (except fourth SFC). The delays were against the recommendation of 13th CFC, which emphasised implementation of recommendations of SFCs without any delay and also required prompt submission of ATR before the legislature. The delay in constitution and implementation of recommendations resulted in devolution of funds to the ULBs on the basis of recommendations of the earlier SFCs.

The UD Department did not offer (November 2022) any comments in this regard.

Response of State Government to SFC recommendations

The SFC recommendations are not binding on the State Government. The decision to refuse or to accept the recommendations of the SFC in original or with modifications lies with the State Government. Audit observed that the State Government largely accepted the recommendations of respective SFCs with or without modifications but did not frame any time line for implementation of accepted recommendations. As a result, accepted recommendations were either implemented with delays (from 30 to 34 months in

⁶ Term of Reference was issued on 23 April 2012 for functioning of 4th SFC with a delay of more than five months.

respect of 4th SFC) or action was yet to be initiated on many recommendations. A summary of SFCs recommendations *vis-a-vis* its acceptance and status of implementation of accepted recommendations by the State Government are detailed in **Table 7.3** below:

Table 7.3: Details of recommendations of SFCs, its acceptance and status of implementation

SFC	Total no. of recommendations	No. of recommendations accepted by the State Govt. in original	No. of recommendations accepted by the State Govt. with modifications	Total no. of accepted recommendations	Percentage of accepted recommendations	No. of recommendations either not implemented or yet to be implemented ⁷	Percentage of yet to be implemented recommendations, against the accepted recommendation
1 st	61	46	03	49	80.33	17	34.69
2 nd	107	67	06	73	68.22	29	39.73
3 rd	388	198	09	207	53.35	77	37.20
4 th	49	22	06	28	57.14	07	25.00
5 th	27	15	08	23	85.18	08	34.78
Total	632	348	32	380	60.13	138	36.32

(Source: SFC reports)

It is evident from above that though the State Government accepted 60 *per cent* recommendations of respective SFCs, however, implementation of 36 *per cent* of accepted recommendations was not ensured. Further, as against the accepted recommendations of the 4th SFC, action in major recommendations, related with institutional measures that would strengthen ULBs in the long term, was yet to be initiated, as detailed in **Table 7.4**.below:

Table 7.4: Details of accepted recommendations of 4th SFC, which were not implemented or yet to be implemented

Details of recommendations	Status of Implementation
The SFC recommended for devolving a mechanism and to decide modalities for carrying out works such as Solid Waste Management <i>etc.</i> through outsourcing or with the participation of private players on PPP mode.	The State Government authorised UP Board for Development of Municipal Financial Resources, to initiate action in this regard, though no progress was made.
The SFC recommended for filling of post of Municipal Commissioner in a certain <i>percentage</i> through promotion of staff from Administration cadre of Centralised Services.	The State Government agreed to earmark 20 <i>per cent</i> post of Municipal Commissioner for promotional avenue, however, no progress was made in this regard.
The SFC recommended to provide facility of billing (related with taxes, fee etc.) through electronic medium and realisation of dues through online mode in all ULBs.	The State Government agreed with the recommendation, though all ULBs of the State did not develop required facility.
The SFC recommended to provide urban public transport facility in all cities of the State having population of more than one lakh.	Partially implemented
The SFC recommended to disseminate financial and administrative information of ULBs in the public domain through their own or departmental websites.	Partially implemented

(Source: SFC reports)

⁷ Data extracted from the reports of respective SFC and information of updated position in this regard was not provided by the UD Department.

Thus, not implementing of accepted recommendations, impacted the furtherance of municipal governance and improvement in civic facilities.

Apart from above, SFCs recommendations relating to devolution of funds to ULBs, were also not accepted by the State Government in original. The SFC-wise important recommendations and their modifications with reference to devolution of funds are given in **Table 7.5** below:

Table 7.5: SFC-wise important recommendations and their modifications

SFC	Recommendations	Modifications
1 st	Devolution of seven <i>per cent</i> of State revenue to ULBs.	Recommendation was accepted in original.
2 nd	The concept of divisible pool was introduced by the SFC which included Tax revenue of the State and recommended that 7.50 <i>per cent</i> of divisible pool may be devolved to ULBs. Further, 50 <i>per cent</i> proceeds of Entertainment Tax were also to be devolved to ULBs.	Devolution of only 7.50 <i>per cent</i> of divisible pool was accepted and sharing of proceeds of Entertainment Tax was not accepted.
3 rd	Devolution of nine <i>per cent</i> of State net proceeds of Tax and Non-tax revenue to ULBs by including both category of revenue under divisible pool.	Devolution of only 7.50 <i>per cent</i> of divisible pool (containing only net proceeds of Tax revenue) was accepted.
4 th	Devolution of nine <i>per cent</i> of State net proceeds of Tax and Non-tax revenue to ULBs and net proceeds of Non-tax revenue should also be included in divisible pool.	Devolution of only 7.50 <i>per cent</i> of divisible pool (containing only net proceeds of Tax revenue) was accepted.
5 th	Devolution of 8.25 <i>per cent</i> of State net proceeds of Tax revenue to ULBs.	Devolution of only 7.50 <i>per cent</i> of net proceeds of Tax revenue was accepted.

(Source: SFC reports)

Thus, acceptance of recommendations of SFC with modifications, resulted in shortfall in grants to ULBs.

In reply, the UD Department stated (November 2022) that the recommendations of SFC are not binding on the Government. The fact, however, remains that many of the accepted recommendations of SFC was not implemented by the State Government.

Deviations in decisions as indicated in Action taken report

Audit observed certain deviations in decisions, intimated to State Legislature through ATR on recommendations of 4th SFC, while implementing the accepted recommendations by the State Government as detailed in **Table 7.6** below:

Table 7.6: Details of deviations in decisions as indicated in ATR

Recommendations of 4 th SFC	Decision of the State Govt., as intimated to State Legislature through ATR	Actual status of implementation of decision
The State Government may distribute devolved grants amongst the NNs, NPPs and NPs in the ratio of 42:38:20.	Out of total devolved grants to ULBs, share of NNs, NPPs and NPs would be in the ratio of 35:40:25.	Out of total devolved grants to ULBs, share of NNs, NPPs and NPs were fixed in the ratio of 40:40:20.

To promote financial discipline amongst the ULBs, 10 <i>per cent</i> of devolved grants may be withheld and the same may be distributed to those ULBs, who got audited their financial accounts in time.	The State Government accepted the recommendation.	Only 5 <i>per cent</i> of devolved grants were retained to ensure financial discipline amongst ULBs.
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(Source: Director, Local Bodies)

It is evident from above that a reduction of five *per cent* in both the shares of NPs in devolved grants and on account of withheld amount for financial discipline, was done by the State Government without intimating the State Legislature through revised ATR. As a result, NPs did not get their due share of SFC grants and financial discipline was also compromised.

The UD Department accepted (November 2022) the audit observations and asserted that the changes have been made through revised ATR. On being requested to provide copy of revised ATR, Director (LB) stated (December 2022) that no such revised ATR was submitted in this regard.

Release of grants under SFC

The details of the budget allocation of grants as per orders of the State Government and grants actually released to the ULBs during the period from 2015-16 to 2019-20 are given in **Table 7.7** below:

Table 7.7: Budget allocation and release of SFC grants during the period 2015-20

Particulars	(₹ in crore)					
	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Budget allocation of grants decided by the State Government	6105.97	6412.50	6946.87	7312.50	8700.00	35477.84
Grants actually released to ULBs	6105.97	6412.50	6939.92	7312.50	8700.00	35470.89

(Source: Information furnished by Director, LB)

Audit further observed that as per the recommendations of the 4th SFC, out of devolved grants to ULBs, only 0.10 *per cent* was to be earmarked⁸ for the purpose of training of manpower and balance funds were to be released to ULBs after withholding 10 *per cent* of grants on account of financial discipline. The withheld amount was to be subsequently released to eligible ULBs. However, the Director (LB) transferred only ₹ 30,031.54 crore (85 *per cent*) (including financial discipline amount) to ULBs during the period 2015-20, after deducting ₹ 5,410.83 crore on account of various liabilities⁹ of ULBs, in spite of the fact that only ₹ 28.52 crore was to be deducted for training of manpower from the grants devolved to ULBs. Hence, deduction of ₹ 5,410.83 crore was made by the Director (LB), out of released grants (₹ 35,470.89 crore) by the State Government, was against the recommendation of SFC which allowed deduction of only 0.10 *per cent* and indicative of centralisation of financial powers in favour of State.

In reply, the UD Department stated (November 2022) that the allocation of funds to ULBs are made on the instance of Finance Department. However, it

⁸ Which was to be utilised by the Training Institute established at Directorate level.

⁹ Electricity charges for street lighting and water supply, Pension liabilities of Centralised staff, O&M of STP etc.

did not reply regarding deduction from SFC grants.

Recommendations:

9. The State Government may avoid delays in constituting the State Finance Commission and ensure prompt implementation of their recommendations.

10. The State Government should avoid deviations while implementing the accepted recommendations of State Finance Commission.

11. Transfer of funds to the Urban Local Bodies, as recommended by State Finance Commission, may be done as per the commitment of the State Government and in a timely manner so that Urban Local Bodies have adequate financial resources to carry out their developmental activities.

7.1.1.2 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 (13th FC) and 14th Finance Commission (14th FC) recommended basic and performance grants for ULBs as a percentage of divisible pool account. As per Guidelines of 14th FC, Basic grant was to be provided to ULBs for supporting and strengthening the delivery of basic services, which includes water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads and footpaths, street-lighting, burial and cremation grounds *etc.* Performance Grant was meant for promoting accountability and responsibility amongst the ULBs and was to be provided to those ULBs, who have maintained audited accounts, improved realisation of own revenue and published achievements against service level benchmark for basic services. Though the award period of 14th FC was 2015-20, it had recommended for release of Performance Grant for the period 2016-20 only.

Based on the recommendations of 14th FC, the details of allocation and release of CFC grants by the GoI during the period 2015-20 are given in **Table 7.8** below:

Table 7.8: Details of allocation and release of CFC grants during the period 2015-20

(₹ in crore)

Year	Allocation		Releases		Short release	
	Basic Grant	Performance Grant	Basic Grant	Performance Grant	Basic Grant	Performance Grant
2015-16	983.60	-	983.60	-	0.00	0.00
2016-17	1,361.97	401.97	1,351.24	398.80	10.73	3.17
2017-18	1,573.63	454.88	1,537.33	-	36.30	454.88
2018-19	1,820.41	516.58	1,817.62	-	2.79	516.58
2019-20	2,459.76	676.42	2,455.98	-	3.78	676.42
Total	8,199.37	2,049.85	8,145.77	398.80	53.60	1,651.05

(Source: information provided by Director, LB)

It is evident from above that there was short release of funds by GoI amounting to ₹ 53.60 crore and ₹ 1,651.05 crore on account of Basic and Performance grants respectively during the period 2015-20.

Audit observed that though the GoI had released performance grant for 124 ULBs of the State for the year 2016-17, however, Ministry of Housing and Urban Affairs (MoHUA) brought out (July 2017) a new scheme for determining the eligibility of ULBs for Performance Grant during the period 2017-20. Under the new Performance grant scheme, mandatory conditions of Performance grant were linked with the weightage points, *i.e.*, 10 points for published audited accounts on ULBs website, 40 points for increase in own revenue resources and 50 points for publishing of service level benchmarks. Further, ULBs getting a score of 60 and above were eligible for Performance grant. However, for the Performance Grant of the year 2017-18, the qualifying score was lowered up to 40 points by the MoHUA. Besides, ULBs were made responsible to self-evaluate and submit its claim of Performance grant to the State Government in the prescribed format. Moreover, the State Governments were expected to send their consolidated report and claim of the Performance grant after evaluation and due verification of performance of the ULBs, to the MoHUA by uploading the data in SMARTNET, a web portal of MoHUA.

It was observed in audit that, based on the evaluation criteria of new Performance grant scheme, 118, 48 and 76 ULBs of the State (18, 7 and 12 *per cent* of duly constituted ULBs) were declared eligible for Performance grant of the year 2017-18, 2018-19 and 2019-20 respectively by the UD Department. The claim of these eligible ULBs was uploaded by the UD Department on designated web portal after vetting the same. In respect of claims of some of the ULBs, the 14th FC Support Cell of the National Institute of Urban Affairs (an institute of MoHUA) pointed out (between November 2017 and October 2019) deficiencies such as not working of website of ULBs, audited financial statements not uploaded on the website of ULBs, data not uploaded on SMARTNET and uploaded documents not legible. As per communications available in the records of Director (Local Bodies) and reply provided by him (December 2023), the deficiencies pointed out by the 14th FC Support Cell were addressed. No Performance grant was however released by the GoI for the eligible ULBs of the State for the year 2017-18, 2018-19 and 2019-20. It was also observed that reasons for not releasing the Performance grant by the GoI, were not available on records.

Out of the 50 test-checked ULBs, 16 ULBs¹⁰ (eight *per cent*) were declared eligible for Performance grant by the UD Department. Scrutiny of documents submitted in support of their claim for Performance grant and other records of 16 ULBs by Audit revealed instances of deficiencies in claim of Performance Grant as detailed below:

¹⁰ 2017-18 - NNs: Jhansi and Lucknow; NPPs: Amroha, Bachhraon, Bhadohi, Bilari, Lalitpur, and Palia Kalan; NPs: Bakshi Ka Talab and Talbehat.
2018-19 - NN: Lucknow; NPP: Lakhimpur.
2019-20 - NN: Mathura-Vrindavan; NPPs: Chirgaon, Gursarai and Mauranipur; NP: Umari Kalan.

