

CHAPTER - IV
Financial
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This Chapter deals with the management of financial resources by the Municipal Corporations. MCs were largely dependent on Government grants, for undertaking their activities. Audit found that spending on storm water drainage and sewerage management had been minimal. Further, non-levy of cess and non-collection of user charges, had contributed to lower revenue generation of MCs.

4. Financial Management

The Municipal Corporations (MCs), Odisha Water Supply and Sewerage Board (OWSSB) and Water Corporation of Odisha (WATCO), had been provided with funds from various sources, such as the 14th Finance Commission, 15th Finance Commission, AMRUT¹¹⁰ scheme, OUIDF¹¹¹, JICA¹¹², Finance Commission (FC) Grants and State Grants, apart from their own funds, for management of both Storm Water Drainage and Sewerage Management.

4.1 Receipt and expenditure of five MCs

The 14th Finance Commission (2015-20)/ 15th Finance Commission (2020-25) and AMRUT included four¹¹³ essential services sectors (including SWD) to be provided by local bodies. Details of receipts and expenditure, incurred by the five selected MCs, for the period from FY 2017-18 to FY 2021-22, are given in Table 4.1.

Table 4.1: Receipts and expenditure of five selected MCs during 2017-22

(₹ in crore)

Financial year	Receipts					Expenditure			Percentage of	
	GoI grant	GoO grant	Own revenue	OUIDF loan	Total receipts	Total	SWD	Savings	Expenditure on SWD, against the total receipt	Grants received, against total receipts
1	2	3	4	5	6	7	8	9	10	11
2017-18	118.39	179.03	463.79	5.61	766.82	569.45	61.84	197.37	8.06	38.79
2018-19	124.56	227.13	549.03	3.69	904.41	728.84	60.41	175.57	6.68	38.89
2019-20	168.46	260.79	589.63	7.48	1,026.36	730.99	48.59	295.37	4.73	41.82
2020-21	440.02	476.86	699.77	9.41	1,626.06	905.30	65.04	720.76	4.00	56.39
2021-22	353.52	282.36	617.43	0	1,253.31	1,223.06	100.60	30.25	8.03	50.74
Total	1,204.95	1,426.17	2,919.65	26.19	5,576.96	4,157.64	336.48	1,419.32	6.03	47.18

Source: As per information furnished by the five selected Municipal Corporations

¹¹⁰ Atal Mission for Rejuvenation and Urban Transformation

¹¹¹ Odisha Urban Infrastructure Development Fund

¹¹² Japan International Cooperation Agency

¹¹³ Essential services to be carried out: i) water supply services, ii) sewage management, iii) solid waste management and iv) storm water drainage

Analysis of the above receipts of the selected MCs revealed that Government grants had been constituted between 38.79 and 56.39 *per cent* of their total receipts, which indicates that the MCs were dependent on Government grants for undertaking their activities. Further, the expenditure incurred on SWD constituted a meagre amount, which had ranged from four to 8.06 *per cent* of the total receipts, during FYs 2017-18 to 2021-22, resulting in savings of ₹1,419.32 crore, at the end of March 2022, which indicated poor fund management by the selected MCs. Receipts and utilization of funds, under various grants, are detailed in *Appendix-V*.

MCs were dependent on Government grants for undertaking their essential activities.

BMC stated (October 2022) that SWD was a component of capital expenditure and it had made budget provisions accordingly. BeMC stated (November 2022) that steps would be taken to utilize the funds, for construction of SWD systems, in the ensuing financial year. SMC stated (May 2023) that steps would be taken to utilize the funds, for construction of SWD in each financial year according to the budget provision. The replies from RMC and CMC were awaited. The fact, however, remained that, despite availability of funds, the MCs had not been able to utilise adequate funds for SWD management, in cities, for want of Master Plan (MP), for drainage systems and inadequate manpower, as discussed in **Paragraphs 3.2.2.1 and 6.3**, respectively.

OWSSB and WATCO had taken huge loans (more than the requirement), in addition to Government grants, resulting in accumulation of funds, at the end of each financial year which indicated poor management of funds for sewerage projects.

