

## Chapter V: Financial resources of Urban Local Bodies

*Devolution of financial resources was critical for local bodies for the successful implementation of devolved functions. Finances of Urban Local Bodies (ULBs) comprised their own revenues, assigned revenues and transfers from the State and Central Governments. ULBs were highly dependent on Government grants for carrying out their functions. Full potential of collecting own revenues was not tapped by the ULBs and majority of them were not able to meet even their establishment expenditure out of their own resources. The delays in the constitution of State Finance Commissions (SFCs) and inaction on their recommendations by the Government, rendered the SFC mechanism redundant and deprived the ULBs of assured revenues. Unrealistic budgets by ULBs rendered them ineffective as an instrument of financial management and programme execution. Migration to Accrual Based Double Entry Accounting System was yet to be completed in Municipal Councils (MCs).*

Successful implementation of devolved functions and delivery of services by ULBs is dependent upon the availability of adequate financial resources with them. The resources of ULBs can be broadly categorized as (i) Own revenue, which ULBs mobilise through their power to levy and collect taxes and fees; (ii) Assigned revenue, which accrues to the ULBs as a certain percentage of a tax levied and collected by the State Government and; (iii) State and Central Government grants including Central Finance Commission (CFC) grants.

### 5.1 Sources of revenue

Own revenues (tax and non-tax revenues), assigned revenues and Government transfers including Finance Commission (FC) grants comprised the sources of revenue for ULBs in Goa. Composition of sources of revenue of ULBs for the period 2016-17 to 2020-21 is summarized in **Table 5.1** and depicted in **Chart 5.1**.

**Table 5.1: Sources of Revenues of ULBs**

(₹ in crore)

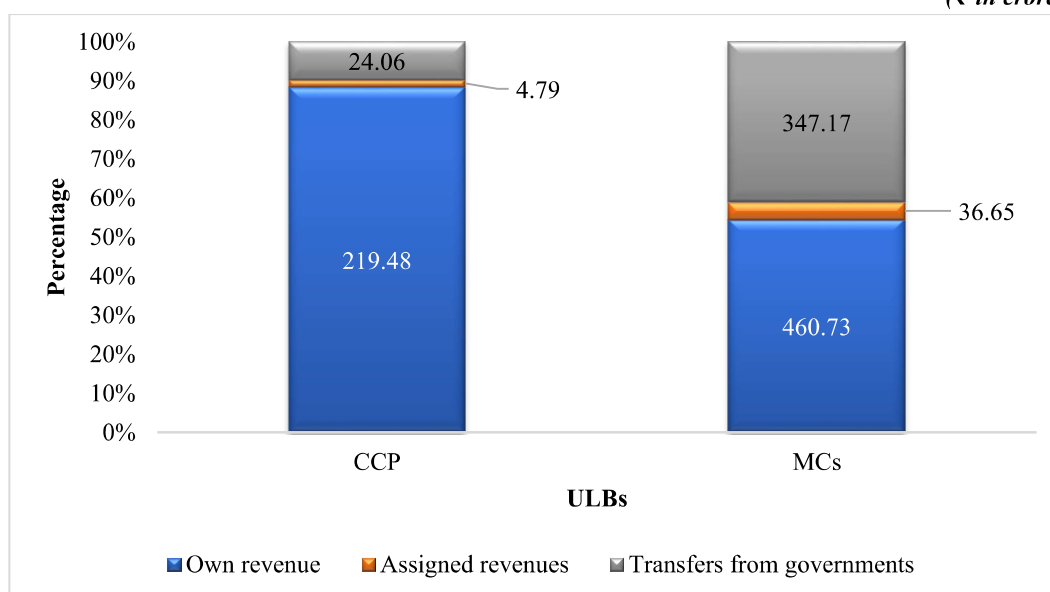
Year	Corporation of City of Panaji (CCP)					MCs				
	Own revenue	Percentage of total revenue	Assigned revenue	Grant*	Total	Own revenue	Percentage of total revenue	Assigned revenue	Grant*	Total
2016-17	32.94	94.06	2.08	--	35.02	66.00	60.99	14.21	28.00	108.21
2017-18	47.97	94.65	2.71	--	50.68	95.53	45.86	22.44	90.30	208.27
2018-19	53.99	91.11	--	5.27	59.26	103.45	68.29	--	48.03	151.48
2019-20	35.08	80.97	--	8.24	43.32	93.57	45.01	--	114.30	207.87
2020-21	49.50	82.43	--	10.55	60.05	102.18	60.56	--	66.54	168.72
<b>Total</b>	<b>219.48</b>		<b>4.79</b>	<b>24.06</b>	<b>248.33</b>	<b>460.73</b>		<b>36.65</b>	<b>347.17</b>	<b>844.55</b>

(Source: Information provided by Director of Urban Development)

\* includes grants from both State and Central Government

**Chart 5.1: Composition of revenues of ULBs during the period 2016-21**

(₹ in crore)



(Source: Information provided by Directorate of Urban Development)

Own revenue of CCP constituted 88.38 per cent of the total revenue, whereas it accounted for 54.55 per cent in the rest of the MCs. Government grants for CCP and MCs constituted 9.69 per cent and 41.10 per cent of their total revenues respectively.