- Test-checked NP, Bakshi Ka Talab appeared in list of eligible ULBs for the year 2017-18 with 70 weightage points, however, it neither published audited account of the year 2015-16 on their website nor provided water supply services to the citizens. In spite of that, a total of 40 weightage points were claimed by the ULB for publishing of audited annual accounts and Service Level Benchmarks for water supply services, which in turn helped ULB to become eligible for the Performance grant.
- Test-checked NPPs, Bilari and Lalitpur appeared in list of eligible ULBs for the year 2017-18 with 55 weightage points, however, claim of 10 weightage points each for publishing of audited accounts and providing 24X7 water supply to all Public/Community toilets by both NPPs were not based on any documentary evidence in this regard. Moreover, in NPP Bilari, claim of 20 weightage points on account of Ratio of capital expenditure to Total expenditure during the year 2016-17 was based on budget estimates instead of annual account.
- Test-checked NP, Talbehat appeared in list of eligible ULBs for the year 2017-18 with 65 weightage points, however, claim of 10 weightage points each for publishing of audited accounts and for providing 24X7 water supply to all Public/Community toilets were not based on any documentary evidence in this regard. Besides, claim of 15 weightage points with 20 *per cent* of Non-revenue water was also against the criteria of the scheme, as only 10 weightage points was admissible for Non-revenue water ranging between 20 to 30 *per cent*. Similarly, the ULB claimed 10 weightage points for scientific processing of solid waste without having facility in this regard.
- Test-checked NPPs Bhadohi and Palia Kalan appeared in the list of eligible ULBs for the year 2017-18 with 45 and 60 points respectively, however, claim of 10 weightage points by the NPP Palia Kalan was without publishing of audited accounts. Besides, claim of 10 weightage points by both NPPs for providing 24X7 water supply to all Public/Community toilets was not based on any documentary evidence in this regard. Moreover, claim of five weightage point by both NPPs for scientific disposal of solid waste was fictitious as they did not have any facility in this regard. Further, claim of 20 weightage points by both NPPs on account of Ratio of capital expenditure to Total expenditure during the year 2016-17 was also dubious as the figures of actual expenditure of NPP Palia Kalan for the year 2016-17 did not mention any expenditure on new works and NPP Bhadohi did not submit figures of actual expenditure for the year 2016-17 with the claim.
- Test-checked NPPs, Chirgown, Gursarai and Mauranipur appeared in the list of eligible ULBs for the Performance grant of the year 2019-20 with weightage points 60, 60 and 65 respectively, however, weightage points five, five and 10 were claimed by these ULBs respectively on account of scientific disposal of solid waste without having any facility in this regard.

The above instances of discrepancies indicated that the process for claim of Performance grant by the ULBs and verification of claim by the UD Department was not transparent, and there was claim of required weightage points by ineligible ULBs.

Audit further observed that the GoI released entire allocated grants amounting to ₹ 4,695.00 crore of the year 2020-21 for the ULBs (including urban agglomerations/cities) of the State in compliance with the recommendations of the 15th CFC, out of which grants amounting to ₹ 3,061.50 crore was linked with the performance-based indicators. However, against the allocation of total grants of ₹ 3,550.00 crore for the year 2021-22, out of which ₹ 2,562.00 crore was related with performance-based indicators, only ₹ 3,392.25 crore was released by GoI. The short release of CFC grants amounting to ₹ 157.75 crore for the year 2021-22, was related with performance-based indicator of improvement in ambient air quality of Million Plus Cities of the State.

The UD Department did not offer (November 2022) any comments in this regard. The audit observation was further issued (December 2023) to the UD Department, however, their reply was not received.

Delay in transfer of CFC grants

As per guidelines of 14th FC, States were required to transfer CFC grants to ULBs within fifteen days of receipt from the GoI. However, audit observed that the State Government did not transfer CFC grants to ULBs within prescribed period as per details given in **Table 7.9** below:

Table 7.9: Showing delay in release of CFC grants during 2015-20

Year	Type of grant/ no. of instalment	Date of receipt from GoI	Date of transfer by the State Govt.	Delay in days (over 15 days)
2015-16	Basic Grant-I	18/08/2015	04/09/2015	03
	Basic Grant-II	28/04/2016	09/05/2016	No delay
2016-17	Basic Grant-I	15/12/2016	23/12/2016	No delay
	Basic Grant-II	31/03/2017	13/04/2017	No delay
	Basic Grant-III	18/05/2017	07/06/2017	06
	Performance Grant	15/03/2017	28/03/2017	No delay
2017-18	Basic Grant-I	06/10/2017	18/10/2017	No delay
	Basic Grant-II	23/02/2018	08/03/2018	No delay
	Basic Grant-III	23/02/2018	13/03/2018	04
2018-19	Basic Grant-I	28/09/2018	09/10/2018	No delay
	Basic Grant-II	21/01/2019	31/01/2019	No delay
2019-20	Basic Grant-I	04/07/2019	19/07/2019	No delay
	Basic Grant-II	31/12/2019	08/01/2020	No delay

(Source: Information provided by Director, LB)

It can be seen from the above that on three occasions during the period 2015-20, transfer of grants was delayed. Further, due to delay in transfer of grants, an amount of ₹ 99.48 lakh was paid as interest to ULBs, resulting in loss to State exchequer. Besides, the State Government transferred grants to ULBs during the period 2020-22 in stipulated time.

The UD Department accepted (November 2022) the audit observations and stated that funds are now being transferred to ULBs in stipulated time period.

Unauthorised transfer of grants

As per guidelines of 14th FC, States were required to transfer grants to those ULBs, out of released CFC grants, where an elected body was in place. However, Audit observed that during 2015-18, an amount of ₹ 8.09 crore was transferred to NPP Bharwari and 18 other NPs, where Council was not constituted (*Appendix-XVIII*), resulting in unauthorised transfer of grants to ULBs. The UD Department did not offer (November 2022) any comments in this regard.

Recommendation 12:

The State Government should monitor the release of grants to Urban Local Bodies so that allocated grants are released fully and in time.

7.1.1.3 Assigned Revenue**Additional Stamp Duty**

As per Section 128 of UPM Act and Section 191 of UPMC Act, Municipal Corporations and Municipalities are authorised to impose two *per cent* additional Stamp duty on any deed of transfer of immovable property situated within the limits of their area. Similarly, Section 39 of the Uttar Pradesh Urban Planning and Development Act; 1973 and Section 62 of UP *Awas Evam Vikas Parishad Adhiniyam*; 1965, also mandates Development Authorities and *Awas Evam Vikas Parishad* for imposition of additional Stamp duty. Since the Stamp and Registration Department of the State Government deals with the registration of documents of immovable properties, therefore, these entities have no role in realisation of imposed duty.

Accordingly, the State Government decided (September 2013) to distribute amount of realised duty among the Development Authorities, *Awas Evam Vikas Parishad* and ULBs through budget route in a certain percentage¹¹ after deducting incidental and collection expenses. Further, 25 *per cent* of net proceeds of duty were also to be credited to the Dedicated Urban Transport Fund.

However, Audit observed that the State Government did not release due share of additional stamp duty to ULBs and there was a shortfall of 72 *per cent* in release of duty, against the earmarked funds for ULBs during the period 2015-22, as indicated in **Table 7.10** below:

Table 7.10: Showing short release of additional stamp duty to ULBs

(₹ in crore)

Year	Amount realised on account of additional stamp duty	Amount earmarked for ULBs	Amount released to ULBs	Shortfalls in release of additional stamp duty
2015-16	1,110.61	777.00	434.00	343.00
2016-17	1,056.35	739.00	501.00	238.00
2017-18	1,233.65	864.00	501.00	363.00

¹¹ If Development Authority and *Awas Evam Vikas Parishad* both exist or any of these exist in the area of Municipality, then 37.5 *per cent* of proceeds of Additional Stamp duty were to be transferred to ULBs. In case of non-existence of bodies other than ULBs, 75 percent of proceeds of Additional Stamp duty were to be transferred to ULBs.

2018-19	1,103.75	773.00	175.00	598.00
2019-20	1,473.48	1,031.44	0.00 ¹²	1,031.44
2020-21	1,527.73	765.18	0.00 ¹³	765.18
2021-22	1,911.90	950.75	50.00 ¹⁴	900.75
Total	9,417.47	5,900.37	1,661.00	4,239.37

(Source: Information provided by Director, LB)

Audit further observed that:

➤ As per the orders (May 2015) of the State Government, ULBs were required to collect details of their due share in the realised additional stamp duty from the Stamp and Registration Department and to submit the same to the Director Local Bodies for release of required amount. However, Audit observed that test-checked ULBs (except NPP Thakurdwara of Moradabad) did not collect required information from the Stamp and Registration Department about their due share on account of additional stamp duty. Therefore, Audit could not ascertain that the amount received by the ULBs during 2015-19 was justified.

➤ Out of test-checked ULBs, NPs; Bairiya (Ballia), Bakshi Ka Talab (Lucknow), Eka (Firozabad), Gokul (Mathura), Itaunja (Lucknow), Maniyar (Ballia) and Pakbara (Moradabad) did not impose additional stamp duty, resulting in loss of revenue to them.

The UD Department did not offer (November 2022) any comments in this regard.

Recommendation 13:

The State Government should release due share of Urban Local Bodies on account of additional stamp duty according to the provisions of relevant Acts in this regard.

UP Dedicated Urban Transport Fund

The State Government established (January 2014) the Uttar Pradesh Dedicated Urban Transport Fund (UPDUTF) for financing the activities related to urban transportation. As per provisions, receipts of UPDUTF were to be utilised for filling the resource gap of urban transportation projects approved under Central/State Government schemes, for providing financial aid to Special Purpose Vehicles (SPVs) and institutions involved in urban transportation projects *etc.* Under the chairmanship of Chief Secretary, UP Government, a Committee was constituted for management of UPDUTF. Further, 25 per cent of net proceeds of additional Stamp duty, imposed @ two per cent on any deed of transfer of immovable property situated within the limits of Municipalities/City, were to be transferred to UPDUTF through budget route by the State Government after realising the same.

¹² A sum of ₹ 175.00 crore was transferred to UP Power Corporation Ltd. by the Directorate from the earmarked funds for ULBs.

¹³ A sum of ₹ 375.00 crore was transferred to UP Power Corporation Ltd. by the Directorate from the earmarked funds for ULBs.

¹⁴ A sum of ₹ 500.00 crore was transferred to UP Power Corporation Ltd. by the Directorate from the earmarked funds for ULBs.

However, Audit observed that one of the objective behind the establishment of UPDUTF was to provide financial aid to SPVs incurring losses on account of operation of 1140 city buses, purchased under *Jawaharlal Nehru* National Urban Renewal Mission (JNNURM) during 2009-10. For operation and maintenance (O&M) of these city buses, prior to establishment of DUTF, the State Government decided (April 2009) to establish six SPVs for providing public conveniences through this fleet of buses in seven¹⁵ major cities of the State. Accordingly, SPVs were incorporated during 2009-10 and an Urban Transport Directorate was also established (April 2009) for exercising administrative Control over these SPVs.

The position of releases and utilisation of funds under UPDUTF for financing the urban transport facility during 2014-22 are detailed in **Table 7.11** below:

Table 7.11: Showing details of UPDUTF during the period 2014-22

(₹ in crore)		
Year	Amount transferred by the State Govt. under UPDUTF	Expenditure
2014-15	225.00	00.00
2015-16	479.55	00.00
2016-17	00.00	52.75
2017-18	00.00	49.90
2018-19	00.00	338.90
2019-20	150.00	152.62
2020-21	150.00	65.03
2021-22	150.00	182.11
Total	1,154.55	841.31

(Source: Information provided by Urban Transport Directorate)

Audit observed that 25 per cent of net proceeds of additional stamp duty of all ULBs were transferred to UPDUTF which was established to provide financial aid to SPVs of big cities only.

Abolition of UP Vyapar Vikas Nidhi

The State Government levied Entry tax in the year 2007 on the movement of goods for sale or consumption into local area of the State from any other State. The proceedings of Entry tax was to be appropriated to a Fund, namely *Uttar Pradesh Vyapar Vikas Nidhi* (UPVVN) for the development or facilitating the trade, commerce and industry in the State. For this purpose, grants from UPVVN were to be provided to ULBs for infrastructural development.

Accordingly, the State Government introduced many programmes such as *Nagariy Peyjal Yojna*, *Nagariy Sewerage Yojna*, *Nagariy Jal Nikasi Yojna*, *Nagariy Sarak Sudhar Yojna*, *Aadarsh Nagar Yojna* etc. to provide grants to ULBs from the proceeding of UPVVN. The details of grants provided to ULBs from the UPVVN during the period 2015-17 are given in **Table 7.12** below:

¹⁵ Agra, Kanpur, Mathura, Meerut, Lucknow, Prayagraj and Varanasi.

Table 7.12: Showing details of grants provided to ULBs during 2015-17 from UPVVN

(₹ in crore)			
Year	Budget Provision	Releases	Expenditure
2015-16	662.97	662.85	641.54
2016-17	625.00	592.67	585.69
Total	1,287.97	1,255.52	1,227.23

(Source: UD Department)

However, Audit observed that the Entry tax was subsumed under Goods and Service Tax (GST) starting from 01 July 2017. As a result, grants from UPVVN to ULBs for infrastructural development were discontinued from the year 2017-18, and the State Government did not provide any compensation to ULBs on the account of losses incurred to them due to subsumption of Entry tax. Thus, ULBs were deprived from a major source of revenue due to implementation of GST.