4.2 Financial performance of OWSSB and WATCO, in regard to sewerage projects

Based upon the information furnished to Audit, by the OWSSB and WATCO, their capital budgets, GoI/GoO grants, loan from JICA and OUIDF and actual expenditure incurred for sewerage management during the FYs 2017-18 to 2021-22, are shown in **Table 4.2**

Table 4.2: Budget and expenditure for sewerage projects, during the FYs 2017-18 to 2021-22

(₹ in crore)

Financial Year	Budget estimates for sewerage projects	Opening Balance	Receipts				Total available funds	Expenditure	Closing Balance	Percentage of expenditure of total funds received
			GoI grant ¹¹⁴	GoO grant	Loan (OUIDF/ JICA)	Total				
1	2	3	4	5	6	7	8	9	10	11
2017-18	505.12	388.48	45.00	35.72	391.08	471.80	860.28	528.18	332.10	61.40
2018-19	383.60	332.10	65.00	72.59	242.53	380.12	712.22	430.39	281.83	60.43
2019-20	153.30	281.83	0.00	199.66	161.94	361.60	643.43	366.78	276.65	57.00
2020-21	301.00	276.65	83.50	529.37	203.51	816.38	1,093.03	615.99	477.04	56.36
2021-22	504.00	477.04	65.00	115.93	323.09	504.02	981.06	574.15	406.91	58.52
Total	1,847.02		258.50	953.27	1,322.15	2,533.92		2,515.49		

Source: Information furnished by OWSSB/ WATCO

It can be seen from **Table 4.2** that, though there were not adequate funds (except for the FY 2019-20) available to cover the budget estimates, however, OWSSB and WATCO had taken huge loans (more than the requirement), in addition to Government grants, resulting in accumulation of funds, at the end of each financial year. Funds ranging from 56.36 to 61.40 *per cent* only, had

¹¹⁴ AMRUT grant for Sambalpur and Rourkela sewerage projects and special grants received for sewerage projects in the State of Odisha during 2020-22.

been utilised towards sewerage projects, during the period FYs 2017-18 to 2021-22, which indicated poor management of funds. It also showed that the budget provision made for sewerage management was unrealistic, as per the actual requirement on sewerage projects.

The Government stated (May 2023) that the balance funds will be utilised under the aforesaid projects. The reply was not furnished in regard to availing loans, even though funds were available at the beginning of every year, which indicated blockage of funds, due to laxity in planning, for achieving the objective of sewerage management, as discussed in **para 5.3**.

4.3 Grant of mobilisation advances to the contractors

Paragraph 3.7.21 of the OPWD Code stipulates that, as a rule, payment of advances, to contractors, is prohibited. Note-C of the above para states that advances may, however, be given, in cases where issue of such advances is indispensable, provided that necessary precautions are taken against loss. Such a system is not to be allowed to become general, or to continue longer than is absolutely essential, and such advances are to carry interest, at the rate of 18 *per cent per annum*.

4.3.1 Loss of interest due to defective clause in the agreements

Scrutiny of records of the Chief Engineer (CE), JICA, showed that agreements had been executed¹¹⁵, with four agencies¹¹⁶, for four works¹¹⁷, in which a condition was mentioned for payment of interest-free advance, in deviation from the OPWD Code. The EIC, accordingly, paid interest free mobilisation advance of ₹229.94 crore, between February 2013 and December 2018. Failure to incorporate an appropriate clause, for repayment of the mobilization advance, with interest, in the agreement, led to loss of interest of ₹91.14 crore, to the State Exchequer.

The Government stated (March 2023) that, as per general condition of the contract, interest free mobilization advance was issued to the contractors. The reply is not satisfactory, as failure to incorporate the appropriate clause, for repayment of mobilization advance with interest in agreements, led to extra burden to the State Exchequer, since GoO, had paid interest on loan for sewerage projects.