Audit observations on revenues of ULBs were as below:

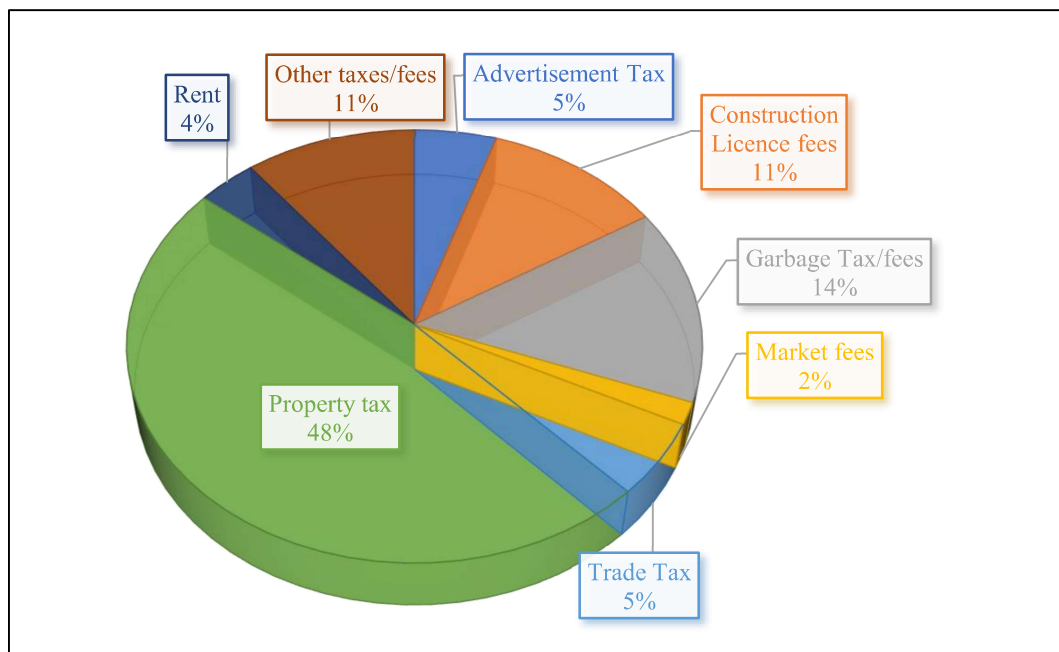
## 5.2 Own revenues of Urban Local Bodies

Article 243X of the Constitution *inter alia* provided that a State legislature may authorise the ULBs to levy, collect and appropriate taxes, duties, tolls and fees. Accordingly, necessary provisions were made in the Corporation of City of Panaji (CCP) Act, 2002 and Goa Municipalities Act (GMA), 1968.

### 5.3 Own revenues of CCP

Section 104 of the CCP Act empowered the CCP to mandatorily impose property taxes and cess on animals or goods brought within the city for sale, consumption or use and six types of discretionary taxes<sup>1</sup>. Composition of CCP's own sources of revenue for the period from 2016-17 to 2020-21 is depicted in **Chart 5.2**.

**Chart 5.2: Composition of own sources of revenues in CCP**



(Source: Income and expenditure statements of CCP for the period 2016-21)

The top seven contributors to the revenues of the CCP were property tax, garbage tax, construction licence fees, advertisement tax, professional tax, rent and parking fees as shown in **Table 5.2**.

<sup>1</sup> (a) A tax payable by the owners on all or any vehicles or animals used for riding, driving, draught, or burden, or on dogs where such vehicles, animals or dogs are kept within the city, (b) A toll on vehicles and animals used as aforesaid entering the city and on boats moored within the city; (c) Fees on the registration of cattle sold within the city; (d) A lighting rate where the lighting of public streets, places and buildings is undertaken by the Corporation; (e) Market dues on persons exposing goods for sale in any market or in place belonging to or under the control of the Government or of the Corporation and; (f) Any other tax not being a tax on professions, trades, calling and employments which the State Legislature has power to impose in the State under the Constitution

**Table 5.2: Collection of revenues of CCP for the period 2016-21**

Type of Revenues	2016-17	2017-18	2018-19	2019-20	2020-21
Property tax	13.30	13.71	15.81	19.70	20.34
Garbage tax	4.54	4.98	5.05	5.25	5.32
Construction License Fees	4.46	2.24	4.23	2.90	5.30
Advertisement tax	1.60	1.64	1.76	1.88	1.89
Professional tax	1.49	1.85	1.81	2.03	2.37
Rent	0.88	1.02	1.07	1.33	2.05
Parking fee	0.11	0.09	0.03	0.11	0.80
<b>Total</b>	<b>26.38</b>	<b>25.53</b>	<b>29.76</b>	<b>33.20</b>	<b>38.07</b>

(₹ in crore)