In reply, the UD Department stated (November 2022) that under the recommendations of SFC, certain percentage of net receipt of own revenue (including GST) of state is transferred to ULBs and GST also involves proceeds of Entry Tax. Reply is not acceptable as only 7.50 per cent of net proceeds of tax revenue was returned back to ULBs under the system of SFC, though prior to the implementation of GST all corpus of Entry tax was earmarked for ULBs. Considering loss of ULBs due to implementation of GST, the Maharashtra Government had enacted Goods and Services Tax (Compensation to the Local Authorities) Act, 2017 to compensate ULBs on account of subsumed taxes under GST. GoUP has not enacted any such Act to compensate ULBs on account of subsumed taxes under GST.

7.2 Own revenue of urban local bodies

ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstays of ULBs own tax revenue and imposition of Property tax was mandatory for each tier of ULBs. As per UPMC Act and UPM Act, ULBs can collect tax revenue from tax on helicopters and planes (when they land or take off within the area of Corporations), tax on trades and calling, tax on vacant land, betterment tax, advertisement tax, theatre tax, etc. Similarly, ULBs can collect non-tax revenue from water charges, rent from commercial establishments, user charges, trade licences on 39 items, parking fee etc.

As per Section 199 of UPMC Act and Section 131 of UPM Act, powers to impose any of the taxes provided in these Acts, are vested with ULBs. Municipal Corporation/ Municipality can impose any tax on passing of a resolution by the council, after that a proposal along with draft Rules etc. are framed after obtaining approval of the State Government for this purpose. Powers pertaining to framing Rules with regard to rates of taxes and revision thereof, procedure of collection, method of assessment, exemptions, concessions etc., were vested with the State Government. Similarly, though the provisions of UPMC Act and UPM Act, empowers ULBs to collect non-tax revenue, however, authority for framing Rules with regard to rates of fee

and charges rests with the State Government. The ULBs, thus, lacked complete autonomy in generating own revenue.

The share of own tax and non-tax revenue to total expenditure of ULBs for the period 2015-20¹⁶ is given in **Table 7.13** below:

Table 7.13: Showing details of own revenue and expenditure of ULBs

(₹ in crore)

Year	Own tax revenue	Own non tax revenue	Total own revenue	Expenditure	Percentage of tax/non tax revenue to total own revenue		Percentage of own revenue to total expenditure	
					Tax	Non-tax	Tax	Non-tax
2015-16	857.04	612.55	1,469.59	9511.00	58.32	41.68	9.01	6.44
2016-17	921.39	751.07	1,672.46	9593.30	55.09	44.91	9.6	7.83
2017-18	975.07	1,047.11	2,022.18	10388.19	48.22	51.78	9.38	10.08
2018-19	1,313.80	871.93	2,185.73	11448.46	60.11	39.89	11.48	7.62
2019-20	1,150.58	730.30	1,880.88	11038.89	61.17	38.83	10.42	6.62
Total	5,217.88	4,012.96	9,230.84	51,979.84	56.53	43.47	10.04	7.72

(Source: Karya Vivran of UD Department)

It is evident from above that own tax and non-tax revenue contributed 57 per cent and 43 per cent in own revenue of ULBs during 2015-20 and covered only 18 per cent of total expenditure, which again indicated that ULBs were largely dependent on Government grants to invest adequately in capital expenditure.

An illustrative list of composition of own revenue and imposition thereof in city based test-checked ULBs is given in **Table 7.14** below:

Table 7.14: Showing composition of own revenue and status of imposition thereof in City based test-checked ULBs

Name of ULB	Property /House Tax	Water Tax	Sewerage Tax	Sanitation/conservancy tax	Vacant Land Tax	Transfer of Properties	Tax on vehicles (other than mechanically propelled)	Advertisement Tax	Tax on Dogs	Betterment tax	Theatre Tax	Tax on Trades/Professions	Parking Fee	Rent from Buildings	Water charges	License Fees	Building Permission	Additional Stamp Duty	Service charges from central government properties	Service charge from railway
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
NN Lucknow	Y	Y	Y	N	Y	Y	N	Y	N	N	N	N	Y	Y	Y	Y	N	Y	Y	Y
NN Jhansi	Y	Y	N	N	Y	N	N	Y	N	N	N	N	Y	Y	Y	Y	N	Y	Y	N
NN Moradabad	Y	Y	Y	N	Y	Y	N	Y	N	N	Y	N	Y	Y	Y	Y	N	Y	Y	N
NN Mathura-Vrindavan	Y	Y	Y	N	Y	Y	N	Y	N	N	N	N	Y	Y	Y	Y	N	Y	Y	N
NPP Rampur	Y	Y	N	N	Y	Y	N	Y	N	N	N	Y	N	Y	Y	Y	N	Y	N	N
NPP Ballia	Y	Y	N	N	Y	Y	N	Y	N	N	N	N	N	Y	Y	Y	N	Y	Y	N
NPP Tundla (Firozabad)	Y	N	N	N	N	Y	N	Y	N	N	Y	N	Y	Y	Y	Y	N	Y	N	N

¹⁶ UD Department is in the process of compiling data for the year 2020-21 and for the year 2021-22, it is yet to be started.

NPP Lalitpur	Y	N	N	N	Y	Y	Y	Y	N	N	Y	N	Y	Y	N ¹⁷	Y	N	Y	N	N
NPP Belha Pratapgarh (Pratapgarh)	Y	Y	N	N	N	Y	N	Y	N	N	N	N	Y	Y	Y	Y	N	Y	N	N
NPP Amroha	Y	Y	N	N	Y	Y	N	Y	N	N	Y	N	N	Y	Y	Y	N	Y	Y	N
NPP Lakhimpur (Lakhimpur Kheri)	Y	Y	N	N	Y	Y	N	Y	N	N	N	N	N	Y	Y	Y	N	Y	N	N
NPP Bhadohi	Y	Y	N	N	Y	Y	N	Y	N	N	N	N	N	N	Y	Y	N	Y	Y	N
NPP Mirzapur	Y	Y	N	N	Y	Y	N	N	N	N	N	N	N	Y	Y	Y	N	Y	N	N

(Source: Information provided by test-checked ULBs)

It can be seen from above that possible source of own revenue such as Conservancy tax, tax on vehicles (other than mechanically propelled), tax on dogs, tax on trades and calling, betterment tax, Service charge from railways, theatre tax *etc.* was not optimized by the ULBs.

Further, Audit also observed that out of test-checked ULBs, in two NNs, 13 NPPs and 17 NPs, a total 92 resolutions (as detailed in *Appendix-XIX*), related with matters of tax and non-tax revenue, were passed by the Councils during 2015-20, however, execution of these resolutions was not ensured by the ULBs.

Further, despite having low own tax revenue base, tax on helicopters and planes was also not imposed by any of the eligible NNs in the State. It was also observed that authority to impose betterment tax (a tax on increased value of land due to development works of ULBs), was assigned¹⁸ to Development Authorities and *Awas evam Vikas Parishad*, which restrained ULBs to augment their revenue base.

The UD Department replied (November 2022) that the instructions have been issued from time to time for increasing the own revenue of ULBs.

The constraints/deficiencies in realisation of own revenue is discussed below:

7.2.1 Property tax

The ULBs are empowered to levy property tax every year on all buildings or vacant lands or both situated within their jurisdiction under Sections 172 & 173 of UPMC Act and Sections 128, 129 & 129A of UPM Act. It comprises of house tax¹⁹, water tax²⁰, drainage/sewerage tax²¹ and conservancy tax²², and to be collected on Annual Rental Value (ARV)²³ of the buildings or land or both. As per the provisions of UPMC Act, property tax is not to be less than 22 *per cent* and more than 32 *per cent* of ARV of buildings or land or both. The State Government framed (April 2000) Uttar Pradesh Municipal Corporation (Property tax) Rules with regard to rate and procedures for assessment of

¹⁷ In NPP, Lalitpur water charges were collected by Jal Sansthan as they provided water services.

¹⁸ Vide UP Urban Planning and Development Act 1973 and *UP Awas evam Vikas Parishad Adhiniyam* 1965.

¹⁹ As per provisions of UPMC Act, it is a general tax and required to be not less than 10 *per cent* and more than 15 *per cent* of the ARV of the building or land or both in NNs.

²⁰ As per provisions of UPMC Act, a tax for water supply services, required to be not less than 7.50 *per cent* and more than 12.5 *per cent* of the ARV of the building or land or both in NNs.

²¹ As per provisions of UPMC Act, a tax for providing sewerage facility, required to be not less than 2.50 *per cent* and more than 5 *per cent* of the ARV of the building or land or both in NNs.

²² As per provisions of UPMC Act, a tax for collection, removal and disposal of excrementious and polluted matter from privies, urinals and cesspools, required to be not more than 2 *per cent* of the ARV of the building or land or both in NNs.

²³ To be calculated by multiplying covered or carpet area of land or building or both with the minimum monthly rate of rent per square foot.

properties and collection of property tax for NNs. However, in case of Municipalities, provisions of UPM Act are silent about the rate of property tax and it is to be decided by Municipalities through bye-laws.

The details of revenue receipt from property tax *vis-a-vis* own revenue of ULBs in the State during the period 2015-20²⁴ is given in **Table 7.15** below:

Table 7.15: Details of property tax *vis-a-vis* own revenue during 2015-20

(₹ in crore)

Year	Own Revenue	House tax collected ²⁵	Water tax (including sewer tax)	Total Property tax	Percentage of property tax to own revenue
2015-16	1469.59	529.72	230.01	759.73	51.70
2016-17	1672.46	567.19	243.56	810.75	48.48
2017-18	2022.18	640.93	215.80	856.73	42.37
2018-19	2185.73	771.40	333.97	1105.37	50.57
2019-20	1880.88	760.89	234.62	995.51	52.93
Total	9230.84	3270.13	1257.96	4528.09	49.05

(Source: *Karya Vivran* of UD Department)

It is evident from above that share of property tax ranged between 42 and 53 *per cent* in total own revenue of ULBs and was major source of revenue of ULBs. Despite the fact, 44 ULBs²⁶ did not impose house tax (as of December 2022) and none of the ULBs imposed conservancy tax in the State as of March 2020 although having statutory provisions in UPMC Act and UPM Act.

The UD Department replied (November 2022) that the instructions have been issued from time to time for increasing the own revenue of ULBs.

7.2.1.1 Efficiency in collection of property tax

Audit observed that, out of test-checked ULBs, NPP Swar (Rampur) and two NPs²⁷ did not impose house tax as of March 2020. Besides, realisation of house tax was also short against the demands in test-checked ULBs. Against the demands of ₹ 3,370.50 crore during the period 2015-20, only ₹ 1,051.79 crore was realised and accumulated arrears was ₹ 2,318.72 crore (69 *per cent*) at the end of March 2020 in 43, out of 47 test-checked ULBs, where house tax was imposed as detailed in *Appendix-XX*. In remaining four test-checked ULBs²⁸ required records were not maintained in this regard.

Audit also observed that:

➤ Out of test-checked four NNs, 21 NPPs and 25 NPs, water supply facility was available in all NNs & NPPs and in 22 NPs²⁹. However, out of

²⁴ UD Department is in the process of compiling data for the year 2020-21 and for the year 2021-22, it is yet to be started.

²⁵ Figures of House Tax demanded during the period 2015-20 by all the ULBs of the State was not made available to Audit.

²⁶ NPPs: Bisauli and Ramnagar and NPs: Agwanpur, Amethi, Badlapur, Bahua, Bairiya, Bankati, Bariyarpur, Basgown, Belhara, Chitbadagown, Chiraiyakot, Dhakia, Dhauratanda, Eka, Gauriganj, Gosaiganj of Lucknow, Gosaiganj of Ayodhya, Harra, Islamnagar, Kishanpur, Kasba Sangrampur unwal, Khiwai, Khodamakanpur, Koraon, Lalganj, Madhuban, Mahul, Mauaima, Nandgown, Nasirabad, Pakbara, Paraspur, Radhakund, Raniganj, Raya, Rudayan, Shahjahapur, Sasni, Sirsa, Shahabad, Sonauli, and Vazirganj.

²⁷ Pakbara (Moradabad) and Shahabad (Rampur).

²⁸ NPPs: Ballia & Bilaspur (Rampur) and NPs: Fariha (Firozabad) & Maniyar (Ballia).

²⁹ Except NPs: Bairiya (Ballia), Bakshi ka Talab (Lucknow) and Pakbara (Moradabad).

these ULBs, seven NPPs³⁰ and 16 NPs³¹ did not impose water tax, though compulsory under provisions of UPM Act.

➤ Out of test-checked four NNs and 21 NPPs, sewerage facility was partially available with four ULBs (NNs: Lucknow, Mathura-Vrindavan and Moradabad and NPP Rampur), leaving other test-checked ULBs (including NN Jhansi) without this facility. However, out of ULBs having sewerage facility, sewer tax was not imposed in NPP Rampur. Besides, ULBs were empowered vide State Government order of January 1997 for levy and realisation of property tax on residents of colonies developed by the *Awam Evam Vikas Parishad*, Development Authorities etc. after handover to them or after seven years of their development. Contrary to it, sewer tax was not imposed in NPP Rampur, despite having *Awam Evam Vikas Parishad* colony with sewerage facility, which was handed over to them in the year 1987.