4.3.2 Non-adjustment of secured advance

Paragraph 3.7.21 (a) of the OPWD code stipulated that, secured advance, of 75 *per cent* of the value of cost of the material, may be released to the contractor, on the security of materials brought to the site. Further, recoveries of the advances so made, must not be postponed, until the whole of the work, entrusted to the contractor, is completed.

¹¹⁵ Between January and June 2013

¹¹⁶ M/s IVRCL Limited, M/s L&T Limited, M/s VA Tech Wabag Limited and M/s Tanta Voltas JV

¹¹⁷ JICA Package I: ₹58.06 crore, for construction of Bhubaneswar sewerage District VI; Package II: ₹89 crore, for construction of Cuttack sewerage districts I, II and III; Package III: ₹24.49 crore, for construction of Sewerage treatment plants for Bhubaneswar Sewerage District VI and Cuttack sewerage districts I and II; and Package IV: ₹58.39 crore, for construction of box drains in Cuttack

Failure to incorporate recovery clause for mobilisation advance with interest from contractors for JICA funded projects in violation to OPWD Code, led to loss of interest of ₹91.14 crore.

Records of the Project Engineer (PE), OWSSB, Sambalpur, revealed that OWSSB had paid secured advance of ₹7.56 crore, to an agency, between December 2017 and March 2021, to work on the Sambalpur sewerage project, for procurement of sewer pipes. Out of this amount, ₹6.08 crore had been adjusted, leaving a balance of ₹1.48 crore unrealised (as of November 2022).

The Government stated (March 2023) that the balance amount of ₹1.48 crore, towards secured advance was recovered from the agency by OWSSB, from 46th RA bill (December 2022). The reply is not satisfactory, as the Department did not provide any documentary evidence for such recovery.

4.4 Avoidable expenditure towards service tax and GST for consultancy services

The Union Finance Act, 1994¹¹⁸, read with notifications¹¹⁹ issued during October 2009 and June 2012, excluded services provided for sewerage treatment or disposal, from levy of service tax. The Central Board of Excise and Customs, GoI, also clarified (June 2017) that consultancy services, coming under pure consultancy services¹²⁰ (without supply of goods), provided to local authority, by way of any activity in relation to any function entrusted to a Municipality under Article 243W, are exempted from the Goods and Services Tax (GST).

Audit noticed (June 2022) that OWSSB had entered into an agreement with two firms¹²¹, between December 2009 and February 2018, to provide manpower services, for supervision and monitoring of eight¹²² sewerage projects. However, the Board had paid ₹205.40 crore to these firms, towards consultancy services, including service tax/ GST of ₹30.11 crore¹²³, during December 2009 to July 2022, in violation to the Finance Act and GST Act, leading to avoidable expenditure of ₹30.11 crore.

The Government stated (March 2023) that the service provided by Engineering and Project Management Consultancy to OWSSB, was not in the nature of pure service and involved considerable amount of supply of goods. The reply is not satisfactory, as the related agreements had been drawn, for providing supervision and monitoring services, for construction of sewerage projects and does not involve supply of goods and hence to be treated as consultancy services and no need to pay service tax/ GST.

OWSSB paid (December 2009 to July 2022) consultancy services including service tax/ GST in violation of Finance Act and GST Act, led to excess expenditure of ₹30.11 crore from State exchequer, as the consultancy services coming under pure services are exempted from service tax/ GST.

¹¹⁸ As per Section 65(105) (zzzza) of Chapter V

¹¹⁹ 41/2009-Service Tax dated 23 October 2009 and 25/2012-Service Tax dated 20 June 2012

¹²⁰ Supply of services without involving any supply of goods are treated as 'pure service'. Thus, supply of manpower for cleanliness of roads, and public places, architect services, consulting engineer services, advisory services and like services, provided by business entities, not involving any supply of goods, are to be treated as supply of pure services

¹²¹ M/s Tokeo Engineering Consultants Co. Ltd. from December 2009 and it was continued up to March 2023, for JICA projects at Cuttack and Bhubaneswar Sewerage district-VI and ii) M/s Meinhardt Singapore Pte Ltd. from February 2018 to January 2021, for Sambalpur, Rourkela and Bhubaneswar Sewerage districts – I, II, III and IV

