

# **CHAPTER II**

**Performance Audit on Mobilisation of  
Revenue Resources of Urban Local  
Bodies**

## **CHAPTER-II**

### **2 Mobilisation of Revenue Resources by Urban Local Bodies**

#### **2.1. Introduction**

As per the statement of objects and reasons behind 74<sup>th</sup> Constitution Amendment Act, of 1992, the Urban Local Bodies (ULBs) in the states were weak and ineffective on account of various reasons including inadequate devolution of powers and functions and the growth of their revenue was not commensurate with the rapid growth of urbanisation. The increase in their functional assignments having inflated resource needs had caused a fiscal imbalance making them totally dependent on Government grants. The amended Act conferred a constitutional status to the ULBs with functional autonomy to function as institutions of self Government. To make the decentralisation and self governance meaningful, the ULBs are now expected to ensure availability of adequate untied funds to provide basic civic services to the people and meet the expenses of governance. Even though, devolution of funds from Government is inevitable, mobilisation of funds from internal resources is extremely important for the reasons of efficiency and accountability. In this regard, considerable space has been provided to the ULBs in the Acts and Rules to generate income from internal resources. The successive Central and State Finance Commissions had given stress on inclusive growth of the ULBs through self governance and incentivising them to meet the expenses substantially from resources they themselves mobilise from internal sources. Though the ULBs were given autonomy to levy taxes / fees under the regulatory powers conferred on them, the State Government also provided grants and assistance to the ULBs for creation of productive infrastructure to boost their revenue income.

## **2.2 Audit coverage**

A review covering a period of five years from 2003-04 to 2007-08 was conducted during the period from December 2008 to May 2009 with reference to records of 17 ULBs (Nine NACs , Six Municipalities and Two Municipal Corporations).

## **2.3 Sources of municipal revenue**

The ULBs derived their taxation powers from section 131 of Orissa Municipal Act, 1950 and Section 192 of Orissa Municipal Corporation Act, 2003.

As per the provisions of the Acts and Rules, the ULBs derived revenue from the following two sources.

User charges are the most prominent non tax sources of the ULBs which are levied for the various kinds of services provided by them. Other non-tax sources of the ULBs include license fees under regulatory functions like issue of trade licences, hoarding fees, slaughterhouse fees, building plan approvals and rent from municipal properties etc.

## **2.4 State Finance Commission (SFC) Recommendations**

The 74<sup>th</sup> Constitution Amendment Act required the State Government to constitute State Finance Commissions at an interval of every five years to look into the resource position of the ULBs and make recommendations to improve their financial position. Accordingly, the 2<sup>nd</sup> State Finance Commission constituted in June 2003, submitted its report in September 2004 with observations and recommendations. The SFC observed that most of the ULBs were grappling with narrow and non-expandable tax and non-tax base for which their sources of income were virtually stagnant. Besides, they were not innovative to mobilise their available potential resource base. To improve their resource base, the Commission had recommended for assignment of taxation powers to the ULBs on 14 items (*Appendix-I*), besides transfer of markets of Regulated Marketing Committees,

Sairat sources and minor minerals. Though the State Government accepted the above recommendations, (August 2006) those were not yet implemented (March 2009).

## **2.5 Audit Findings**

The audit findings are detailed in the succeeding paragraphs:

## **2.6 Expansion of revenue base and enhancement of collection efficiency**

The Municipal Act provides a number of revenue handles to the ULBs for resource mobilisation. They are empowered to levy holding related taxes u/s 131 of OM Act on items like holding, drainage, latrine, water and lighting with Council's approval and fix the rates within the maximum ceilings prescribed in the act. Test check of units revealed that none of the ULBs levied tax on all of the above five items. While six ULB levied tax on 4 items, six levied tax on 3 items, 3 on 2 items and balance one levied tax on one item only. The rate of tax was not uniform in all the ULBs across the State as the local ULB Councils fix the rate, considering the nature of services provided and quantum of expenditure incurred by their ULBs. No tax was levied by the test-checked units on (i) tax on profession (ii) Poll tax and (iii) holding tax on vacant land.