➤ Online billing and payment system was not introduced in any of the test-checked NPPs & NPs and in NN Mathura-Vrindavan, which in turn impacted the efficiency of collection of property tax.

➤ The State Government directed (July 2019) for reassessment of property tax on the basis of mapping of properties through Geographic Information System (GIS), however, none of test-checked ULBs, except NPP Bilari (Moradabad), initiated process of GIS mapping of properties on their own. As a result, reassessment of all properties situated under jurisdiction of test-checked ULBs, except test-checked NNs (as discussed in *paragraph no. 7.6.*), could not be ensured.

➤ In test-checked NPPs and NPs, bills and demand of notice were also not served³² to households for realisation of property tax, resulting in short realisation of property tax.

➤ Deficiency of staff of various cadres of Revenue services also affected the ability of ULBs in realisation of property tax as detailed in *paragraph no. 6.2.2.*

Thus, ULBs lacked efficiency in imposition and realisation of property tax.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs in this regard.

7.2.1.2 Formulation of Rules and Bye-laws/Regulations

As per Section 153 of UPM Act, the State Government has been empowered to make Rules for regulation and governance of procedure of assessment & collection of taxes.

³⁰ Bachhraon (Amroha), Bilari (Moradabad), Palia Kalan (Lakhimpur Kheri), Rasara (Ballia), Swar (Rampur), Thakurdwara (Moradabad) and Tundla (Firozabad).

³¹ Chhata (Mathura), Gokul (Mathura), Gyanpur (Bhadohi), Itaunja (Lucknow), Joya (Amroha), Kachhwa (Mirzapur), Katra Medniganj (Pratapgarh), Khamariya (Bhadohi), Kheri (Lakhimpur Kheri), Kunda (Pratapgarh), Maniyar (Ballia), Naugawan Sadat (Amroha), Pali (Lalitpur), Shahabad (Rampur), Talbehat (Lalitpur) and Umri Kalan (Moradabad).

³² Recoveries were made by tax collectors through circulation of Demand and Collection registers.

Audit observed that the State Government framed (November 2019) draft Rules, namely the Uttar Pradesh Municipality (Tax on annual value of buildings or land or both) Rules, 2019, for regulating the matters related with house tax in NPPs and NPs. However, notification of final Rules was still awaited (November 2022). As a result, process of assessment of properties and collection of house tax was not regulated in Municipalities.

It was also observed that as the provisions of UPM Act did not suggest any limit/range for the applicable rate of house tax, there was no uniform rate of house tax in NPPs and NPs and it ranged between five and 25 per cent of ARV of buildings in the test-checked Municipalities, while in test-checked NNs it was only 10 to 11 per cent of ARV as regulated by the provisions of UPMC Act and Rules.

Audit further observed that in test-checked six NPPs³³ and 10 NPs³⁴, out of 20 NPPs and 23 NPs where house tax was imposed, no bye-laws were framed under the provisions of UPM Act for imposition of tax. Similarly, in two NNs³⁵, three NPPs³⁶ and in NP Fariha (Firozabad), out of four NNs, 14 NPPs and six NPs where water tax was imposed, no bye-laws were framed for the same.

Thus, imposition of house and water tax without framing the bye-laws and deciding the rate of tax through it, was against the spirit of UPM Act.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs in this regard.

7.2.1.3 Implementation of self-assessment system

The State Government issued (April 2000 and March 2011) instructions and made amendments in UPMC Act and UPM Act for levy and collection of property tax on the basis of self-assessment of properties by the tax payers during the year 2000 and 2011 respectively, under which the owner or occupier of property was empowered to determine the property tax on their own in accordance with the provisions of UPMC Act / UPM Act and required to deposit the tax so assessed by him in the notified bank together with a statement of self-assessment.

Audit observed that, out of four test-checked NNs, NN Lucknow and Moradabad implemented self-assessment system in the year 2002-03, while NN Jhansi and Mathura with delays in the year 2015-16 and 2018-19 respectively. Further, 14 NPPs³⁷ and 21 NPs³⁸ (out of test-checked 20 NPPs

³³ Chirgaon (Jhansi), Gursarai (Jhansi), Rasara (Ballia), Sirsaganj (Firozabad), Thakurdwara (Moradabad) and Tundla (Firozabad).

³⁴ Fariha (Firozabad), Itaunja (Lucknow), Kathera (Jhansi), Katra Medniganj (Pratapgarh), Kunda (Pratapgarh), Maniyar (Ballia), Pali (Lalitpur), Ranipur (Jhansi), Talbehat (Lalitpur) and Umri Kalan (Moradabad).

³⁵ Mathura-Vrindavan and Moradabad.

³⁶ Ballia, Bilaspur (Rampur) and Sirsaganj (Firozabad).

³⁷ Bachhraon (Amroha), Ballia, Bhadohi, Bilaspur (Rampur), Chirgaon (Jhansi), Gursarai (Jhansi), Kosikalan (Mathura), Mirzapur, Pali Kalan (Mathura), Rampur, Rasara (Ballia), Sirsaganj (Firozabad) Thakurdwara (Moradabad) and Tundla (Firozabad).

³⁸ Bairiya (Ballia), Bakshi ka Talab (Lucknow), Chhata (Mathura), Gokul (Mathura), Gyanpur (Bhadohi), Itaunja (Lucknow), Joya (Amroha), Kachhwa (Mirzapur), Kathera (Jhansi), Khamariya (Bhadohi), Kheri (Lakhimpur Kheri), Katra Medniganj (Pratapgarh), Kunda (Pratapgarh), Maniyar (Ballia), Maswasi (Rampur), Naugawan Sadat (Amroha), Oel Dhakwa (Lakhimpur Kheri), Pali (Lalitpur), Ranipur (Jhansi), Talbehat (Lalitpur) and Umri Kalan (Moradabad).

and 23 NPs where house tax was imposed) did not implement self-assessment system as of March 2021. In remaining NPPs and NPs (except NPP Belha Pratapgarh), implementation of self-assessment tax system was also delayed by two to nine years.

Thus, not implementing of self-assessment system also impacted the efficiency of NPPs and NPs in collection of house tax.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs in this regard.

7.2.1.4 Preparation of Assessment List

Sections 207 to 211 of UPMC Act and Sections 141 to 145 of UPM Act provides for fixation of monthly rent rate, preparation of property tax assessment list³⁹ and its revision at regular interval by ULBs. Further, as per provisions of the Uttar Pradesh Municipal Corporation (Property tax) Rules, 2013, once in every four years, an assessment list is to be prepared in respect of all the buildings or land or both situated within the area of NNs after calculating the tax. For NPPs and NPs, assessment list is to be prepared/revised once in every five years.

Audit observed that:

- In NN Jhansi assessment list was prepared in the year 2018-19 after a gap of 16 years after assessment of all properties in their area, while in NN Mathura-Vrindavan assessment list was prepared last time in the year 2008. In remaining test-checked NNs, assessment list was not prepared on periodical basis and their year of last assessment of all properties & preparation of assessment list was not on records.
- Similarly, in none of the test-checked NPPs and NPs assessment list was prepared/revised in every five years, after assessment of all properties situated within their area.
- During the period 2015-20, assessment of all properties within the area of municipality was done in only five NPPs⁴⁰ & seven NPs⁴¹, out of test-checked 20 NPPs and 23 NPs where house tax was imposed. However, only three NPPs⁴² and three NPs⁴³, out of these five NPPs and seven NPs, had prepared assessment list on the basis of assessments. Besides, in NPP Thakurdwara, though assessment list was prepared, but no survey was conducted for preparation of the same.

Thus, due to not preparing of assessment list on periodical basis as envisaged under UPMC Act and UPM Act, assessment of all properties in the area of Municipal Corporation and Municipality followed by a survey could not be ensured. It indicated that all properties situated within the area of test-checked

³⁹ The assessment list was to contain description of property, name of owner/tenant, carpet and covered area, minimum monthly rate of rent per square foot, year of construction of building *etc.*

⁴⁰ Chirgoan (Jhansi):2018-19, Lalitpur: 2017-18, Mauranipur (Jhansi):2016-17, Thakurdwara (Moradabad):2017-18 and Tundla (Firozabad):2015-16.

⁴¹ Bakshi ka Talab (Lucknow):2016-17, Eka (Firozabad):2019-20, Katra Medniganj (Pratapgarh):2016-17, Pali (Lalitpur):2017-18, Ranipur (Jhansi):2016-17, Talbehat (Lalitpur):2018-19 and Umri Kalan (Moradabad):2017-18.

⁴² Lalitpur, Thakurdwara (Moradabad) and Tundla (Firozabad).

⁴³ Eka (Firozabad), Katra Medniganj (Pratapgarh) and Talbehat (Lalitpur).

ULBs were not covered under tax net.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs for assessment of properties as per Rules.

7.2.1.5 Fixation of minimum monthly rate of rent

As per Section 174 of UPMC Act & Section 140 of UPM Act and the provisions of the Uttar Pradesh Municipal Corporation (Property tax) Rules 2013, MC/EO has to work out, once in every two years, the minimum monthly rate of rent⁴⁴ for the purpose of calculation of tax. The minimum monthly rate of rent is to be calculated on the basis of circle rate fixed by the District Magistrate for the purposes of the Indian Stamp Act, 1899 and the current minimum rate of rent in the area of such building or land. Audit observed that:

- In none of the test-checked NNs, MC worked out minimum monthly rate of rent in every two years period as last revision in area wise rates was done in NN Jhansi, Lucknow, Mathura-Vrindavan and Moradabad during 2014-15, 2010-11, 2017-18 and 2016-17 respectively. Besides, rates of rent of these NNs except NN Mathura-Vrindavan, were also not based on circle rate. Rate of rent in remaining NNs were decided on feedback of zonal officers.
- Similarly, in none of the test-checked NPPs and NPs, EO worked out minimum monthly rate of rent in every two years period. During 2015-20, it was only worked out in NPP Bilari (Moradabad) in the year 2017-18 and again not revised after that.

Thus, not calculating of minimum monthly rate of rent as envisaged in UPMC Act and UPM Act, resulted in imposition of property tax on arbitrary basis. This situation was also against the State Government order (May 2017) vide which instructions were issued for revision in rates of property tax in every two years period for regular increase in revenue resources of ULBs.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs for fixation of monthly rate of rent according to the Rules.

7.2.1.6 Numbering of properties

As per Section 114(ii) of UPMC Act and Section 217 of UPM Act, ULBs are liable for numbering of properties situated in their jurisdiction, which may further assist them in imposition of property tax.

Audit observed that out of test-checked ULBs, numbering of properties was done in only NN Lucknow and NPP Bilari (Moradabad).

Thus, due to not numbering of properties, many of them could have been remained outside of property tax net in other test-checked ULBs.

The UD Department replied (November 2022) that the efforts are being made for numbering of properties on the basis of a unique code.

⁴⁴ Rate per unit area.

Recommendations:

- 14. Monitoring of the realisation of revenue due to the Urban Local Bodies should be strengthened so that accumulation of arrear is avoided and receivable amounts are realised fully and in time.**
- 15. The Property Tax survey should be conducted at regular intervals in order to ascertain the number of taxable property and assessment of properties should be ensured at prescribed intervals with the revised monthly rate of rent from time to time.**
- 16. The State Government should ensure adoption of best practices in property tax collection and use of information and communication technology for better results.**

7.2.1.7 Levy of Service charge

As per instructions (December 2009) of Ministry of Housing and Urban Affairs (MoHUA)-GoI, all Central Government departments including the Indian Railways are required to pay service charge⁴⁵ in place of property tax for the properties of GoI, according to the services rendered by ULBs. The State Government also issued (February 2010) instructions for levy of service charge in respect of properties of GoI.

Audit observed that, out of test-checked ULBs, service charge on properties of GoI was imposed in all NNs and only in six NPPs⁴⁶, though recovery of ₹ 15.02 crore was in arrears against the levied service charge in these ULBs at the end of March 2020. However, out of these ULBs, only NN Lucknow imposed service charge on properties of Indian Railways.

Thus, not imposing of service charge on properties of GoI further contracted revenue receipts of ULBs.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs in this regard.

7.2.2 Advertisement tax

Sections 172 and 192 of UPMC Act and Section 128 of UPM Act, empowers ULBs for levy of tax on advertisement through hoardings/sign boards/glow signs *etc.* erected/displayed over any land or building or wall situated within their jurisdiction. Advertisement tax is to be levied at such rates and in such manner and subject to such exemptions as may be provided by UPMC Act / UPM Act or Rules made thereunder. However, due to enactment of 101st Constitutional Amendment Act, 2016⁴⁷ for implementation of GST, the power of levy of advertisement tax was taken away from ULBs as Advertisement tax was subsumed by GST.

However, Audit observed that despite the withdrawal of power of ULBs, the State Government did not incorporate necessary provisions in UPMC Act and UPM Act in this regard. As a result, ULBs of the State illegally realised

⁴⁵ It was to be imposed @ 75 per cent, @ 50 per cent and @ 33.33 per cent of property tax in case of full, partial and Nil services rendered by ULBs respectively.

⁴⁶ Amroha, Ballia, Bhadohi, Lakhimpur Kheri, Mauranipur (Jhansi) and Mirzapur.

⁴⁷ Effective since 12 December 2016.