¹²² Under EPC: Six sewerage projects (Bhubaneswar sewerage districts I to IV), Sambalpur and Rourkela West sewerage projects and Under JICA: Two sewerage projects: (Cuttack and Bhubaneswar VI)

¹²³ Service tax: ₹9.13 crore + GST: ₹20.98 crore

4.5 Revenue generation by collection of sewage user fee and SWD cess

4.5.1 Non-collection of sewage user fees

Out of 1,12,110 household sewage connections in four MCs, WATCO collected ₹4.19 crore (up to August 2021), against ₹16.82 crore due (from October 2019 to March 2022), leaving ₹12.63 crore unrealised.

As per GoO Gazette Notification March 2016¹²⁴, the sewerage tariff, for different categories of consumers, was to be collected every month. Accordingly, WATCO was required to collect monthly sewerage user fee, of ₹50 per connection, from individual domestic households, as per GoO, H&UD Department Notification (March 2016).

Scrutiny of records of WATCO showed (August 2022) that, out of 1,12,110 household sewage¹²⁵ connections, in four¹²⁶ MCs, WATCO had collected ₹4.19 crore (upto August 2021), against ₹16.82 crore due (from October 2019 to March 2022), leaving ₹12.63 crore¹²⁷ unrealised. Thereafter, no sewerage fees had been collected. Reasons for non-collection were not found available on records. It is pertinent to mention that there was no provision to impose fine/penalty to defaulters, in the aforesaid notification.

Further, discrepancy in the collection of sewerage fees, during the period from the FYs 2019-2021, was noticed, between the figures reported in the annual accounts of WATCO and the collection statements furnished to Audit, as shown in **Table 4.3**.

Table 4.3: Discrepancy in reporting of collection of sewerage fees

(₹ in lakh)

Financial Year	Figures reported in Annual Accounts	Figures reported to Audit	Difference
2019-20	0	112.08	112.08
2020-21	4.69	216.38	211.69
2021-22	0.13	90.36	90.23

The Government stated (March 2023) that after formation of WATCO, the collection of sewerage cess was being done by WATCO for commissioned sewerage systems in Bhubaneswar, Cuttack and Rourkela. The reply is not satisfactory, as the Department had not collected the sewerage cess from the households and not fixing accountability on officials responsible, for such collection which led to loss of government revenue.

¹²⁴ Revised the sewerage tariff from households: Monthly ₹50 per domestic households per connection

¹²⁵ STP-I: 35,747, STP-II: 24,462, STP-III: 23,387, STP-IV: 10,753, STP-VI: 0 of Bhubaneswar, STP-I CDA: 16,500, STP-II Matagajpur: 350, STP Rourkela: 911 and STP Sambalpur: 0

¹²⁶ BMC, CMC, SMC and RMC

¹²⁷ Sewerage fee = 1,12,110 number of consumers X 30 months from October 2019 to March 2022 X ₹50 per household (–) ₹4.19 crore collected = ₹12.63 crore

4.5.2 Non-levy of cess led to non-generation of own revenue by MCs

As per Paragraph 2.6 of the SWD Manual, 2019, O&M funds may be earmarked from the drainage activities of the municipal budget and may be collected in the form of storm water drainage cess, based on the area of the premises and the level of construction done. Paragraph 5.5 of the said Manual also envisaged that, for usage of any infrastructure, user charges were to be levied, considering the present requirement, for O&M of SWDs. Taxes and user fees could be imposed, by the ULBs, under the Municipal Act.

Scrutiny of records of the selected MCs revealed (October 2022) that both the Government, as well as the MCs had not fixed any rates for taxes and user fees, from households, despite substantial amounts of ₹336.48 crore, having been incurred, for construction, repair and maintenance of drains, during 2017-18 to 2021-22.