The ULBs are empowered to collect fees and fines under the regulatory powers exercised by them as per OM Act and amongst these, licenses issued under Section 290 of OM Act for various trades and hoarding are the major items. The rate of license fees for the above purpose was to be fixed by the Council after framing bye laws with Government approval. Scrutiny of records of test checked units revealed that in only four ULBs (Cuttack, Bhubaneswar, Rourkela and Balasore) there was collection of hoarding license fees while in other 13 ULBs no collection was made due to non framing of the bye-laws.

The total revenue collection from tax and non-tax source of the ULBs during the years from 2004-05 to 2007-08 was as follows.

(Rupees in Lakh)

Year	Amount
2004-05	1520.15
2005-06	1971.75
2006-07	2187.50
2007-08	2452.20

### 2.7 Non-revision of Annual value of Holdings

Holding related taxes such as holding, lighting, drainage and water taxes formed the major source of revenue of the ULBs. These taxes were levied as per the powers vested with the ULBs under Section 131 of OM Act as a percentage of annual value of holdings, which was determined under Section 137 of the Act. The guiding principle for levy of any tax is that it should be commensurate with the expenses incurred for providing the services

As per the provisions of OM Act under section 146, the annual value of the holdings should be revised at an interval of every five years by the ULBs adopting the latest schedule of rates of PWD. Scrutiny of records of the test checked ULBs revealed that they were totally dependent on the valuation team of H&UD Department for fixation of annual value of holdings which resulted in delay of revision & consequently in loss of revenue to the ULBs. As there was increase in the cost of services provided by the ULBs to the people, the non-revision of annual value in time affected the quality of the services. The period of delay in revision of the annual value with reference to the provisions of the Act noticed in the test checked ULBs is detailed in **Appendix-II**. It was noticed that the rates were very nominal in comparison with the maximum prescribed rate of tax (holding tax/light tax/drainage tax-10 percent and water tax-5 percent), and the ULBs had not considered for enhancement of the rate. Few cases of losses on account of delayed revision are discussed below.

In Jaleswar NAC, Rourkela Municipality and Nayagarh NAC the annual value of holdings was assessed by the Valuation team of H&UD Department in the years

2003, 2007 and 2008 respectively. There was abnormal delay in hearing of the objections and publication of the final list. In Nayagarh NAC, appeal cases relating to 510 holdings related to the year as far back as 1995 (294) and 2006 (216) were pending with the Appellate Authority for hearing. Due to delay in finalisation of the revised valuation of 2008, as many as 477 holdings remained out of tax net. While valuation list of Jalweswar NAC was given effect from 2007-08, the valuation list of other two ULBs remained not finalised (March 2009).

In Jaleswar NAC, the last valuation was made in 1994-95 for which the revision was due in 1999-2000. However, the valuation camp of UD Department was deployed only in February 2003 with the stipulation to complete the valuation within 15 days. There was delay of around one and half years in publication of the not-final list of the valuation and after a further delay of more than 2 years for hearing of the objections, the final valuation list was published in December 2006. After council resolution, the tax revision was made effective prospectively from the 3<sup>rd</sup> quarter of 2007-08. The annual demand after revision was raised to Rs.3.53 lakh from Rs.0.65 lakh and for the period of delay, the loss of revenue was Rs.11.52 lakh as per the differential rate of increase in the demand.

### **2.8 Loss of revenue due to difference in rate**

Steel Township Municipality of Rourkela was merged with Civil Township Municipality with effect from 1995 after declaration of Steel Township area as an industrial area. After more than 13 years of the merger, it was running with a parallel establishment under the same Executive Officer and elected council. While the nature and quality of services rendered by the Municipality were same for both the areas, there was imposition of different rate of taxes, which remained unrevised since 1993-94. The rate of tax of Steel Township Municipality was 15 percent while the rate of tax in Civil Township Municipality was 10.1 percent which resulted in loss of revenue of Rs. 58.20 lakh at the rate of Rs. 11.64 lakh per annum during the period from 2003-04 to 2007-08.