₹ 26.82 crore, ₹ 26.41 crore and ₹ 19.42 crore during 2017-18, 2018-19 and 2019-20 respectively on account of advertisement tax. Further, the State Government also did not grant any compensation to ULBs on account of abolition of advertisement tax.

Besides, out of test-checked ULBs, advertisement tax was imposed in all NNs and only in eight NPPs⁴⁸ & two NPs⁴⁹ and these ULBs continued to realise⁵⁰ the tax even after the year 2016-17. Further, out of these ULBs, four NPPs⁵¹ did not frame bye-laws as required under provisions of UPM Act. Moreover, NN Lucknow and Moradabad, converted the nature of tax into fee in the month of January 2021 and March 2020 respectively to overcome from the impact of GST, though there was no provision in UPMC Act for imposition of fee on advertisements.

The UD Department did not offer any comments in this regard.

7.2.3 Water charges

Sections 219, 227 and 271 of UPMC Act and 235 of UPM Act, authorise the State Government to make Rules with regard to matters related to water supply including rates of water tax and charges. This restricted the autonomy of ULBs.

Further, with a view to meet out increasing expenditure on water supply, the State Government fixed (February 1997) rates of water charges for domestic water connections. The stipulated rates of water charges were ₹ 75, ₹ 50 and ₹ 30 *per connection per month* for NNs, NPPs and NPs respectively. These rates were to be made applicable through amendments in bye-laws/regulations or by publication of notification. Besides, yearly increase of 7.50 *per cent* in rates of water charges was also to be made to compensate the rise in cost of O&M on water supply starting from January 1999. However, from April 2007, the State Government restricted the increase in rates to only five *per cent* in three years and after three periodical revisions, rates were further not to be changed in next ten years. Accordingly, applicable revised rates⁵² of water charges were ₹ 146, ₹ 96 and ₹ 57 *per connection per month* for NNs, NPPs and NPs respectively from the year 2013-14.

Further, the State Government also directed (April 2013) to introduce “Volumetric Multilabel Tariff Plan” (charges according to the consumption of water) and “Volumetric Telescopic Block Tariff” (charges in increasing order with consumption of water) for seven major cities⁵³ including Mathura and Lucknow to compensate O&M expenditure on water supply.

⁴⁸ Amroha, Ballia, Belha Pratapgarh (Pratapgarh), Kosikalan (Mathura), Lakhimpur (Lakhimpur Kheri), Lalitpur, Mauranipur (Jhansi) and Tundla (Ferozabad).

⁴⁹ Bakshi ka Talab (Lucknow) and Talbehat (Lalitpur).

⁵⁰ 2017-18: ₹ 7.86 crore, 2018-19: ₹ 6.63 crore and 2019-20: ₹ 2.44 crore.

⁵¹ Amroha, Ballia, Kosikalan (Mathura) and Lakhimpur (Lakhimpur Kheri).

⁵² Calculated by audit on the basis of instructions issued by the State Government from time to time in this regard.

⁵³ Agra, Kanpur, Lucknow, Mathura, Meerut, Prayagraj and Varanasi.

The details of revenue receipt from water charges *vis-a-vis* O&M expenditure on water supply by ULBs in the State during the period 2015-20⁵⁴ are indicated in **Table 7.16** below: .

Table 7.16: Showing details of water charges *vis-a-vis* O&M expenditure during 2015-20

(₹ in crore)

Year	Receipt from water charges	O&M expenditure on water supply	Percentage of water charges to O&M expenditure
2015-16	57.88	NA	NA
2016-17	50.61	NA	NA
2017-18	89.78	167.94	53.46
2018-19	123.00	199.84	61.55
2019-20	94.58	146.79	64.43

(Source: *karya Vivran* of UD Department)

It is evident from above that realised water charges were only 53 to 64 *per cent* of O&M expenditure on water supply during 2017-20. The constraints in realisation of water charges are discussed as under:

- Out of test-checked ULBs, three NPPs⁵⁵ and NP Eka (Firozabad) did not impose water charges upto March 2020, despite having water supply service.
- Out of test-checked four NNs, 21 NPPs and 24 NPs, rates of water charges were fixed by publication of bye-laws or notification in official gazette in respect of only two NNs⁵⁶, six NPPs⁵⁷ and four NPs⁵⁸ either by the ULBs or Jal Sansthan⁵⁹. As a result, no provisions were made by ULBs for imposing the water charges and its periodical revisions as per the directions of the State Government.
- None of the test-checked ULBs (except where water supply was under *Jal Sansthan*) revised rates of water charges according to the instructions of the State Government, as a result rates of water charges were far below than the stipulated rates fixed by the Government. In test-checked NNs, NPPs and NPs, rates of water charges ranged between ₹ 30 & ₹ 122.50, ₹ 10 & ₹ 52.50 and ₹ 15 & ₹ 50 *per* connection per month respectively, though required rates of water charges for NN, NPP and NP were to be ₹ 146, ₹ 96 and ₹ 57 per connection per month from the year 2013-14. However, rates of water charges under NNs, NPPs and NPs of *Jal Sansthan* were at par with the Government orders. As a result, ULBs were unable to recover O&M cost of water supply.
- Out of test-checked ULBs, rates of water charges of non-domestic connections were fixed only in three NNs⁶⁰, eight NPPs⁶¹ and six NPs⁶², out of

⁵⁴ UD Department is in the process of compiling data for the year 2020-21 and for the year 2021-22, it is yet to be started.

⁵⁵ Belha Pratapgarh (Pratapgarh), Bilaspur (Rampur) and Kosikalan (Mathura).

⁵⁶ Jhansi and Lucknow.

⁵⁷ Ballia, Chirgaon (Jhansi), Gursarai (Jhansi), Lalitpur, Mauranipur (Jhansi) and Rasara (Ballia).

⁵⁸ Kathera & Ranipur (Jhansi) and Pali & Talbehat (Lalitpur).

⁵⁹ Responsible for water supply services in NN: Jhansi, NPPs: Chirgaon, Gursarai & Mauranipur of Jhansi and Lalitpur and NPs: Kathera & Ranipur of Jhansi and Pali & Talbehat of Lalitpur.

⁶⁰ Jhansi, Lucknow and Mathura-Vrindavan.

⁶¹ Amroha, Bilari (Moradabad), Chirgaon (Jhansi), Gursarai (Jhansi), Lalitpur, Mauranipur (Jhansi), Mirzapur and Palia Kalan (Lakhimpur Kheri).

⁶² Gyanpur (Bhadohi), Kathera (Jhansi), Khamaria (Bhadohi), Kunda (Pratapgarh), Pali (Lalitpur), Ranipur (Jhansi) and Talbehat (Lalitpur).

which nine ULBs⁶³ were under the jurisdiction of *Jal Sansthan*. In remaining test-checked ULBs, water charges for non-domestic connections were same as domestic connections.

➤ In test-checked ULBs, as per information provided by ULBs and Jal Sansthan Jhansi, either the water meters were not installed or installed water meters were not functional for purpose of billing of water charges.

➤ NN Lucknow and Mathura did not introduce Volumetric Multilabel Tariff Plan and Volumetric Telescopic Block Tariff to recover the O & M cost of water supply.

Moreover, arrears on account of water charges in respect of 24 ULBs⁶⁴ (where records were maintained in this regard) was ₹ 102.13 crore at the end of March 2020, which further constrained revenue resources of ULBs.

Thus, due to not imposing of water charges according to stipulated rates of the State Government and not recovering of levied charges, ULBs were unable to meet out O&M expenditure of water supply.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs in this regard.

7.2.4 Trade license

Section 452 of UPMC Act and Section 241 of UPM Act empowers ULBs for charging and collecting license fees for conducting business activities in Municipal Corporation/ Municipality area. Further, the State Government also directed (December 1997) ULBs to impose license fee on 39 business activities and accordingly fixed activity wise rate of license fee. Besides, the State Government also directed (February 1999) ULBs to frame bye-laws to impose license fee and asserted that there will be no role of Council in deciding rates of trade licenses. The imposition of license fee at the rates stipulated by the State Government was made mandatory from 31 March 1999.

Audit observed that, out of test-checked ULBs, nine NPPs⁶⁵ and 20 NPs⁶⁶ did not undertake any effort to levy license fee as per provisions of UPMC Act/ UPM Act & the State Government orders. Further, in remaining ULBs, where license fee was imposed, only NN Mathura-Vrindavan and three NPPs⁶⁷ & NPs⁶⁸ each had brought all 39 business activities under ambit of trade license. Besides, rates of imposed license fee were also not in accordance with the Government orders in two NNs⁶⁹ and three NPPs⁷⁰ & NPs⁷¹ each.

⁶³ NN: Jhansi; NPPs: Chirgaon, Gursarai & Mauranipur of Jhansi and Lalitpur & NPs: Kathera & Ranipur of Jhansi and Pali & Talbehat of Lalitpur.

⁶⁴ NNs: Lucknow, Mathura-Vrindavan and Moradabad; NPPs: Bachhraon (Amroha), Bilari (Moradabad), Lakhimpur (Lakhimpur Kheri), Mirzapur, Palia Kalan (Lakhimpur Kheri), Rasara (Ballia), Sirsaganj (Firozabad), Thakurdwara (Moradabad) and Tundla (Firozabad) & NPs: Chhata (Mathura), Gyanpur (Bhadohi), Gokul (Mathura), Fariha (Firozabad), Joya (Amroha), Kachhwa (Mirzapur), Khamariya (Bhadohi), Kheri (Lakhimpur Kheri), Kunda (Pratapgarh) Naugawan Sadat (Amroha), Oel Dhakwa (Lakhimpur Kheri) & Umri Kalan (Moradabad).

⁶⁵ Ballia, Bachhraon (Amroha), Bilaspur (Rampur), Chirgaon (Jhansi), Gursarai (Jhansi), Kosikalan (Mathura), Palia Kalan (Lakhimpur Kheri), Rasara (Ballia) and Sirsaganj (Firozabad).

⁶⁶ Expect NPs: Eka (Firozabad), Gyanpur (Bhadohi), Maswasi (Rampur), Talbehat (Lalitpur) and Oel Dhakwa (Lakhimpur Kheri).

⁶⁷ Bhadohi, Thakurdwara (Moradabad), and Tundla (Firozabad).

⁶⁸ Eka (Firozabad), Gyanpur (Bhadohi) and Oeldhakwa (Lakhimpur Kheri).

⁶⁹ Lucknow and Moradabad.

Audit further observed that in three NPPs⁷² and two NPs⁷³, though the bye-laws were framed for license fee, no efforts were made for levy and realisation of fee. Further, records related to levy and realisation of license fee, were also not maintained in nine ULBs⁷⁴. As a result, amount of levy and realisation of license fee could not be ascertained in audit.

Thus, not imposing of license fee indicated that business establishments continued to function without valid licenses in the area of ULBs, resulting in loss of revenue to them.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs in this regard.

7.2.5 Auction of Parking lots

Sections 114 & 541 of UPMC Act and Sections 7 & 293 of UPM Act, provides for construction and maintenance of parking lots by ULBs and to impose fee/user charges in lieu of providing this facility. The State Government also ordered (November 2001) to impose fee for using the parking facility established by ULBs under the provisions of bye-laws. ULBs were also authorised (June 1996) to auction the parking lots for smooth recovery of fee/user charges.

Audit observed that 14 NPPs⁷⁵ and 22 NPs⁷⁶ did not provide parking facility for vehicles during the period 2015-20. In the remaining ULBs, where parking facility was provided, an amount of ₹ 3.08 crore was not recovered against the contracted value of ₹ 11.14 crore on account of auction of parking lots during the period 2015-20.

Thus, not providing of parking facility by ULBs, caused inconveniences to citizens and also deprived them from revenue receipts.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs in this regard.

7.2.6 Rent from commercial establishments

As per the State Government orders (September 1977 and June 1978), ULBs were to rent out their residential and commercial buildings to tenants on market rates through auction for a period of maximum 15 years. For this purpose a registered agreement was to be executed, in which provisions for rent and an increase of 12.5 *per cent* therein in every five years period was to be made. Further, after expiry of 15 years, rent was to be increased by 50 *per cent* with renewal of agreement.

⁷⁰ Amroha, Lalitpur and Tundla (Firozabad).

⁷¹ NPs: Eka (Firozabad), Gyanpur (Bhadohi) and Oel Dhakwa (Lakhimpurkheri).

⁷² Mirzapur, Mauranipur (Jhansi) and Rampur.

⁷³ Eka (Firozabad) and Maswasi (Rampur).

⁷⁴ NNs: Lucknow, Jhansi & Mathura-Vrindavan, NPPs: Amroha, Bhadohi, Lakhimpur (Lakhimpur Kheri) & Swar (Rampur) and NPs: Gyanpur (Bhadohi) and Oel Dhakwa (Lakhimpur Kheri).

⁷⁵ Amroha, Belha Pratapgarh (Pratapgarh), Bachhraon (Amroha), Bhadohi, Ballia, Bilari (Moradabad), Kosikalan (Mathura), Lakhimpur (Lakhimpur kheri), Lalitpur, Mirzapur, Palia Kalan (Lakhimpur Kheri), Sirsaganj (Moradabad), Swar (Rampur) and Thakurdwara (Moradabad).

⁷⁶ Except NPs:Kathera (Jhansi), Maswasi (Rampur) and Oel Dhakwa (Lakhimpur Kheri).