In reply, BeMC stated (November 2022) that cess would be imposed and collected, after getting approval from the Municipal Council. BMC and RMC noted the audit comments. SMC stated (May 2023) that cess would be collected as per the Manual 2019, after taking approval from competent authority. CMC did not furnish any replies. The replies are not acceptable, since the MCs had failed to take steps for generation of their own revenue, for their self-sustainability.

Both the Government and MCs had not fixed Storm Water Drainage Cess rates to collect from households, despite substantial amounts of ₹336.48 crore, having been incurred for construction, repair and maintenance of drains during 2017-18 to 2021-22.

4.6 Non-submission of Utilisation Certificates

Rule 173 of the Orissa General Financial Rules, requires furnishing of, utilisation certificates (UCs) by the grantee institutions, as it serves assurance to the sanctioning authority that the funds, are utilised for the purpose, for which it was sanctioned and disbursed. Any delays in furnishing these reports, to the grantors, or any inaccuracy in such reporting, undermines the control mechanism, designed to ensure non-diversion and proper utilisation of funds.

Audit observed (October 2022) that, out of an overall amount of ₹4,316.04 crore¹²⁸, received from 14th FC, 4th SFC, 5th SFC, AMRUT and JICA, during 2015-22, H&UD Department had submitted UCs for only ₹3,794.97 crore¹²⁹, with UCs for ₹521.07 crore, having not been submitted to GoO/ GoI (as of October 2022).

In reply, RMC stated (April 2023) that pending UCs would be furnished. BeMC stated (May 2023) that all UCs, had already been submitted to the Department by March 2023. However, the reply of the Government was awaited (as of August 2023).

4.7 Undue benefit to consultants, due to excess payment for hired vehicles

The Finance Department, GoO, issued a Circular (October 2015) in regard to hiring of private vehicles, for official use, at ₹20,000 each, for heads of

¹²⁸ 14th FC: ₹1,439.92 crore, 4th SFC: ₹1,907.17 crore, 5th SFC: ₹66.66 crore, AMRUT-I (Incentive): ₹58.00 crore and JICA: ₹ 844.29 crore (during 2015-22)

¹²⁹ UC submitted: 14th FC: ₹1,055.45 crore, 4th SFC: ₹1,840.07 crore, AMRUT-I (Incentive): ₹56.32 crore, and JICA: ₹843.13 crore

department. Despite above FD circular, OWSSB prepared (October 2016) an estimate, for hiring of vehicles, at ₹28,900 per vehicle, for the Sambalpur Sewerage project, which included rental, operation, maintenance, repairs, insurance *etc.*, for a run of 2,000 kms approximately.

Scrutiny of records of the OWSSB revealed (July 2022) that an Engineering Procurement and Construction (EPC) contract agreement had been executed (February 2018), with M/s Meinhardt Singapore Pte Ltd., for consultancy services of the Authority Engineer (AE), for supervision of the sewerage works of Sewerage districts- I, II, III, and IV, for Bhubaneswar City, Rourkela City and Sambalpur Town. In the said agreement, provision of hiring of 20 vehicles, at ₹75,000 per month per vehicle, was made, for use during the construction period of 36 months, with an agreed value of ₹5.40 crore¹³⁰. Acceptance (February 2018) of the consultant offer of ₹75,000 per vehicle, despite FD's Circular of ₹20,000 per vehicle and OWSSB's own estimate of ₹28,900 per vehicle, without any justification, led to undue benefits of ₹ two crore¹³¹ (including GST), having already been passed to the consultant (as of February 2021).

The Government stated (March 2023) that the payment made to the authority engineer towards cost of transportation was as per the provision of the agreement. The reply is not satisfactory, as acceptance of consultant's offer at higher rate, in deviation to FD circular, without negotiation and justification, led to undue benefit to the consultant.

4.8 Non-preparation of audited accounts and non-submission of Annual Audit Reports of the Board

Sections 35(2), (3) and (4) of the OWS&S Act, 1991, envisage that the Board is to maintain such books, in relation to its accounts and prepare the balance sheet, in such form and manner, as the regulations may require. Further, the accounts of the Board are to be audited by the auditor, in such manner and, at such times, as per orders of GoO, and certified, and be forwarded with the Audit Report, annually, to GoO, who may issue such directions to the Board, as it may deem fit, and the Board is to comply with such directions.