### **2.9 Non-imposition of property tax by Municipal Corporations**

After enactment of OMC Act, 2003, the two Municipal Corporations of the State in the cities of Cuttack and Bhubaneswar were required to impose property tax on the holdings. Pending finalisation of the supporting byelaws by the Corporations, they continued to collect holding tax at prevalent rates levied by them under Municipal Act. This had caused further limitation on them to enhance the rate, which was overdue to compensate the increase in the cost of services. The holdings of BMC continued to be under valued as it was adopted on the PWD schedule of rates of 1995. The BMC adopted the rate of valuation of its holdings with RCC roofing at Rs.13.65 per sq. mtr. which was very low. The non-imposition of property tax had caused considerable revenue loss to the Municipal Corporations.

### **2.10 Non levy/Short levy of cost of services provided**

Linking the decisions to provide public services with revenue margin is extremely important to ensure efficiency and accountability in public service provisions. The principle to be adopted is to ensure that beneficiaries of public services should, by and large, pay for the services received and the burden of expenditure is not shifted to the non-residents. In the test checked ULBs, expenditure on certain services provided to the people was not made good by levy of user fees as per details in *Appendix-III*. In some cases, the expenditure incurred on certain services was far in excess than the revenue collections but the respective ULBs had not attempted for levy/ revision of rates as detailed in *Appendix-IV*.

### **2.11 Inequitable distribution of assigned revenue**

Octroi tax happened to be the major source of assigned revenue of the ULBs, which was taken over by the Government in the year 1999. Considering the same as the legitimate dues of the ULBs, Government paid compensation grants to them based on the average collection of the tax during the preceding three years.

Based on the above principle, the ULBs situated in the industrial towns like Paradeep, Rourkela, Sunabeda and Belpahar received comparatively higher amounts of compensation grants than the other ULBs of the state. The industries were the main assesseees of holding tax of the above ULBs and they maintained their own infrastructure providing all sorts of basic civic services to the people of their areas prior to abolition of Octroi and hence the grants given to the ULBs were on higher side. Subsequently, the concerned industries disputed payment of holding tax to the ULBs as the services provided to them were very nominal. The payment of holding tax by the industries remained enmeshed in legal dispute for years together and the jurisdictional area of the ULBs was drastically reduced and they were not able to utilise the massive amount of compensation grants received by them for specific purposes like payment of salaries and providing limited civic services to the people. The accumulated balance as of March 2008 with Paradeep Municipality and Belpahar Municipality stood at around Rs.18 crore and Rs.8 crore respectively. The compensation grant received by Rourkela Municipality was mainly utilised for payment of arrear staff salary of a college maintained by it previously indicating that the compensation grants formula is not based on realistic and actual requirements of the ULBs.

#### **2.12 Outstanding dues against PSUs/Companies.**

As per agreement executed by Paradeep Municipality with Paradeep Port Trust (PPT) in December 1999, the PPT was to pay holding tax at the rate of Rs.16 lakh per annum with effect from April 1999 till abolition of octroi and Rs.5 lakh thereafter. The rate was to be revised after every five years. The PPT had defaulted in payment of tax since 2004-05. Similarly Paradeep Phosphates Ltd (PPL) who was paying holding tax of Rs 17.13 lakh annually deposited Rs 10 lakh per annum from 2001-02 to 2004-05 and stopped further payment after raising disputes. The disputes raised by both organization were yet to be resolved.