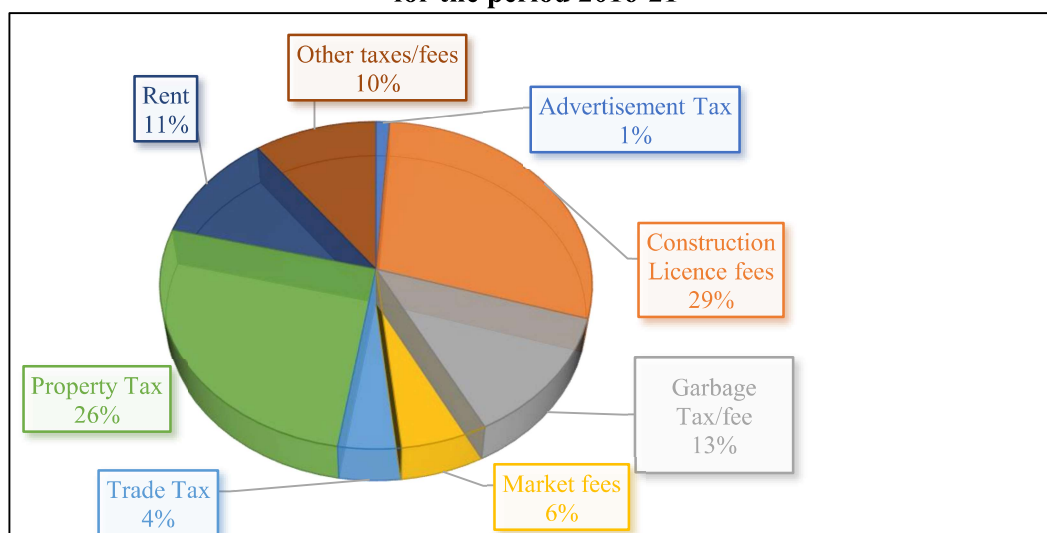
(Source: Income and expenditure statements of CCP for 2016-21)

Compared to 2016-17 all the revenues have increased in 2020-21 as evident from the above table.

### 5.3.1 Own revenues of MCs

Section 101 and 104 of the GMA empowered the MCs to impose compulsory taxes<sup>2</sup>, discretionary taxes and toll. MCs may also charge fees for certain licences, permissions (Section 143 of GMA), and stallages<sup>3</sup> and rents for market space (Section 257 of GMA). The four test checked MCs (Curchorem-Cacora, Mapusa, Margao and Pernem) levied property tax, professional tax, advertisement tax, garbage tax, construction licence fees, market fees, rent and other fees (like parking fee, transfer fee of property/trade, registration of birth and death, etc.). Composition of the taxes/fees collected by the MCs is depicted in **Chart 5.3**.

**Chart 5.3: Composition of own revenues in test checked MCs for the period 2016-21**



(Source: Income and expenditure statements of the MCs for the period 2016-21)

<sup>2</sup> Taxes on lands/buildings, professions, trades, calling, employment, theatre and advertisement could be levied

<sup>3</sup> Rental, taxation or fees charge for the holding of a stall in a market

Major contribution (79 per cent) to the revenues of MCs was from four sources (Construction license fees, property tax, garbage tax and rent). Revenue from important sources in test checked MCs was as shown in the **Table 5.3**.

**Table 5.3: Revenues of test checked MCs for the period 2016-21**

(₹ in crore)					
Type of Revenues	2016-17	2017-18	2018-19	2019-20	2020-21
Construction License Fees	5.26	10.85	13.19	8.66	11.24
Property tax	7.08	9.59	10.37	9.85	8.40
Garbage tax	2.05	5.54	4.61	4.60	4.76
Rent	3.80	3.94	3.70	3.57	3.70
Market fees	1.87	2.60	2.22	2.25	1.19
Other income	1.50	1.71	1.81	1.51	0.79
Professional tax	1.21	1.42	1.68	1.45	1.59
<b>Total</b>	<b>22.77</b>	<b>35.65</b>	<b>37.58</b>	<b>31.89</b>	<b>31.67</b>

(Source: Receipt and Payment accounts of the MCs for the period 2016-21)

As evident from the table there was an overall increase of revenue of ₹ 8.90 crore in 2020-21 as compared to 2016-17. However, revenues from ‘rent’, ‘market fees’ and ‘other income’ decreased in 2020-21 as compared to 2016-17.

### 5.3.2 Efficiency of revenue collection mechanism

Deficiencies noticed in the revenue collection mechanism of the ULBs were as below:

#### 5.3.2.1 Pending revision of rates of property tax

As per the GMA, consolidated property tax (Section 101) could be levied by MCs on lands and buildings based on their ‘rateable value<sup>4</sup>’. It was further instructed (November 2007) by Director of Urban Development (DUD) that the plinth area rate fixed by the PWD be adopted as the basis for assessment of property tax. The revised plinth areas rates were published by the PWD in August 2016. These rates were applicable during the audit period for adoption by MCs for revision of rates of property tax. Audit observed that ULBs did not adopt the PWD plinth area rates for property tax rates. The CCP revised (April 2016) property tax for residential (₹ 97.20 per sq. m.) and commercial properties (₹ 594 per sq.m.). Details of property tax rates based on PWD notified plinth area rates and rates in test-checked MCs were as shown in **Table 5.4**.

<sup>4</sup> Rateable value (Section 110 of the GMA) is value of property for which it might be reasonably expected to let, or which it is actually let, whichever is greater, after deduction of a sum equal to ten per cent for repairs.

**Table 5.4: Comparative rates of Property Tax as of March 2021**

(Amount in ₹)

Name of MCs	Class of MCs	Date of last revision of property tax	Rate of property tax based on PWD rates (per sq. m.)		Rates of ULB (per sq. m.)	
			Residential rate	Commercial rate	Residential rate	Commercial rate
Margao	A	12/03/2018	178.00	206.00	18.75	25.00
Mapusa	B	20/03/2023	143.00	165.00	10.00	30.00
Curchorem-Cacora	B	03/07/2020	143.00	165.00	19.50	66.30
Pernem	C	17/05/2016	107.00	124.00	7.00	10.00

(Source: Data made provided by four test-checked MCs)

The rates adopted by the test-checked MCs were very low in comparison to PWD plinth area rates.