Audit observed that, out of test-checked ULBs, all NNs, 18 NPPs⁷⁷ and 13 NPs⁷⁸ had a total of 10,164 commercial establishment/shops as of March 2020, out of which only 9,696 properties were rented out. However, none of these ULBs executed registered agreement with the tenants. Besides, provisions were also not made in these ULBs (except NN Mathura-Vrindavan) for periodical increase in rent (12.5 per cent in every five years) and renewal of agreement after 15 years with increase in rent by 50 per cent as stipulated in Government order. However, in 10 ULBs⁷⁹ rents were increased by five to 15 per cent in every five or three years period, which were also not consistent with the Government orders.

It was also observed that in NN Jhansi no records were maintained in respect of agreement, realisation of rent *etc.* regarding 1,189 shops. Further, in NPP Ballia, out of 567 properties rented out, rents of only 145 shops/commercial establishments were being realised. Scrutiny of records also revealed that rent amounting to ₹ 8.83 crore was in arrears at the end of March 2020 in ULBs (except NN Jhansi), where properties were rented out.

Thus, due to not observing of Government orders, rent of properties was less than prevailing market rates, which led to loss of revenue to ULBs.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs in this regard.

7.2.7 Rent from Electricity Department

With a view to augment revenue resources of ULBs, the State Government directed (February 1997) ULBs to recover rent from Electricity Department for electricity transformers and substations, established within jurisdiction of ULBs. However, the State Government revised (February 2016) its earlier order and instructed to impose rent only on substations.

Audit observed that in only four out of 50 test-checked ULBs⁸⁰, bye-laws was framed for recovery of rent from Electricity Department. Out of these ULBs, only three ULBs⁸¹ raised demands in this regard, though no recovery was made against demands and an amount of ₹ 6.89 crore was outstanding as of March 2020. It indicated that a potential source of revenue could not be utilised by the ULBs.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs in this regard.

Recommendation 17:

Efforts should be made for increasing the realisation of the own non-tax revenue and raising demands in time by Urban Local Bodies.

⁷⁷ Except Bachhraon (Amroha), Bhadohi and Rasara (Ballia).

⁷⁸ Chhata (Mathura), Gyanpur (Bhadohi), Fariha (Firozabad), Itaunja (Lucknow), Joya (Amroha), Kathera (Jhansi), Kheri (Lakhimpur Kheri), Kunda (Pratapgarh), Maswasi (Rampur), Oel Dhakwa (Lakhimpur Kheri), Ranipur (Jhansi) Shahabad (Rampur) and Talbehat (Lalitpur).

⁷⁹ NPPs: Bilaspur (Rampur), Gursarai & Mauranipur (Jhansi) and NPs: Fariha (Firozabad), Joya (Amroha), Kathera (Jhansi), Kheri (Lakhimpur Kheri), Kunda (Pratapgarh), Maswasi (Rampur) and Ranipur (Jhansi).

⁸⁰ NN: Jhansi and NPPs: Belha Pratapgarh (Pratapgarh), Mauranipur (Jhansi) and Rasara (Ballia).

⁸¹ NPPs: Belha Pratapgarh (Pratapgarh), Mauranipur (Jhansi) and Rasara (Ballia).

7.3 Borrowings

As per Section 154 of UPMC Act and Section 114 of UPM Act, power to borrow money on behalf of ULBs is vested in the Council with prior sanction of the State Government. The State Government established a revolving fund during the year 2000-01 to provide interest free loan to ULBs for carrying out very important and contingent nature of work related to infrastructure development, water supply, roads, street lighting, sanitation, construction of buildings *etc.*, though execution of maintenance work was not allowed under this fund. The recovery of loan was to be made in 10 equal yearly instalments from the SFC grants of the concerned ULB. For obtaining loan from the revolving fund, ULBs were required to get approval of Council through passage of resolution in this regard and MC/EO was to certify that there will be no adverse impact on payment of salary and pensions of staffs due to recovery of loan from the SFC grants.

The details of budget provisions, releases and recovery thereof during the period 2015-20⁸² are given in **Table 7.17** below:

Table 7.17: Details of loans disbursed and recovery thereof during the period 2015-20

(₹ in crore)				
Year	Budget provision	Financial sanction issued	No. of ULBs benefited	Amount of recovery
2015-16	250.00	248.48	151	0.00
2016-17	250.00	219.75	160	0.00
2017-18	237.00	187.74	70	1.48
2018-19	237.00	228.38	107	5.34
2019-20	150.00	148.97	60	0.52
Total	1,124.00	1,033.32	548	7.34

(Source: Information provided by Director, LB and Karya Vivran of UD Department)

It is evident from above that recovery of loans did not commensurate with the disbursed amount of loans during the year 2015-20 and it was minimal (0.71 *per cent*) against the amount of loans sanctioned during 2015-20. Besides, budget provision was also decreased significantly (40 *per cent*) in the year 2019-20, which may be on part of non-recovery of loans.

The UD Department accepted (November 2022) the audit observation and stated that the only recovery of loans distributed upto 2005-06, are being made from the year 2018-19.

7.3.1 Sanction of loans to ULBs in violation of guidelines

Audit observed instances where loans were sanctioned to ULBs in violation of guidelines, details are as under:

➤ In NPP Rampur, a loan amounting to ₹ 50 lakh was sanctioned (June 2016) for maintenance work of *Nehru Nagar Palika Kanya Inter College*, though maintenance work was not allowed under the revolving fund. Further, approval of Council was also not obtained for getting the loan. Besides, the Executive Officer had certified that the repayment of loan will impact the

⁸² UD Department is in the process of compiling data for the year 2020-21 and for the year 2021-22, it is yet to be started.

payment of salary and pensions of staff. In spite of this, loan was sanctioned by the State Government. Consequently, due to insufficient funds, EO raised (February 2018) demands for additional funds under SFC for the payment of salary and pension liabilities.

➤ In four test-checked NPP⁸³ loans of ₹ 10.38 crore was sanctioned by the State Government during the year 2015-20, without approval of Council and certificate of EO. Similarly, in NPP Rasara, loans of ₹ 7.63 crore were sanctioned by the State Government during the 2013-17, out of which ₹ 78.68 lakh was for maintenance work of pond.

➤ In NP Maswasi, loan of ₹ 5.92 crore was sanctioned by the State Government during 2016-19 without any demand of NP and without seeking approval of Council and Certificate of EO required in this regard. Similarly, in NP Bairiya (Ballia) loan amounting to ₹ 3.30 crore was sanctioned in the month of January 2017, while the Council in newly established NP was constituted during the month of December 2017. Similarly, in two NPs⁸⁴ loans amounting to ₹ 2.02 crore was sanctioned by the State Government during the period 2015-20 without approval of Council and certificate of EO.

Thus, guidelines of revolving fund and powers of Councils were overlooked by the State Government while sanctioning the loans to ULBs, resulting in infructuous expenditure from loan amount, as discussed in succeeding paragraph.

The UD Department replied (November 2022) that the directions are being issued to concerned ULBs in this regard.

7.3.2 Infructuous expenditure from revolving fund

In NPP Ballia, loans amounting to ₹ 5.00 crore was released by the State Government from the revolving fund during the period 2003-10 for construction of commercial complex at Gadha, comprising of 398 shops. The sanctioned cost of the project was ₹ 10.07 crore, against which funding of ₹ 5.08 crore was to be done through registration/premium amount of shops.

Audit observed that after incurring an expenditure of ₹ 4.79 crore, only 167 shops were constructed by the executing agency (C&DS) as of October 2021 and finishing work of these shops was also incomplete. As a result, constructed shops were neither handed over to NPP nor auctioned. Thus, loan amounting to ₹ 5.00 crore, availed for construction of commercial complex, remained infructuous.

Similarly, in NPP Rampur, Babu Mall Shopping Complex was constructed with an expenditure of ₹ 16.06 crore through obtaining loan from revolving fund during the period 2005-17, comprising of 316 shops and 16 halls. Out of the constructed shops and halls, only 104 shops were auctioned as of August 2021, however, none of the auctioned shops were allotted to successful bidders for want of basic service such as electricity, sanitation *etc.*, resulting in infructuous expenditure.

⁸³ Bilaspur (Rampur): ₹1.08 crore, Bilari (Moradabad): ₹5.01 crore, Thakurdwara (Moradabad): ₹2.79 crore and Tundla (Firozabad): ₹1.50 crore.

⁸⁴ NPs; Chhata (Mathura): ₹1.62 crore and Umri Kalan (Moradabad): ₹40.00 lakh.

The UD Department assured (November 2022) that the instructions would be issued to concerned ULBs in this regard.

7.4 Tapping of various sources of revenue by ULBs

The 14th Finance Commission recommended for levy of betterment tax, tax on newer forms of entertainment such as boat rides, cable television and internet cafes, “tax on professions, trades, callings and employments” *etc.* to improve revenues from own sources by ULBs.

Audit observed that despite having statutory provisions in UPMC Act and UPM Act regarding imposition of tax on betterment⁸⁵, boat rides⁸⁶ and “professions, trades, callings and employments”⁸⁷, no efforts were made either by ULBs or by the State Government for tapping revenue from these sources. Similarly, no provisions or efforts were made for realising revenue from cable television, internet cafes *etc.*

Further, the first SFC, though recommended for not assigning any other tax or fee to ULBs in future, the third SFC identified some new sources of revenue for augmentation of ULBs own resources (such as tax on submersible pumps, special sanitation tax for commercial establishments, license fee on towers, fee for use of roads & footpaths, fee for laying pipes & cables for commercial use *etc.*) and also emphasised for levy of Profession tax. However, Audit observed that the ULBs were not tapping these sources of revenue despite the fact that these recommendations of third SFC were accepted by the State Government.

The details of identified sources of revenue by the CFC and SFC, which were not tapped, are indicated in **Table 7.18** below:

Table 7.18: Details showing the revenue sources not tapped by ULBs

Sl. No.	Source	Whether statutory provisions exists or not
1.	Betterment tax	Yes
2.	Tax on boat rides	Yes
3.	Tax on cable television	No
4.	Tax on internet cafes	No
5.	Tax on professions; trades; callings and employments	Yes
6.	Tax on submersible pumps	No
7.	Special sanitation tax for commercial establishments	No
8.	License fee on towers	No
9.	Fee for use of roads & footpaths	No
10.	Fee for laying pipes & cables for commercial use	No

(Source: UPMC Act and UPM Act)

Thus, not complying with the recommendations of CFC and SFC also contracted the revenue base of ULBs.

Moreover, laxity of ULBs in tapping the prescribed revenue resources also impacted their availability to provide civic services to the citizens. In this regard, a case study in respect of NN Lucknow has been detailed as under:

⁸⁵ Section 172(2F) of UPMC Act and Section 128(2ix) of UPM Act.

⁸⁶ Section 172(1B) of UPMC Act and Section 128(2)(viii) of UPM Act.

⁸⁷ Section 172(D) of UPMC Act and Section 128(2)(i) of UPM Act.

Case Study

As per Section 172 of the UPMC Act, NNs of the State is empowered to levy taxes such as Property tax comprising of house tax; water tax; drainage tax and conservancy tax, tax on vehicles⁸⁸, tax on helicopters and planes, tax on trades and professions, tax on deeds of transfer of immovable property situated within the city, tax on vacant land situated within the city, tax on callings and on holding a public or private appointment, tax on dogs kept within the City, betterment tax, theatre tax *etc.* Besides, NNs are also allowed to collect non-tax revenue from water charges, rent from commercial establishments, user charges, trade licences on 39 items, parking fee *etc.*

However, audit observed that despite having provisions in the UPMC Act, NN Lucknow did not levy conservancy tax, tax on vehicles, tax on helicopters and planes, tax on trades and professions, tax on callings and on holding a public or private appointment and betterment tax to augment their tax revenue for providing better civic services to the citizens. Besides, NN Lucknow levied tax on deeds of transfer of immovable property situated within the city, though, the State Government did not transfer the due share of NN against the proceeds of the collected tax since the year 2019-20. Moreover, the process of levy and collection of the tax and non-tax revenue, which was imposed by the NN, was also deficient as discussed in *paragraph no. 7.2.*

The State Government while submitting a memorandum to the Fourth SFC, asserted to achieve the Service Level Bench Mark (SLB) under different services in all ULBs of the State up to the year 2019-20 and also estimated the cost of different services for covering the unserved population in this regard. Accordingly, Per Capita expenditure of ₹2150.28 for Water Supply Services (WSS), ₹6057 for Sewerage Services (SS), ₹2666.40 for Drainage Services and ₹245.07 for Solid Waste Management (SWM) was required for NN to cover the unserved population under different services as per the norm of the SLB.

Consequently, in compliance with the declaration of the State Government for achieving the SLB in the year 2019-20, requirement of funds for providing basic services to the unserved population in NN Lucknow was as under :-

Requirement of fund in the year 2019-20 for providing basic services to the citizens

Name of Services	Projected population of NN Lucknow in the year 2019-20	Deficiency factor in the year 2019-20 (in percentage)	Total Unserved population in the year 2019-20	Per capita expenditure (in ₹) for providing services as per the norms	Requirement of fund for providing services as per the norms (₹ in crore)
WSS	3698227	31.90	1179734	2150.28	253.68
SS		49.40	1826924	6057.00	1106.57
DS		24.30	898669	2666.40	239.62
SWM		45.50	1682693	245.07	41.24
Total					1641.11

It is evident from the above that ₹ 1641.11 crore was required for serving only left-out population under the above services during the year 2019-20. However, against the requirement, the total income from all sources of revenue of NN Lucknow (including *Jalkal vibhag*), remained only ₹ 1258.28 core. Out of these funds, the NN Lucknow incurred expenditure of ₹ 15.13 crore towards the infrastructural expenses of above services during the year 2019-20. Besides, the Lucknow Development Authority had also incurred an expenditure of ₹ 107.67 crore for creating the infrastructure related with the DS and WSS. Further, UP Jal Nigam (including Construction & Design Services) also incurred expenditure of ₹ 77.18 crore for the furtherance of infrastructural facilities related with the DS, WSS and SS during the year 2019-20. As a result, with the expenditure of ₹ 199.98 crore during the year 2019-20, only 12 per cent as against the requirement of ₹ 1641.11 crore, the NN Lucknow could not cover the left-out population under above services in

⁸⁸ Other than mechanically propelled and other conveyances available for hire in city.

compliance with the declaration of the State Government.