Further, the annual value of the holdings of M/S Kargil India Limited was assessed at Rs 83.99 lakh in the year 2005-06 on which holding tax payable was Rs.8.39 lakh annually at the prevailing rate of tax of 10 *per cent*. Though the appeal case preferred by the above industry was rejected in the same year, it had not paid taxes amounting to Rs.25.17 lakh till March 2009.

### **2.13 Non-assessment of holdings to tax**

As per information furnished to audit, the following shopping complexes and housing apartments situated in various locations of the following ULBs remained unassessed to tax.

<b>Name of ULB</b>	<b>No. of units</b>
CMC	524 housing apartments, 6 shop rooms at fly over bridge, 22 shop rooms at Choudhury Bazar and one Engineering College named ABIT
Jaleswar NAC	115 nos. of marketing units in shopping complexes

These holdings were not assessed to tax due to non filing of application by the owners. Even though the buildings were constructed long back, the ULBs had not taken any action to bring them into their tax net. On being pointed out, it was stated (May 2009) that action would be taken to assess the buildings to tax.

The year of functioning of the marketing units and date of construction of the apartments was also not available with CMC.

### **2.14 Loss of revenue due to non-auction of hoarding**

Issue of license for hoarding was a major source of revenue for CMC. The hoarding rights in CMC area was granted to M/s Classic Communications for the period from October 2001 to September 2004. The outstanding dues against the lessee and its partners for that period was Rs.1.02 crore, which remained unrealised (March 2009). CMC had leased out the rights of hoarding without any bank guarantee or insisting on advance payment against the dues due to which

arrears remained irrecoverable. The hoarding license for the subsequent period could not be given since 2004 due to uncertainties and litigation. Tenders floated for that purpose in December 2007 remained unsettled which had caused revenue loss of Rs.10.70 lakh per month as per the rate quoted by the highest bidder.

### **2.15 Low Collection of Tax**

The position of demand, collection and balance of taxes of the test checked ULBs for the years from 2003-04 to 2007-08 is enclosed as **Appendix-V(i)**. Out of 17 test checked ULBs, the rate of collection of tax of seven ULBs was below 30 *per cent*. In six ULBs, it ranged between 31 and 50 *per cent* and in the balance four ULBs, it was between 51 and 71 *per cent* **Appendix-V(ii)**. The arrear demand of these ULB as of March 2008, was 47.26 *percent* of the total demand of that year. The per capita tax collection of the ULBs for the year 2007-08 ranged between Rs.4.36 (Belpahar Municipality) and Rs.154.65 (BMC) **Appendix-V(iii)**.

### **2.16 Non-issue of distress warrant**

Orissa Municipal Act, 1950 under Section 161 and 162 provides for issue of distress warrant to the defaulters of tax within a period of 60 days from the date it became due and Section 346 provides the time limit for recovery of the dues, which is 3 years. As verified from the records, none of the test checked ULBs had issued distress warrant within the due dates except Balasore Municipality, which had issued warrants in limited cases. Due to non-issue of distress warrants, there was anticipated loss of revenue to the ULBs due to time limitation. The arrear demand as of March 2008 of the test checked ULBs stood as Rs.11.98 crore.

In NAC Balugaon, a holding bearing no. 106/234 under ward no. 4 owned by an individual was valued at Rs.6.48 lakh in the year 1996-97 by the valuation team. No demand notice was issued by the NAC to the house owner since its valuation and no tax was paid by the house owner. The outstanding holding tax against the above holding as of March 2009 was Rs.5.25 lakh as per the prevailing rate of tax.

### **2.17 Non-revision of trade license**

Fees on issue of trade licenses by the ULBs under various regulatory functions are a major source of the non-tax revenue of the ULBs. The schedule of the trades and fees to be levied had been last fixed in 1994 by Government and it remained unchanged since then. In the State, BMC was the only ULB, which revised the rate and expanded the list of the items in the year 2007-08 by framing a bye-law with the approval of the State Government. As compared to the rate of license fee fixed by BMC, there was heavy loss of revenue to the other ULBs due to non-revision of the rates.