Pernem MC assured (March 2022) to submit the proposal for adoption of property tax rates before the Council.

### 5.3.2.2 Inefficient revenue recovery mechanism

Rule 9 of General Financial Rules, 2017, requires that all receipts and dues have to be correctly and promptly assessed, collected and duly credited to the concerned fund.

#### City Corporation of Panaji

Consolidated arrears of revenues<sup>5</sup> in CCP were as shown in **Table 5.5** below:

**Table 5.5: Consolidated arrears of revenues of CCP for the period 2016-21**

(₹ in crore)

Year	Demand				Collection				Arrears	Percentage increase over previous year
	Arrears	Interest	Current demand	Total demand	Arrears	Interest	Current collection	Total collection		
1	2	3	4	5=(2+3+4)	6	7	8	9=(6+7+8)	10=(5-9)	11
2016-17	15.20	4.61	20.31	<b>40.12</b>	2.71	0.69	14.76	<b>18.16</b>	<b>21.96</b>	NA
2017-18	18.62	5.27	22.19	<b>46.08</b>	3.61	0.73	16.20	<b>20.54</b>	<b>25.54</b>	16.25
2018-19	20.73	5.93	25.12	<b>51.78</b>	3.83	0.75	17.79	<b>22.37</b>	<b>29.41</b>	15.16
2019-20	23.34	6.84	28.31	<b>58.49</b>	2.93	0.62	17.87	<b>21.42</b>	<b>37.07</b>	26.04
2020-21	31.16	9.72	29.60	<b>70.48</b>	3.85	1.06	17.54	<b>22.45</b>	<b>48.03</b>	29.57

(Source: Information provided by CCP)

As evident from the above table consolidated arrears of revenues increased from ₹ 21.96 crore to ₹ 48.03 crore during the audit period. Yearly increase in percentage terms over previous year was also showing increasing trend from 16.25 per cent (2017-18) to 29.57 per cent (2020-21). Audit noticed in the test-check of three taxes (property tax,

<sup>5</sup> i. Property tax; ii. Garbage Tax; iii. Advertisement Tax; iv. Professional Tax; and v. Rent

advertisement/signboard tax and trade tax) that statutory procedure<sup>6</sup> of issue of bills and demand notices for collection of advertisement/signboard tax and trade tax was not followed. Further, survey for identification of illegal houses and identification of expired or illegal licenses of professions were not being carried out. This resulted in accumulation of arrears.

The Corporation stated (September 2022) that bills would be issued and recovery commenced.

### **Municipal Councils**

Consolidated arrears of revenues<sup>7</sup> in test checked MCs were as shown in the **Table 5.6** below:

**Table 5.6: Consolidated arrears of revenues in MCs for the period 2016-21**

*(₹ in crore)*

Year	Demand				Collection				Arrears	Percentage increase over previous year
	Arrears	Interest	Current demand	Total demand	Arrears	Interest	Current collection	Total collection		
1	2	3	4	5=(2+3+4)	6	7	8	9=(6+7+8)	10=(5-9)	11
<b>2016-17</b>	11.49	2.05	9.63	<b>23.17</b>	2.13	0.29	6.23	<b>8.65</b>	<b>14.52</b>	NA
<b>2017-18</b>	12.59	2.36	10.98	<b>25.93</b>	3.18	0.29	7.83	<b>11.30</b>	<b>14.63</b>	0.75
<b>2018-19</b>	12.97	2.70	15.85	<b>31.52</b>	2.28	0.33	10.00	<b>12.61</b>	<b>18.91</b>	29.25
<b>2019-20</b>	17.31	3.06	13.67	<b>34.04</b>	2.76	0.31	8.63	<b>11.70</b>	<b>22.34</b>	18.14
<b>2020-21</b>	20.33	3.90	14.32	<b>38.55</b>	2.13	0.41	8.12	<b>10.66</b>	<b>27.89</b>	24.84

*(Source: Information provided by the MCs)*

There was increase in total arrears of four important taxes during the audit period from ₹14.52 crore to ₹ 27.89 crore. Audit noticed that there was no system<sup>8</sup> of issue of notices and warrants to recover the arrears in revenue.

It was stated (March 2022) by three MCs (Margao, Mapusa and Curchorem-Cacora) that the reasons would be analysed and corrective measures taken. Further, DUD also stated (April 2022) that MCs would be instructed to take measures to collect the arrears.

### **Property Tax Board**

The Thirteenth CFC recommended the establishment of a Property Tax Board which would assist all the ULBs in the State to put in place an independent and transparent procedure for assessing property tax. However, the State Government did not constitute the Property Tax Board and decisions pertaining to tax slab rates were left to the individual ULBs.

<sup>6</sup> Chapter XII 'Recovery of Corporation's Claims' in the CCP Act details the procedure for issue of bills (Section 144), demand notice (Section 145), warrant (Section 146), breaking open of premises (Section 148) and execution of warrant (Section 149)

<sup>7</sup> i. Property tax ii. Advertisement tax iii. Professional tax and 4. Rent

<sup>8</sup> Test-check of recovery procedure in three taxes 1. Property tax 2. Professional tax and 3. Advertisement tax



**Recommendation 7: ULBs may undertake a detailed review of their finances in terms of tax potential, additional resource mobilization, rationalization of tax structure, etc. in addition to strengthening their revenue collection machinery to reduce the revenue arrears.**

#### 5.4 Fiscal transfers to Urban Local Bodies

Fiscal transfers, in the form of grants of CFC and State Government grants contributed 20 *per cent* to 49 *per cent* of the total revenue in ULBs during the period 2016-17 to 2020-21.