Audit further observed that in forthcoming year 2020-21 as against the total income of ₹ 1401.57 crore, the NN Lucknow (including *Jalkal Vibhag*) spent ₹ 589.11 crore only on the establishment expenses.

Thus, NN did not pay adequate attention towards increasing its revenue raising capacity by levying taxes such as conservancy tax, tax on vehicles (other than mechanically propelled), betterment tax and was dependant on Government grants and funds of other agencies for providing basic services to the citizen.

The UD Department replied (November 2022) that the required instructions had been issued to ULBs in this regard.

7.5 Unavailability of reliable database

Audit observed that both the 13th FC and 4th SFC flagged the issue of unavailability of basic data in respect of financial position of ULBs and recommended for development of a reliable database of ULBs through use of modern information technology. However, Audit observed that the issue was not addressed by the State Government as of November 2021, because there were differences in the figures of released amount of CFC & SFC grants, assigned revenue *etc.* to ULBs during the period 2015-20 between the details of *Karya Vivran* of UD Department and those available in records of Director (LB), which have been shown in **Table 7.1, 7.7, 7.8 and 7.10**. Similarly, Audit observed differences in the figures of expenditure and revenue receipts between the *Karya Vivran* of UD Department and details made available by the test-checked ULBs, as detailed in **Appendix-XXI**.

Thus, unavailability of reliable database of ULBs needs to be addressed by the State Government on priority basis as in absence of it, true and fair assessment of financial position of ULBs would be not possible for SFC for the purpose of devolution of grants to them.

The UD Department while accepting (November 2022) the audit observations commented that the efforts are being made for proper maintenance of database.

7.6 Property Tax Board

The 13th Finance Commission mandated constitution of a Property Tax Board on the lines of West Bengal Valuation Board, to assist all Municipalities and Municipal Corporations in the State to put in place an independent and transparent procedure for assessing property tax.

In compliance with the recommendation of 13th FC, the State Government enacted (March 2011) “the Uttar Pradesh Board for Development of Municipal Financial Resources Act, 2011” for establishment of the Board. As per the provisions of Act, one Chairman and four other members were to be nominated in the Board and the Director, LB was to be an ex-officio member of the Board. The objective of the above board was to review the financial position and evaluate the efficiency of various sources of revenue of Municipalities. It was also made responsible for enumeration of properties in Municipalities and development of a database in this regard, valuation of all

properties *etc.* The Board was required to publish an annual work plan in official gazette regarding their proposed activities during the year.

Audit observed that despite establishment (March 2011) of the Board to deal with the matters of ULBs, no provisions for setting up and functioning of the Board were incorporated by the State Government in UPMC Act and UPM Act. Further, though the Chairman of the Board was nominated by the State Government in July 2011, members of Board were appointed in the month of July 2016, sanction of posts required for functioning of the Board was accorded⁸⁹ in the month of June 2016 and Rules for regulation of proceedings and execution of functions of the Board were framed in the month of August 2016. Due to these reasons, the Board did not publish their annual work plan prior to period of 2017-18⁹⁰, resulting in non-achievement of objectives of the Board. Work related to development of database of properties of municipalities remained incomplete⁹¹ as of November 2020. Consequently, ULBs lacked technical guidance for improvement in their revenue resources.

Audit further observed that the State Government awarded (October 2018 and February 2019) contracts to Private firms/Government enterprises for implementation of GIS project in 15 NNs⁹² of the State under the AMRUT scheme. Under the project, works related to survey of properties (ward-wise and category-wise) and its data base generation, numbering of properties through assigning unique identification number to each property *etc.* was to be carried out. Though activities of the project fell under jurisdiction of ULBs and the Board, these entities were not taken into loop by the State Government before the implementation of project.

The UD Department stated (November 2022) that the GIS survey is being conducted by the other ULBs of State on their own, though it did not make any comments on other issues.

7.7 Budgeting

As per provisions⁹³ of UPMC Act and UPM Act, the MC/EO of each ULB was required to prepare budget estimates (BE) for ensuing financial year indicating income and expenditure of the Municipal Corporation/Municipality fund and present it to the Council for approval. After approval of the Council, ULBs were to submit the budget to the State Government, though provisions of both Acts were silent about the role of the State Government in sanctioning/modifying the budget submitted by the ULBs except in case of indebted ULBs, wherein the State Government has powers to vary or alter the budget.

Audit observed that in none of the test-checked ULBs, budget was submitted to the State Government, however, provision of submission of BE to the State Government restricted the autonomy of ULBs.

⁸⁹ The board had made proposals for creation of posts during October 2011.

⁹⁰ The annual action plan for the year 2017-18 was published in gazette during February 2018.

⁹¹ Only partial information was gathered in respect of 354 ULBs.

⁹² Agra, Aligarh, Ayodhya, Bareilly, Firozabad, Ghaziabad, Gorakhpur, Jhansi, Kanpur, Lucknow, Mathura, Meerut, Moradabad, Prayagraj and Saharanpur.

⁹³ Section 146 of UPMC Act and Section 99 of UPM Act.

The UD Department stated (November 2022) that the required action is awaited from the concerned ULBs.

7.7.1 Delayed preparation or not preparing of budget

As per Section 146 of UPMC Act, after preparation of BE by MC, it was to be submitted to Executive Committee (EC). Further, EC was required to submit the same to the Council not later than fifteenth day of February with or without modifications. The Council was to adopt the BE before the beginning of financial year. Besides, in case of NPPs and NPs, date of submission of BE by EO to the Council and adoption of the same by the Council was to be decided by Rules framed by the State Government.

Audit observed that the State Government did not frame any Rules for governing the budget process in Municipalities. In absence of Rules, process of preparation and adoption of BE for NPPs and NPs were not formalised. As a result, out of test-checked 21 NPPs and 25 NPs, seven NPPs & 16 NPs did not prepare BE for all the financial years involved during the period 2015-20 and 20 NPPs & 16 NPs prepared/adopted it with delays as detailed in *Appendix-VI*. Further, in case of NNs, prescribed schedule for submission of BE to Council and its adoption was also not adhered, as detailed in **Table 7.19** below:

Table 7.19: Showing delays in preparation and adoption of BE in test-checked NNs

Name of NN	Actual date of submission of BE to Council against scheduled date of 15 February of each year				
	2015-16	2016-17	2017-18	2018-19	2019-20
Lucknow	30.03.2015	31.03.2016	30.03.2017	29.03.2018	07.07.2019
Moradabad	Not prepared	30.03.2016	05.05.2017	07.05.2018	09.06.2019
Jhansi	31.03.2015	15.03.2016	24.04.2017	09.03.2018	26.02.2019
Mathura-Vrindavan	Council was constituted in January 2018 after formation of <i>Nagar Nigam</i>			12.04.2018	09.08.2019

(Source: Information provided by test-checked ULBs)

It is evident from above that on many occasions BE was submitted to Councils with delays in test-checked NNs, resulting in not adopting of BE before the beginning of financial year.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs to initiate action in this regard.

7.7.2 Not adopting of approved formats for budget estimation

As per the provisions of the Uttar Pradesh Municipal Corporation Accounts Rules (UPMCAR), framed by the State Government under Section 153 of UPMC Act, BE of NNs were to be prepared in format B containing details of anticipated receipt and expenditure of ensuing financial year. In addition, details of proposed works, to be performed by the ULB in ensuing year, were to be depicted in format B-1.

Further, in compliance with the recommendations of the 11th Finance Commission, MoHUA; GoI, in consultation with CAG, developed (November 2004) budget and accounting formats for ULBs, called as the National Municipal Accounts Manual (NMAM). Based on the provision of NMAM, the

State Government formulated the Uttar Pradesh Municipal Accounts Manual 2018 (UPMAM) for prescribing new formats for preparation of Financial accounts and BE of ULBs. The UPMAM was applicable to all ULBs of the State for better financial management of these entities and for providing scientific basis to budget estimation.

Audit observed that prior to notification of UPMAM, no formats for preparation of BE of Municipalities was decided by the State Government. Further, in all test-checked NNs, BE for the period 2015-20 was prepared in format B of UPMCAR, however, details of proposed works were not prepared in format B-1 in any of the test-checked NNs. Similarly, in none of the test-checked NPPs and NPs, details of proposed works were prepared with BE. Hence, not preparing of format B-1 of budget estimation again indicated that there was lack of planning for delivery of functions and estimation of expenditure was on ad-hoc basis.

Further, it was also observed that, none of the test-checked ULBs adopted formats of UPMAM for preparation of budget estimates and financial accounts during the year 2019-20, resulting in absence of scientific approach in budget estimates as discussed in succeeding *paragraph no. 7.7.3*.

Moreover, in the opinion of the 14th CFC, maintenance of proper accounts is the starting point for financial accountability, consequently, non-maintenance or delayed compilation of annual accounts by the ULBs means compromised accountability. However, audit observed that the State Government did not decide any timeline for preparation and finalisation of annual accounts of the ULBs. In absence of the timeline, six NPs⁹⁴, out of the test-checked 25 NPs and two NPPs⁹⁵, out of the test-checked 21 NPPs, did not prepare annual accounts for any year during the period 2017-22. Besides, five NPs⁹⁶ and three NPPs⁹⁷ also did not prepare annual accounts for each year during the period 2017-22.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs to initiate action in this regard.

7.7.3 Unrealistic budget exercise

Expenditure estimation depends on services to be provided by ULBs. As the delivery of municipal services comes with 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.

However, Audit observed that such an exercise was not undertaken by test-checked ULBs and BE were prepared through adjustments in earlier year figures. As a result, BE of test-checked ULBs were unrealistic.

An illustrative example of preparation of unrealistic budget in each category of ULBs is shown in **Table 7.20** below:

⁹⁴ Bairiya (Ballia), Itaunja (Lucknow), Kheri (Lakhimpur Kheri), Pakbara (Moradabad), Pali and Talbehat (Lalitpur).

⁹⁵ Bilari (Moradabad) and Rasra (Ballia).

⁹⁶ Khamaria (Bhadohi) for the year 2017-18, Kunda (Pratapgarh) for the year 2017-19 and 2021-22, Maniyar (Ballia) for the year 2017-19, Oel Dhakwa (Lakhimpur Kheri) for the year 2017-19 and Ranipur (Jhansi) for the year 2017-18.

⁹⁷ Ballia for the year 2018-22, Rampur for the year 2021-22 and Sirsaganj (Firozabad) for the year 2017-19.

Table 7.20: Showing variations of BE with actuals in each category of test-checked ULBs

(₹ in crore)

Name of ULB	Year	Receipts			Expenditure		
		BE	Actuals	Percentage of Actuals to BE	BE	Actuals	Percentage of Actuals to BE
Nagar Nigams							
Lucknow	2015-16	1665.06	932.23	55.99	1293.36	479.40	37.07
	2016-17	1592.28	1283.80	80.63	1361.61	1110.65	81.57
	2017-18	2211.52	1425.06	64.44	1673.28	1369.83	81.86
	2018-19	2281.12	1107.07	48.53	1699.38	821.73	48.35
	2019-20	1992.88	880.48	44.18	1687.02	554.37	32.86
Jhansi	2015-16	136.37	166.13	121.82	129.88	123.64	95.20
	2016-17	224.21	226.68	101.10	220.32	130.92	59.42
	2017-18	267.10	227.53	85.19	243.52	176.32	72.40
	2018-19	236.45	209.55	88.62	231.30	168.31	72.77
	2019-20	237.54	96.65	40.69	230.36	140.82	61.13
Moradabad	2015-16	208.31	159.46	76.55	208.31	152.27	73.10
	2016-17	577.02	201.44	34.91	577.02	156.58	27.14
	2017-18	575.05	187.74	32.65	575.05	155.43	27.03
	2018-19	908.25	226.88	24.98	908.25	178.04	19.60
	2019-20	406.04	209.04	51.48	406.04	165.17	40.68
Nagar Palika Parishads							
Rampur	2015-16	64.83	63.97	98.67	85.14	57.92	68.03
	2016-17	110.21	78.53	71.25	120.49	83.56	69.35
	2017-18	131.5	47.42	36.06	147.07	53.40	36.31
	2018-19	65.06	50.22	77.19	94.89	66.25	69.82
	2019-20	55.14	71.37	129.43	96.45	57.52	59.64
Lalitpur	2015-16	37.09	23.10	62.28	45.26	25.34	55.99
	2016-17	32.20	29.89	92.83	46.00	27.96	60.78
	2017-18	46.48	35.57	76.53	54.67	25.89	47.36
	2018-19	41.36	30.76	74.37	56.06	33.65	60.02
	2019-20	41.17	33.00	80.16	57.70	31.07	53.85
Belha Pratapgarh	2015-16	28.49	18.91	66.37	34.38	13.60	39.56
	2016-17	28.95	20.70	71.50	38.68	22.94	59.31
	2017-18	30.48	20.84	68.37	44.86	25.06	55.86
	2018-19	29.88	21.69	72.59	42.53	18.84	44.30
	2019-20	30.79	27.93	90.71	40.65	27.45	67.53
Nagar Panchayats							
Fariha (Firozabad)	2015-16	2.91	2.11	72.51	2.87	2.22	77.35
	2016-17	3.14	2.81	89.49	3.17	2.47	77.92
	2017-18	3.18	3.01	94.65	3.43	2.95	86.01
	2018-19	4.08	2.35	57.60	4.52	2.32	51.33
	2019-20	3.31	3.76	113.60	4.09	2.32	56.72
Talbehat (Lalitpur)	2015-16	2122.00	682.40	32.16	21.10	6.36	30.14
	2016-17	4521.50	1591.12	35.19	44.55	12.28	27.56
	2017-18	2668.00	536.94	20.13	25.95	7.81	30.10
	2018-19	2700.00	913.01	33.82	26.75	10.32	38.58
	2019-20	2007.00	603.18	30.05	19.95	6.60	33.08
Kunda (Pratapgarh)	2015-16	9.75	7.28	74.67	9.02	6.31	69.96
	2016-17	8.90	8.72	97.98	7.86	10.09	128.37
	2017-18	11.65	8.33	71.50	11.92	6.61	55.45
	2018-19	9.98	8.03	80.46	12.90	10.50	81.40
	2019-20	11.52	9.53	82.73	13.09	9.25	70.66

(Source: Information provided by test-checked ULBs)

It is evident from above that estimation of both expenditure and receipts were not accurate. It varied widely and did not project any trend indicating the randomness of budgeting process.