### **2.18 Improper Management of revenue earning assets**

The ULBs were in possession of revenue earning assets acquired under their own funds and other scheme funds. Proper management of these assets was required for augmentation of the resource base. Scrutiny of records of the test checked ULBs revealed irregularities in management of the assets as discussed in the succeeding paragraphs.

### **2.19 Non-maintenance of asset register**

The list of revenue generating assets like ponds, ferry ghats, slaughter houses and parking spaces etc. was not maintained by any of the test checked ULBs.

### **2.20 Loss of revenue due to non-tapping of the Sairat sources**

Revenue from Sairat sources like, ponds, ferry ghats, slaughter houses and parking spaces etc as detailed in **Appendix-VI** remained uncollected in 12 test checked ULBs which caused revenue loss of Rs 29.31 lakh approximately to the ULBs during the period from 2003-04 to 2007-08. The amount of loss had been assessed on the basis of previous year's income and off set price. These sources practically remained untapped due to improper maintenance of the assets and their records and regular follow up of auctions/tendering or maintenance of relevant records to collect the dues.

### **2.21 Loss of revenue due to non-allotment of shopping units**

Eighty eight shopping units of six ULBs as detailed in **Appendix-VII** were lying vacant long after their construction due to lack of proper infrastructural facilities and non-availability of interested persons. These units were constructed without proper survey and consequently remained vacant rendering the investment infructuous. The loss of revenue of Rs 26.89 lakh was due to non-allotment of these units as per the rate of rent fixed by the respective ULBs. The 24 shopping units of Balasore Municipality, were completed in 2007-08, but rent was not yet fixed by the Council.

Shopping units were given to allottees on a monthly rent initially for a period of one year through execution of agreements in prescribed formats, which were renewable for further periods on execution of fresh agreement. The allottees remained in possession of the units for years together without renewal of the period of allotment and revision of rent.

In some cases, the allottees defaulted in payment of the rent, but no action was taken by the ULBs for eviction of the shop rooms and collection of the dues. The outstanding rent against the defaulters was Rs 46.17 lakh as per the details given in **Appendix-VIII**.

### **2.22 Market complexes developed on encroached land**

The main commercial area of Jaleswar NAC was developed in the Railways and PWD land which was unauthorisedly encroached. There were market complexes, hotels and shopping units with permanent constructions on both sides of the roads of the Railways land which happened to be in the prime location of the NAC. The NAC could not make any investment on construction of market complex due to functioning of private market complexes and other commercial buildings in the encroached lands of Railways and PWD which were situated in the prime location of the NAC.

The NAC was unable to bring them into the tax net for years together though the encroachers enjoyed all sorts of civic facilities provided by the NAC. The mushrooming growth of illegal marketing units in the encroached land was detrimental to the commercial interests of NAC to expand its activities besides entailing heavy loss of revenue due to non assessment of the units to holding tax and trade licenses.

### **2.23 Land under unauthorized possession**

In CMC, land situated in different commercial locations measuring 18.206 acres and valued at Rs.14.11 crore (**Appendix-IX**) were unauthorisedly encroached. CMC failed to evict the encroachers and put the land to commercial use due to non- maintenance of basic records like assets registers etc. This resulted in considerable revenue loss to CMC.

### **2.24 Loss of revenue due to idling of road roller**

As per the OPWD codes, the average running hour of a road roller is 2000 hours per annum and the State Government fixed the existing rate of hire charges is Rs. 182.50 per hour. The MCs, Bhubaneswar and Cuttack owned four road rollers each, which remained grossly under utilised. These Corporations had outsourced the work of construction of their roads to contractors and as per the agreement executed with them, they were allowed to use private road roller. These MCs could have safeguarded their own interest by insisting contractors on use of their road rollers in corporation's works to avoid idling of the road rollers. The amount of revenue collected by the MCs was very nominal in the past five years. The loss of revenue due to idling of the road rollers of the corporations was Rs.29.20 lakhs annually.