##### 5.4.1 Central Finance Commission Grants

The Fourteenth Finance Commission (XIV FC) recommended assured transfers in the form of basic grants and performance grants to the ULBs for efficient delivery of basic services within the functions assigned to them. The Fifteenth Finance Commission (XV FC) recommended grants *inter alia* for Non-Million Plus Cities (NMPCs) for ULBs in two parts as Untied and Tied grants for the award year 2020-21 and for the period 2021-26. As per the operational guidelines, untied grants were to be utilized on need basis under the eighteen subjects of Twelfth schedule of the Constitution. Fifty *per cent* of the tied grants were required to be utilized on ‘Sanitation and Solid Waste Management’ and attainment of star ratings as developed by Ministry of Housing and Urban Affairs (MoHUA). Remaining tied grants (50 *per cent*) was to be utilized for ‘Drinking water, rainwater harvesting and water recycling’.

##### 5.4.2 Sanctions and releases

Details of the sanctioned fiscal transfers to ULBs under the XIV FC and XV FC for the period 2015-16 to 2020-21 and the actual releases against them was as given in **Table 5.7**.

**Table 5.7: Finance Commission grants sanctioned and released**

(₹ in crore)

Commission	Year	Sanctioned		Released	
		BG*	PG^	BG	PG
XIV FC	2015-16	21.10	--	21.10	--
	2016-17	29.21	8.62	29.21	8.62
	2017-18	33.76	9.76	33.76	9.76
	2018-19	39.05	11.08	39.05	--
	2019-20	52.76	14.51	52.76	--
	<b>Total</b>	<b>175.88</b>	<b>43.97</b>	<b>175.88</b>	<b>18.38</b>
XV FC		<b>Tied</b>	<b>Untied</b>	<b>Tied</b>	<b>Untied</b>
	2020-21	18.00	18.00	18.00	18.00

(Source: Information provided by DUD)

(\*BG- Basic grant, ^PG- Performance grant)

It was observed that Performance grants amounting to ₹ 25.59 crore for the years 2018-19 and 2019-20 sanctioned by the Government of India (GoI) were not released to the State Government. Further, as a result of non-compliance with the requirement of



releasing the basic grant to ULBs within 15 days of receipt from GoI, the Government of Goa (GoG) had to pay an interest of ₹ 74.2 lakh for delays of 11 to 288 days to ULBs during the period 2015-20 as shown in Table 5.8 below:

**Table 5.8: Delay in release of grant and interest paid by the State Government**

Year (Instalment No.)	Type of grant	Date of release of grant by GoI	Amount (₹ in crore)	Date of release by GoG	Delay (days)	Interest paid to ULBs (₹ in lakh)
2015-16 (1 <sup>st</sup> )	Basic Grant	13-07-2015	10.55	27-04-2016	288	53.28
2016-17	Performance Grant	31-03-2017	8.62	06-06-2017	51	4.82
2017-18	Performance Grant	23-08-2019	9.76	30-09-2019	22	2.53
2018-19 (1 <sup>st</sup> )	Basic Grant	11-02-2019	19.53	01-04-2019	33	10.15
2019-20 (1 <sup>st</sup> )	Basic Grant	03-09-2019	26.38	30-09-2019	11	3.42
<b>Total</b>						<b>74.20</b>

(Source: Information as provided by Department of Urban Development)

According to the DUD, delay of 288 days in releasing grants to ULBs was on account of non-availability of account head. However, audit observed that delays have continued in subsequent years also, though to a smaller extent.

Accepting the delay, Secretary, Urban Development assured (February 2024) that timeline to disburse the XV FC grants would be adhered to.

#### 5.4.2.1 Utilization of grants under XIV FC

Utilization of XIV FC grants in test-checked three ULBs (CCP, Margao and Mapusa) was as detailed in Table 5.9.

**Table 5.9: Utilization of XIV FC grants in test checked ULBs**

Year	CCP		Margao MC		Mapusa MC		Total		Utilization (percentage)
	Receipt	Exp.	Receipt	Exp.	Receipt	Exp.	Receipt	Exp.	
2016-17	1.10	0.06	1.10	--	0.75	0.06	2.95	0.12	4.06
2017-18	5.03	0.76	8.16	0.45	4.09	0.41	17.28	1.62	9.37
2018-19	3.16	0.12	6.88	0.40	3.21	3.60	13.25	4.12	31.09
2019-20	6.14	0.98	18.73	1.38	8.97	1.05	33.84	3.41	10.07
2020-21	2.47	5.06	--	0.27	2.51	4.35	4.98	9.68	194.37
<b>Total</b>	<b>17.90</b>	<b>6.98</b>	<b>34.87</b>	<b>2.50</b>	<b>19.53</b>	<b>9.47</b>	<b>72.30</b>	<b>18.95</b>	<b>26.21</b>

(Source: Information provided by ULBs)

The utilization of grants by the ULBs was subject to the approvals of the DUD and Secretary, Urban Development. ULBs could utilize only 26.21 per cent till March 2021. Revision of proposals by ULBs subsequent to scrutiny by DUD as well as delay in approval by DUD/Secretary, Urban Development impacted the timely utilization of funds by the ULBs. In the case of Margao MC, utilization of grant was only 7.16 per cent. Approvals for works/purchases of ₹ 13.32 crore was given by DUD during the above period to Margao MC but the MC could utilise only ₹ 2.50 crore.