Audit observed that OWSSB had neither appointed any auditor, nor prepared annual accounts from 2012-13 onwards. In the absence of audited and certified accounts, the actual transactions made by the Board, could not be ascertained in Audit. The Board had also not initiated action for preparation of the annual accounts and submission of annual audit reports to GoO, as required.

The Government stated (May 2023) that Board has appointed statutory auditor from the CAG's empanelled for preparation of annual accounts from 2002-03 to 2011-12 and the firm had submitted Annual Audit reports up to March 2012. Steps were being taken to conduct Annual Audit for the period from 2012-13 to 2021-22.

¹³⁰ ₹75,000 per vehicle for 2,000 km per month, with 20 vehicles, for 36 months. (₹75,000 X 20 X 36)

¹³¹ Undue benefit to the consultant = {(₹ 75,000-₹20,000) X 308.70 (vehicle month, this is the co-efficient factor taken by OWSSB for making payment to the contractor)} X 18 *per cent* GST

4.9 Loss of central assistance

As per paragraphs 9.70 and 9.71 of Fourteenth Finance Commission (FFC) recommendations, GoI allocates basic grants (BG) and performance grants (PG) for ULBs. The BG is to provide a measure of unconditional support to ULBs for delivering basic functions assigned to them. To be eligible for PG, ULBs have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which it seeks to claim. It will also have to show an increase in own revenues over preceding year, as reflected in audited accounts. In addition, ULBs have to measure and publish Service Level Benchmarks (SLB) for essential services. The details of BG and PG received from GoI during 2015-20 are given below:

Table 4.4: Details of FFC Grant recommended and shortfall during the period 2015-20
(₹ in crore)

Year	FFC Grants Recommended			FFC Grants Received			Shortfall of Grants		
	BG	PG	Total	BG	PG	Total	BG	PG	Total
2015-16	170.10	0.00	170.10	162.44	0.00	162.44	7.66	0.00	7.66
2016-17	235.54	69.52	305.06	231.26	68.26	299.52	4.28	1.26	5.54
2017-18	272.14	78.67	350.81	258.84	0.00	258.84	13.30	78.67	91.97
2018-19	314.82	89.34	404.16	292.73	0.00	292.73	22.09	89.34	111.43
2019-20	425.39	116.98	542.37	425.39	0.00	425.39	0.00	116.98	116.98
Total	1417.99	354.51	1772.50	1370.66	68.26	1438.92	47.33	286.25	333.58

(Source: Information furnished by DMA)

From above table, it could be seen that there was a loss of central assistance of ₹333.58 crore (PG ₹286.25 crore + BG ₹47.33 crore) which was due to non-achievement of SLBs for four basic essential services, low revenue generation, non-conduct of elections to the ULBs and non-preparation of annual audited accounts.

It was pertinent to point out that the above deficiency was mentioned in the PA on Waste Management in Urban areas for the year ended March 2021 covering the period from the FYs 2015-16 to 2019-20 and the findings had been included in Paragraph 2.4 in the Report of CAG of India for the year 2022 (Report No.6), Government of Odisha. Despite the above deficiencies pointed out in the earlier CAG report, the MCs had not taken any step for achievement of SLBs for improvement in storm water drainage and sewerage management in cities as discussed in **Paragraph 6.11**.

Recommendations:

- 11. Government/ Corporations may devise a suitable mechanism for collection of SWD and sewerage cess, to increase their revenues and strive for self-sustenance.**
- 12. Government may plan appropriate strategies, for timely submission of UCs, to the funding agencies and the Finance Department.**

Loss of central assistance of 14th Finance (Performance grant and basic grant) for ₹333.58 crore due to non-achievement of service level benchmarks for four essential services, low revenue generation, non-conduct of election to the ULBs and non-preparation of annual audited accounts.