### **2.25 Improper planning and utilization of NSDP funds**

The ULBs availed loan assistance under National Slum Development Programme (NSDP) scheme during the years 2002-04 and 2005-06 for undertaking developmental activities in slum areas. As the borrowed funds were accounted for as capital liability, the ULBs were required to make provisions for revenue generation and creation of a reserve fund for repayment of the loan with interest. In the test checked ULBs, there was a gap between the credit and development planning to achieve economic growth and revenue generation. The funds of NSDP scheme was mostly spent in providing public utility services in the slum areas and no provision for levy of taxes/user's charges was made for revenue generation of the ULBs except BMC, which had made provision in the budget for collection of user's charges from the year 2008-09. Consequently, the ULBs defaulted in repayment of the loan for which the State Government was constrained to deduct the

loan dues with penal interest from the assigned revenue of octroi compensation grant. Repayment of loan and interest was a major area of concern for the ULBs where huge outgo of funds from assigned revenue was made causing reduction of resource base for the ULBs. In test checked ULBs, the State Government deducted an amount of Rs. 3.78 crore (Principal 0.75 crore and penal interest Rs.3.03 crore) from octroi compensation grant as detailed in **Appendix-X**.

#### **2.26 Delay in completion of remunerative projects under IDSMT scheme**

Under Integrated Development of Small and Medium Towns (IDSMT), some ULBs received loan assistance and grants from Central and State Government for infrastructure development. The scheme remained operative till 2006 after which it was subsumed into Urban Infrastructure Development for Small and Medium Towns (UIDSMT). Test check of records of selected ULBs revealed that the ULBs had not utilized the funds received in the first phase of assistance within the scheduled time due to which they were deprived of further assistance. Due to inconsistencies in planning, delay in preparation of project reports, legal disputes and above all, non-availability of adequate funds, most of the projects taken up by these ULBs remained incomplete. While no revenue could be derived from these remunerative projects, the outstanding liability remained ever mounting up. Some of the instances are cited below.

##### **Udala NAC**

The Udala NAC received first phase of Central Government loan assistance of Rs.20.84 lakh and State Government grant of Rs.15.23 lakh in the year 2003-04 against the approved outlay of Rs.1.03 crore for 10 projects. Despite availability of funds, the NAC could not complete the construction of projects in time and as of March 2009, most of the projects remained incomplete. Due to non-utilization of funds in time, the NAC lost further central assistance for which two commercial projects, which were due for completion in March 2005 could not be completed. The loss of revenue to the NAC on this account was Rs.7.95 lakh per annum as per the projected rate of revenue. Further the NAC had not made any provision in the budgets for creation of any reserves for repayment of the loan and interest.

### **Nowrangpur Municipality**

The State Government approved the projects consisting of both remunerative and non-remunerative categories with project outlay of Rs. 1.15 crore during 1994-95. The Municipality received central loan assistance of Rs. 47.47 lakh and State Government grant of Rs.16.77 lakh during the period from 1995 to 2003. During 2004, the Municipality submitted substitution proposal for construction of a super market complex estimated at Rs. 34.28 lakh against the sanctioned projects. The construction of super market complex was, however, not taken up due to non-receipt of Government approval. Due to delay in taking up of the project, the estimate was enhanced time and again and finally the work was put to tender with sanctioned estimate of Rs.97.54 lakh in the year 2007 and awarded to a contractor for completion of the project by March 2008. The work remained abandoned since April 2008 after payment of Rs. 22.29 lakh to the contractor due to land dispute and preparation of defective site plan. Due to non-completion of the project, the Municipality suffered loss of revenue besides being liable for repayment of the loan with penal interest. The loss of revenue could not be assessed due to non-availability of project report. The loan liability of the Municipality as of March 2008 stood at Rs.50.87 lakh at the rate of 14.75 *percent* per annum. The Municipality did not create any revolving fund or reserve fund for repayment of the loan and interest.