### 5.4.2.2 Utilization of grants under XV FC

DUD released the grants of ₹ 36 crore under XV FC to the ULBs in 2020-21. In the test-checked three ULBs (CCP, Mapusa MC and Margao MC) an amount of ₹ 7.54 crore was disbursed. However, only ₹ 1.42 crore was expended up to 2020-21. Dilution of delegated powers of ULBs with respect to FC grants was one of the reasons for under-utilization of the grants and was discussed in **Paragraph 4.3.1**.

### 5.4.3 State Grants to ULBs

The CCP Act (Section 81) and the GMA (Section 142A) provided for release of grants to the respective ULBs by the Government of Goa. In the absence of principles of distribution of finances recommended by State Finance Commission, GoG allocated grants to the ULBs as per a Pattern of Assistance (PoA) notified (2019) by the State Government. PoA specified the purposes and timelines of issue of grants. Accordingly, grants were released for salaries, development works, and execution of activities like Solid Waste Management and special grants (under notified scheme to MCs). The grants for works were to be issued according to the priority of works of ULBs. Grants were sanctioned and released as detailed in **Table 5.10**.

**Table 5.10: Different types of grants sanctioned and released by GoG**

(₹ in crore)						
Type of grant	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Salaries	13.93	37.36	9.42	13.91	23.22	<b>97.84</b>
Development grants including special component plan for SCs and STs	3.57	25.84	10.15	5.04	14.41	<b>59.01</b>
Goa special grants to municipalities scheme	--	--	--	4.95	5.60	<b>10.55</b>
Solid Waste Management (SWM)	4.15	3.49	0.89	1.04	3.40	<b>12.97</b>
e-Governance (to GSUDA)	--	--	0.50	0.50	0.40	<b>1.40</b>
Grant to compensate in lieu of octroi	16.13	25.15	--	--	--	<b>41.28</b>
Grants under IDMT* scheme (to GSUDA)	19.76	54.34	21.63	25.02	18.82	<b>139.57</b>
<b>Total</b>	<b>57.54</b>	<b>146.18</b>	<b>42.59</b>	<b>50.46</b>	<b>65.85</b>	<b>362.62</b>

(Source: Appropriation accounts of GoG and information furnished by DUD)

\* Integrated Development of Major Towns (IDMT)

Grants of ₹ 264.78 crore and ₹ 97.84 crore were sanctioned during 2016-17 to 2020-21 to ULBs under Pattern of Assistance (PoA) and salaries respectively. Overall, trend of sanction of grants was increasing except in the year 2018-19. The decrease in the year 2018-19 was on account of reduction in major grants (Development grants, Solid Waste Management grant and grants under IDMT scheme) besides discontinuation of grant to compensate in lieu of octroi.

Grants for e-governance and IDMT scheme (for major works in ULBs) were made to a parastatal (GSUDA) for execution of works in ULBs. Their utilization was made by the parastatal. Grants pertaining to development works including grants under special scheme (Goa special grants to municipalities scheme) and for SWM were to be utilized by the ULBs after approval of the DUD and Finance Department. The consequent delays resulted in grants ranging from 37 to 63 *per cent*, for developmental works, remaining unutilized for the period 2016-17 to 2020-21 in test-checked MCs as pointed out in **Paragraph 4.3.2**.

***Recommendation 8: The Government may review and streamline the system and processes for sanction/disbursement of grants to enable the ULBs to ensure their timely utilisation by the ULBs.***

### **5.5 State Finance Commission**

The Constitution provided (Article 243-I read with Article 243Y) for setting up a State Finance Commission (SFC) within one year from the commencement of the Constitution Amendment Act, and thereafter at the expiry of every fifth year. SFCs were expected to reduce intra-state disparities through their recommendations on principles governing the distribution and assignment of revenues to Local Bodies (LBs) and fiscal transfers from Governments. SFCs consider factors like area, population, density of population and economic factors for recommending the principles of distribution of resources.

As per the provisions of the GMA and Goa Panchayat Raj Act, the Government of Goa constituted (April 1999) the first SFC with three members that submitted its report in June 1999. The second SFC was constituted in August 2005 and the third in December 2016. Audit observed that:

- The Government constituted only three SFCs during the period 1999 to 2021 as against six required as per the provisions of the Constitution. The First SFC *inter alia* recommended the transfer of State's own revenues and share of Central taxes to ULBs (nine *per cent*) for transferred activities. Out of the 26 recommendations of the first SFC on functions, administration and finances, 15 were accepted, nine rejected and two partly accepted.
- The second SFC *inter alia* undertook the task of mapping the devolved functions with activities, to facilitate their implementation and made recommendations on devolution of finances according to the programmes/schemes executed by different tiers. The committee<sup>9</sup> constituted by the Government (July 2010) to consider the recommendations did not submit its report for more than 11 years (March 2022), rendering the work of the Commission redundant.
- Reports of both the SFCs were pending to be submitted to the Legislature by the Government, along with Action Taken Reports.