Thus, lack of scientific assessment of the cost of services to be rendered and their source of fund, resulted in unrealistic budgeting.

The UD Department replied (November 2022) that the required instructions would be issued to ULBs to initiate action in this regard.

7.7.4 Role of State Government in budgeting of ULBs

Despite having power to approve the budget of Municipalities in exceptional cases, the State Government did not intervene to ensure passing/approval of budget of ULBs in extraordinary situations during the period 2015-20, as discussed earlier in *paragraph no. 4.2.3.7*.

Further, as per provisions of List of Major and Minor Heads of Accounts, Minor heads 191, 192 & 193 were operated⁹⁸ for providing budgetary assistance to NNs, NPPs and NPs respectively. However, Audit observed that grants appropriated to these Minor heads by the State Legislature were being directly released to parastatals by the UD Department without keeping ULBs in loop, as a sum of ₹ 3,847.12 crore was directly released to UPJN by the State Government under AMRUT scheme for execution of drinking water and sewerage projects during 2015-20. As a result, ULBs did not have any financial control over parastatals.

Apart from above, under Centrally Sponsored schemes viz., Smart City Mission, *Swachh Bharat* Mission and AMRUT, an Apex Committee headed by the Secretary, MoHUA was empowered for approval and release of funds according to the sanctioned projects. It was also observed that the share of ₹ 333.72 crore of 10 ULBs⁹⁹ in respect of sanctioned projects under AMRUT scheme¹⁰⁰ was also adjusted from grants of Central Finance Commission on the instructions of the State Government during 2018-19. Similarly, in respect of State sponsored schemes, these powers were vested with the State Government.

The UD Department did not offer (November 2022) any comments in this regard.

Recommendations:

- 18. Efforts need to be made to motivate the ULBs to prepare their budgets in a scientific manner taking into account realistic projection of funds expected to be mobilised.**
- 19. Funds should be released to parastatals through the Urban Local Bodies so that financial control of local government over activities of executive agencies is ensured.**

⁹⁸ Minor head 191 prior to the period 2011-12 and 192 & 193 from 2011-12.

⁹⁹ NNs: Agra, Ayodhya, Ghaziabad, Gorakhpur, Jhansi, Kanpur, Lucknow, Moradabad, Prayagraj and Varanasi.

¹⁰⁰ Funding pattern of approved projects by the Centre, State and ULB was in ratio of 50:30:20 respectively.

7.8 Expenditure of Urban Local Bodies

The expenditure of ULBs can be categorised into five major categories such as infrastructural expenses on civic amenities, operations and maintenance expenses, general expenses, human resource expenses and advertisement expenses. The details of expenditure incurred by ULBs in the State during the period 2015-20¹⁰¹ are exhibited in **Table 7.21** below:

Table 7.21: Details of expenditure incurred by ULBs in the State

(₹ in crore)

Year	Infrastructural expenses on civic amenities	Operations and Maintenance expenses	General expenses	Human resource expenses	Advertisement expenses	Total Expenditure
2015-16	3,564.42	1,674.87	1,169.75	3,068.72	33.24	9,511.00
2016-17	3,137.84	1,649.37	1,420.29	3,344.96	40.84	9,593.30
2017-18	2,404.52	1,802.23	2,108.28	4,028.83	44.33	10,388.19
2018-19	2,859.54	1,941.17	1,958.32	4,634.60	54.83	11,448.46
2019-20	2,740.64	1,623.17	1,467.12	5,156.58	51.38	11,038.89
Total	14,706.96	8,690.81	8,123.76	20,233.69	224.62	51,979.84

(Source: *Karya Vivran* of UD Department)

The human resource expenses constituted about 39 *per cent* of the total expenditure followed by infrastructural expenses at 28 *per cent*. The operation and maintenance (O&M) expenses was 17 *per cent* of the total expenditure.

The UD Department did not offer (November 2022) any comments in this regard.

7.8.1 Resource-expenditure gap

The ULBs were able to generate own resources only to the extent of 29 *per cent* of the revenue expenditure during the period 2015-20¹⁰². A comparison of the own revenue to revenue expenditure showed large gaps as depicted in **Table 7.22**.

Table 7.22: Details of own revenue vis-a-vis revenue expenditure of ULBs

(₹ in crore)

Year	Own revenue ¹⁰³ of ULBs				Revenue Expenditure of ULBs				Percentage of Own revenue to Revenue Expenditure
	NN	NPP	NP	Total	NN	NPP	NP	Total	
2015-16	1,366.85	385.53	125.98	1878.36	2989.34	2106.89	850.36	5946.59	31.59
2016-17	1,544.38	414.92	114.76	2074.06	3419.04	2151.33	885.09	6455.46	32.13
2017-18	1,985.42	409.15	117.29	2511.86	4560.22	2451.7	971.75	7983.67	31.46
2018-19	1,899.46	352.04	124.28	2375.78	4774.63	2630.83	1183.46	8588.92	27.66
2019-20	1,375.47	375.55	138.62	1889.63	4188.12	2857.12	1253.02	8298.26	22.77
Total	8,171.58	1,937.19	620.93	10,729.69	19,931.35	12,197.87	5,143.68	37,272.9	28.79

(Source: *Karya Vivran* of UD Department)

¹⁰¹ UD Department is in the process of compiling data for the year 2020-21 and for the year 2021-22, it is yet to be started.

¹⁰² UD Department is in the process of compiling data for the year 2020-21 and for the year 2021-22, it is yet to be started.

¹⁰³ Including receipts of additional stamp duty.

It is also evident from above that the own revenue of NNS, NPPs and NPs of the State was only 41 per cent, 16 per cent and 12 per cent of the total revenue expenditure respectively during the period 2015-20, indicative of their dependency on Government grants.

It was also observed that own revenue of ULBs was even not enough for payment of human resource expenditure as it was only 53 per cent of expenses human resources, which also needs to be addressed by ULBs.

The UD Department replied (November 2022) that required instructions had been issued from time to time for increasing the own revenue resources of ULBs.

7.8.2 Extent of utilisation of funds

A comparison of total expenditure with total receipts during the period 2015-20¹⁰⁴ showed that ULBs were able to utilise on an average about 90 per cent of the available funds each year as depicted in **Table 7.23** below:

Table 7.23: Details of receipts and expenditure of ULBs during 2015-20

(₹ in crore)

Year	Own revenue (including of additional stamp duty)	CFC grants	SFC grants	Others (including borrowings)	Total receipts	Expenditure	Percentage of expenditure against total receipts
2015-16	1,878.36	1,031.79	5,470.91	1,386.77	9,767.83	9,511.00	97.37
2016-17	2,074.06	1,177.09	5,532.23	1,615.04	10,398.42	9,593.30	92.26
2017-18	2,511.86	2,558.32	5,849.70	1,554.85	12,474.73	10,388.19	83.27
2018-19	2,375.78	1,855.69	6,135.91	1,940.34	12,307.72	11,448.46	93.02
2019-20	1,889.63	2,471.49	7,162.49	1,579.83	13,103.44	11,038.89	84.24
Total	10,729.69	9,094.38	30,151.24	8,076.83	58,052.14	51,979.84	89.54

(Source: *Karya Vivran* of UD Department)

The constraints in utilisation of funds could include the following:

- ✓ The conditions of financial sanctions issued by the State Government for grants and funds under other schemes¹⁰⁵, required utilisation of released funds/grants in a specified time period and after expiry of it, special permission of the State Government was required for utilisation of unspent balances of grants/funds. For this purpose, every ULB was required to seek time extension from the State Government. This restricted the autonomy of the ULBs in utilising the funds/grants as per their needs.
- ✓ The authority to issue administrative and financial sanctions regarding works of CFC funds and Infrastructure Development Fund was vested with a committee headed by District Magistrate in case of Municipalities. However, due to not holding of meetings of the committee on time, approval and execution of works was delayed.

¹⁰⁴ UD Department is in the process of compiling data for the year 2020-21 and for the year 2021-22, it is yet to be started.

¹⁰⁵ Central and State Finance Commission Grants, *Pt. Deen Dayal Upadhyay Nagar Vikas Yojna, Kanha Pashu Ashray Yojna*, releases under Additional Stamp Duty etc.

✓ As per the guidelines (April 1999) of the Infrastructural Development Fund¹⁰⁶, 40 per cent amount of released fund was to be utilised by the ULBs on creation of revenue earning assets, while remaining 60 per cent on permanent nature of works. These restrictions imposed by the State Government on utilisation of funds, either forced ULBs to violate the guidelines as scope for creation of revenue earning assets within the available resources was limited or delayed the utilisation of funds.

✓ The restrictions/limitations on financial and administrative powers of ULBs as discussed subsequently in **paragraph 7.9**.

✓ The huge number of vacancies in various cadres, as detailed in the **paragraph no. 6.2** also impacted utilisation.

The UD Department replied (November 2022) that the required instructions had been issued to ULBs for proper utilisation of funds related with CFC and SFC.

7.9 Financial Powers of Urban Local Bodies

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

- ✓ creating an efficient and reliable administration;
- ✓ intensify and improve local governance;
- ✓ enhances accountability and responsiveness;
- ✓ improved capacity of the local people to participate in the decision making process, especially with regard to service delivery; and
- ✓ increased motivation *etc.*

Audit observed that provisions of UPMC Act and UPM Act, were silent about the administrative and financial sanctioning powers of different municipal authorities and only prescribed powers related with approval of estimates and contracts, as detailed in **Appendix VII**.

However, in case of Centrally and State sponsored schemes, administrative and financial sanctions were accorded by the State Government. Further, in case of CFC grants and Infrastructure Development Fund, authority of according administrative and financial sanctions are vested with a committee, headed by District Magistrate and Mayor (w.e.f. February 2019) in case of Municipalities and Municipal Corporations respectively. Besides, in case of SFC funds, the State Government did not mention any authority for the same and Mayor/President was according the administrative and financial sanctions as a de-facto situation. Though the State Government constituted (May 2014) a committee to enable the President for according administrative sanctions regarding CFC, SFC funds *etc.* and for stoppage of interference of district administration in these issues, however, no progress was made in this regard.


The UD Department did not offer (November 2022) any comments in this regard.

¹⁰⁶ Created through levy of additional stamp duty on transfer of immovable properties within the jurisdiction of ULBs.

7.10 Conclusion


The State Government could not devolve sufficient resources to ULBs. ULBs had minimal revenue base and were largely dependent on Government grants for their survival. SFC grants were largely used for meeting establishment expenditure of ULBs. There was delay in constitution and accepting recommendations of SFC. The accepted recommendation of SFCs were also not implemented by the State Government. The share of ULBs in Additional Stamp Duty was not transferred. The ULBs could not obtain grants as per the allocation of 14th CFC, reasons for which were not on records. No compensation was provided to ULBs on account of subsumed taxes under the GST. ULBs were not proactive in the imposition and realisation of municipal taxes as many test-checked ULBs did not impose mandatory house tax and water tax. The other sources of own revenue such as Conservancy tax, tax on trades and calling, betterment tax, theatre tax, water charges, trade licenses *etc.* were not optimized by the ULBs. Required bye-laws were not framed by the ULBs for imposition of tax and non-tax revenue. The collection of imposed taxes was not efficient. The self-assessment system was also not adopted by the ULBs. The process of assessment of properties was deficient. The recovery of loans from the ULBs were pending. The preparation of budget estimates by ULBs was not only delayed but also unrealistic.

PRAYAGRAJ
THE **31 May, 2024**


(RAM HIT)
Principal Accountant General (Audit-I)
Uttar Pradesh

COUNTERSIGNED

NEW DELHI
THE **6 JUN 2024**


(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India