### **Nayagarh NAC**

The Nayagarh NAC received approval for construction of 11 projects out of which only four projects were taken up due to non-availability of funds. These included two remunerative projects like Kalyan Mandap and Yatri Nivas estimated at Rs. 14.93 lakh. Despite availability of funds in the years 2003 and 2005, these projects could not be completed and made functional as of March 2009. The loss of revenue assessed as per the rate fixed in the project report was Rs.14.93 lakh per annum.

### **Soro NAC**

The Soro NAC received Central and State assistance totalling Rs.1.36 crore during the period from 1999 –2000 to 2005-06. Due to inconsistency in preparation of the project report and other technical formalities, the construction of the project got delayed which

entailed extra expenditure in shape of enhancement in the estimate. The cost of the project included under commercial category estimated at Rs.42.54 lakh in the year 1999-2000 was raised to Rs.54.04 lakh and the work was put to tender in 2007. The construction of Kalayan Mandap estimated at Rs. 28.00 lakh which was due for completion in June 2007 remained incomplete as of March 2009. Loss of revenue and interest liability could not be assessed due to non-availability of the project reports.

### **Balugaon NAC**

The NAC received approval for eight projects with sanctioned outlay of Rs. 45.90 lakh, which consisted of three remunerative projects. The NAC received funds of Rs.23.33 lakh consisting of both Central and State assistance during 2001-02 and 2002-03 for execution of the project. The NAC was able to complete only one project as of March 2009 leaving one project incomplete and other one abandoned due to shortage of funds. The construction of Yatri Nivas, which was due for completion by March 2003, remained incomplete as the contractor left the work in the midway. The projected amount of revenue to be collected from the Yatri Nivas was Rs.7.90 lakh per annum and for the delay in completion of the project of six years, there was loss of revenue of Rs. 47.40 lakh.

### **2.27 Improper expenditure policy**

For any institution to grow, it has to pursue the requisite expenditure policy that would provide impetus for acquisition of revenue productive infrastructure. In the test checked ULBs, the available funds were utilised without following the above principle due to which the revenue earning asset generation of the ULBs during the past five years was “nil” except ULBs like BMC and Junagarh NAC. The principle adopted by the other ULBs was to distribute the available funds amongst the wards, which had led to thin spreading of funds over a number of projects leaving no scope for acquisition of assets with bigger costs.

## **2.28 Excess expenditure on establishment charges**

Salary component of the staff of ULBs has turned out to be the single largest item of the revenue expenditure. It was the responsibility of the State Government to plan the size of the establishment with a uniform pattern to derive optimum output from the staff. In this regard, the OMC Rule 174 and conditions imposed in the budget approval, provided for limiting the expenditure on establishment at five *percent* of the normal revenue of the ULBs. On a special consideration, CMC was allowed a relaxation up to 35 *percent* while adopting the revised pay scale of its employees with effect from 1 January 2006. Information collected from test checked ULBs revealed that the expenditure on establishment charges was far in excess of the prescribed limit as per details given in **Appendix-XI**.

The reasons of excess expenditure in CMC were due to irregular appointments of 264 persons made in different grades in excess of the sanctioned strength during the period from 1996 to 1998. These employees continued in service without regularization for the last decade. These irregular appointments not only entailed heavy establishment expenditure but also created a litigated and disturbed atmosphere of work culture in CMC.

In some ULBs, the cost of collection was more than the revenue collection. The higher percentage of establishment expenditure and cost of collection reduced the resource availability of ULBs for undertaking developmental activities. With meagre amount of revenue collection, the ULBs served their own interests rather than providing service to the people.

## **2.29 Transparency in expenditure**

Maintaining transparency in expenditure and ensuring optimal utilisation of available resources through proper management of funds by avoiding cases of misappropriation, misutilisation, infructuous and irregular expenditure and blockage of funds contribute indirectly to resource mobilisation. The Inspection Reports of Accountant General containing many irregularities of the above nature remained unsettled.