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<sup>9</sup> A committee was constituted by the Government (July 2010) of five members for examination of the report of the second SFC. The composition of the committee was changed in February 2013. The report of the committee was awaited as of July 2022.

- The third SFC was constituted (December 2016) after a delay of more than six years. The Commission could not commence its functioning as the Government failed to provide infrastructure support like office space, *etc.*
- One of the pre-conditions for release of grants from the year from 2022-23, under XV FC was that the states shall issue notification for the constitution of SFC so as to have the recommendations available for tabling in the State Legislature on or before March 2024. The State Government notified the reconstitution of third SFC in January 2022.

***Recommendation 9: The State Government must constitute SFCs as per the time frame prescribed in the Constitution. Recommendations of the SFC may be considered and accepted recommendations implemented in a time-bound manner.***

## **5.6 Budget, accounts and audit of ULBs**

Article 243Z of the Constitution provides that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by municipalities respectively and auditing of such accounts. Adequacy of provisions and their compliance related to preparation of budget, accounts and audit were verified in Audit.

### **5.6.1 Delays in budget preparation**

The Municipal Account Code, 1972 (replaced in 2007) prescribed that the budgets of MCs and CCP are approved by the Standing Committee and the Councils/Corporation before the first of March every year. Audit observed that out of 25 budgets of five ULBs during 2016-21, 16 were approved with a delay<sup>10</sup> ranging from 07 to 77 days.

### **5.6.2 Unrealistic budgets**

ULBs prepared their budgetary revenue estimates based on expected own revenues and allocation of funds by the Government and Finance Commission Grants. The expenditure estimates were based on capital, Operation & Maintenance (O&M) and other expenditure for carrying out the activities/services required by them. Statement showing variation in budgets of ULBs during the audit period is depicted in **Appendix 3**.

- In the case of test-checked ULBs for the period 2016-17 to 2020-21, variation of actual receipts *vis-à-vis* the budget ranged between five to 126 *per cent*<sup>11</sup>. The budgeted receipts were overestimated in all the years except in three budgets where the actual

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<sup>10</sup> Margao MC, Mapusa MC, Pernem MC and Curchorem-Cacora MCs approved their five, one, four and three budgets respectively (out of five each) with delay ranging from 07 to 77 days during the period. from 2016-21. CCP delayed approval of its budgets with a delay of 20 to 59 days during the same period

<sup>11</sup> 5.03 to 34.39 *per cent* in Curchorem-Cacora MC ; 18.64 to 97.20 *per cent* in Pernem MC; 23.33 to 70.10 *per cent* in Margao MC; 32.78 to 61.80 *per cent* in Mapusa MC and 37.63 to 126.18 *per cent* in CCP

receipts were more than 90 *per cent*<sup>12</sup>. The variation in actual expenditure *vis-à-vis* the budget ranged between 05 to 86 *per cent*<sup>13</sup>. The budgeted expenditure was overestimated by 60 *per cent* on average during 2016-17 to 2020-21.

- Though ULBs budgeted for subjects like Animal Husbandry, Health and Social Welfare, no expenditure was incurred during any of the financial years from 2016-21. No plans were prepared to execute these functions and to incur expenditure.
- Expenditure on development works was negligible (7.70 *per cent* of the budgeted amount) indicating the absence of realistic estimates in the ULBs' budgets.
- Budgets in Margao MC and Mapusa MC were prepared by the Finance/Accounts wings without inputs from the concerned sections of the Municipal Councils.

Thus, budgeting in these ULBs served as more of an administrative exercise rather than an instrument of financial management and programme execution.

During the Exit Conference (April 2022), Secretary, Urban Development, stated that a Standard Operating Procedure would be issued to ULBs for budget preparation and training programmes undertaken for the staff.

### 5.6.3 Delays in preparation of accounts and audit

Section 98 of CCP Act and Section 98 of GMA provided that the Commissioner, CCP and the Chief Officers of MCs, respectively, shall arrange to prepare the accounts for the year. Accounts of all the 14 ULBs were prepared up to 2021-22.

Audit of all the 14 ULBs was completed till 2019-20 by engaging Chartered Accountants and for the year 2020-21 audit of 12 ULBs (except CCP and Mapusa MC) was completed. Director of Accounts (DoA), who was the Statutory Auditor for the MCs<sup>14</sup>, discontinued the audits with effect from April 2018 with the approval of the Government of Goa due to lack of manpower. However, the audits were resumed since April 2023.

### 5.6.4 Delay in migration to Accrual Based Double Entry Accounting System

Based on the National Municipal Accounts Manual (NMAM) prepared by the Ministry of Urban Development (MoUD), GoI, State Governments were required to prepare state-level accounting manuals according to their requirements. The State Government issued notification (January 2008) introducing 'the Goa Municipal Accounting Code, 2007' with Accrual Based Double Entry Accounting System (ABDEAS). The CCP migrated to ABDEAS during 2013-14. GSUDA was engaged to facilitate adoption of ABDEAS in the MCs. The accounts were being migrated through a computerized application *viz.*

<sup>12</sup> CCP - During 2017-18, the Government grants received, other receipts and deposits were more than that budgeted for CCP and during 2018-19, fees and user charges earned and interest on bank deposits were more than estimated. In Pernem MC; 97.20 *per cent* of actual realisation was noticed against estimation of revenues (2020-21).

<sup>13</sup> 5.05 to 20.47 *per cent* in Curchorem-Cacora MC; 07 to 86 *per cent* in Pernem MC; 27.37 to 68.53 *per cent* in Margao MC; 28.62 to 43.14 *per cent* in Mapusa MC and 49.19 to 66.28 *per cent* in CCP

<sup>14</sup> Section 100 of GMA read with Rule 152 of Municipal Accounts Code, 1972

Financial Accounting System on UPYOG platform developed and maintained by MoHUA under National Urban Digital Mission.

Secretary, Urban Development informed (February 2024) that ABDEAS is under adoption.

**Recommendation 10: Migration to accrual-based accounting by MCs may be expedited.**

### 5.6.5 High percentage of establishment expenditure

Expenditure of test-checked five ULBs has been categorized by audit into four categories *i.e.* establishment (salaries and contingent), O&M (maintenance of roads, buildings/markets, sewers, parks, gardens, wells, *etc.*), programmes/activities (social welfare, health and sanitation, libraries, *etc.*) and miscellaneous for analytical purposes. Details of these expenditure categories are shown in **Table 5.11**.

**Table 5.11: Details of expenditure incurred by test-checked ULBs**

(₹ in crore)

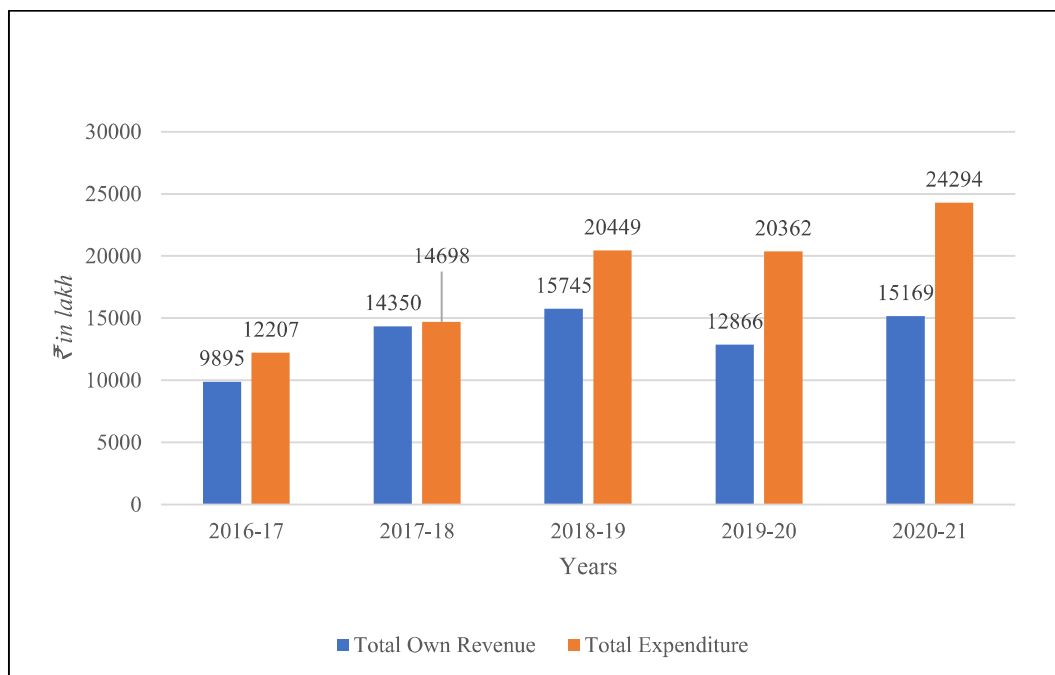
Year	Establishment	Expenditure on activities of ULBs			
		O&M	Execution of programmes	Others	Total
2016-17	55.37	10.75	1.06	2.27	69.45
2017-18	67.90	13.18	0.84	2.09	84.01
2018-19	74.71	18.50	3.19	1.86	98.26
2019-20	81.56	18.43	7.79	0.03	107.81
2020-21	75.89	14.61	10.47	2.06	103.03
<b>Total</b>	<b>355.43</b>	<b>75.47</b>	<b>23.35</b>	<b>8.31</b>	<b>462.56</b>
<b>Percentage</b>	<b>77</b>	<b>16</b>	<b>05</b>	<b>02</b>	

(Source: Information furnished by five ULBs)

As can be seen above, expenditure on O&M and execution of schemes/programmes was 21 *per cent*, while establishment expenditure accounted for 77 *per cent* of the total expenditure. Application of 77 *per cent* of financial resources on establishment severely affected the capacity of ULBs to spend on public amenities and on new projects/schemes.

### 5.6.6 Resource - Expenditure gap

Analysis of trends of revenue and expenditure for ULBs revealed that the ULBs were able to generate own revenues to the extent of 74 *per cent* of their total expenditure. A comparison of the own revenue to total expenditure is depicted in **Chart 5.4**.

**Chart 5.4: Own revenue-expenditure gap in ULBs**

(Source: Information provided by the DUD)

Audit observed that in the test-checked five ULBs, only CCP and Margao MC managed to raise enough own revenues (excluding compensation in lieu of octroi received from GoG during 2016-17 to 2017-18) to meet their establishment expenditures during all the five years. Mapusa MC was self-sufficient in four years (2017-18 to 2020-21) and Pernem MC in 2016-17 and 2018-19. Curchorem-Cacora MC was not able to meet its establishment expenditure out of own revenues during the audit period.