The cashier of CMC misappropriated tax of Rs.1.49 lakh on booking an advance as expenditure without supporting vouchers made on 30 December, 2006. In Nayagarh NAC, the Tax Collector received revenue collection of Rs.0.38 lakh in September 2005, which was not accounted for in the collection register, cashbook and the same had been misappropriated. The above cases of misappropriations remained unsettled (March 2009).

### **2.30 Capacity building to administer and enforce levy of taxes**

The general assertion of the people is that the elected local bodies with the intention of coming closer to the people and avoid displeasure, show reluctance to impose new taxes or increase the rate of taxes even though augmentation of revenue base is very much essential for providing better quality of service to the people. These bodies ignored the interests of the organisation and while providing service / benefits to the people, the principles of linking it to revenue are not followed in practice.

As verified from the records of the test checked ULBs, licenses for different trades were issued by the ULBs under the provisions of OMC Act, but no action was taken for simultaneous assessment of the concerned holdings under commercial category. Approval for building construction plans was given by the ULBs but no track was maintained for assessment of the concerned buildings to holding tax. Each wing/ Section of the ULBs functioned as independent units without having any coordinated effort for revenue augmentation.

### **2.31 Monitoring and evaluation**

The efficiency of the ULBs in mobilising more revenue resource with reference to the powers vested on them and its necessity was not evaluated by Government at any higher level during the past five years. Utilisation of funds under the major schemes implemented by the ULBs was not effectively monitored for which a number of remunerative projects remained incomplete, causing loss of revenue.

No internal monitoring mechanism was evolved for improving the revenue raising capabilities. No targets were fixed for the tax collectors and ward visit notes from the tax collectors was not insisted for reporting about the cases of new construction additions / alterations and change of usage of the buildings. No information or data base system was

evolved on the delivery of service provided by the ULBs and quantity of revenue generated from the provision of the services for levy of taxes and revision of rates.

### **2.32 Conclusion**

Despite the functional autonomy given to the ULBs, they remained incapable of expanding their resource base due to low capacity building to administer and enforce the tax measures. The State Government had failed in its mundane duty in moulding the system of governance of the ULBs which were inept in the hands of self serving political bodies that were apathetic to levy tax for political considerations. The meagre amount of revenue generated internally by the ULBs was grossly misutilised towards payment of salary to staff and settling other committed liabilities leaving hardly any amount for capital formation and basic service provisions. There were manifestations of financial indiscipline, lack of accountability in optimal utilisation of funds and improper management of revenue earning assets, which caused loss of revenue to the ULBs. For providing civic services, the ULBs, continued to heavily rely on the State/Central Government's grants. After more than one and half decades of enactment of the 74<sup>th</sup> Constitution Amendment Act, the objectives of achieving inclusive growth with self governance remained a distant possibility. With inadequate resource base, the ULBs failed to build up the infrastructure for providing qualitative services to the people, rather as per the ground realities, the ULBs of the State lived in the past showing a rural face. They lacked both vision and conviction of becoming self-dependent.

### **2.33 Recommendation**

- Financial Management requires strengthening, at ULB level, necessary arrangement for assessment, regular revision and timely collection of earnings and immediate conversion of assets into revenue earning assets as also adjustment of advances timely. Similarly tight budgeting control over scarce resources need to be exercised to avoid idle/unfruitful investments, misutilisation/diversion and avoidable costs.
- Devolution of resources through levy of taxes/assignment of taxation powers may be reviewed at State Government level to augment additional revenues of ULBs and funds recommended by SFC and funds received from GOI may be made available to ULBs timely. Tax/non-tax recovery mechanism may be strengthened.
- Costing of service charges wherever required may be introduced and assets created may be converted into revenue earning assets wherever possible.