

CHAPTER V

Financial resources of Urban Local Bodies

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5.1 Financial resources of Urban Local Bodies

The most important factor for effective performance of the devolved functions is the availability of adequate finances with ULBs. The funds of ULBs can be divided into four broad categories *viz.*, (i) Own revenue which ULBs mobilise through their power to levy and collect taxes and fees *viz.*, property tax, fire-brigade tax, taxes on vehicles, taxes on boats, education cess, development fees and rent on municipal property, (ii) Central Finance Commission grants devolved to the ULBs on the recommendation of Finance Commission, (iii) Assigned Revenue which accrues to the ULBs as a certain percentage of a tax levied and collected by the State Government and (iv) grant-in-aid from the Government which may be tied to a specific purpose or may be untied.

5.2 Source of revenue of Urban Local Bodies

In Maharashtra, the sources of funds of ULBs were (i) Central and State Government grants and (ii) ULBs own source of revenue. The details of source of revenue of ULBs for the period 2015-16 to 2019-20 are indicated in **Table 5.1**.

Table 5.1: Source of revenue of ULBs in the State during 2015-16 to 2019-20

(₹ in crore)

Sr. No.	Year	Grants	Own Resources	Total Revenue	Percentage of own revenue with reference to total financial resources
1	2015-16	6286.77	53795.62	60082.39	90
2	2016-17	10812.88	47739.34	58552.22	82
3	2017-18	11365.64	52413.83	63779.47	82
4	2018-19	15791.95	51399.25	67191.20	76
5	2019-20	15996.72	56942.42	72939.14	78

Source: Information obtained from ULBs

As seen from **Table 5.1**, the percentage of own revenue to total revenue declined from 90 *per cent* during 2015-16 to 78 *per cent* during 2019-20. Though, own resources increased by 6 *per cent* during 2015-16 to 2019-20, the grants increased by 61 *per cent* during the same period.

The main source of own revenue of Municipal Corporations/Councils/Nagar Panchayats was property tax. As per the provisions of all the three Acts, property tax could be levied on the basis of the rateable value¹ of the property (land and building). The Second Administrative Reform Commission and the Thirteenth CFC had recommended in October 2007 and December 2009 respectively to switch to capital value method of assessing property tax by all

¹ Rateable value is the amount of rent which the property might reasonably be expected to earn after allowing 10 *per cent* deduction as allowance for repairs

local bodies. This was recommended to ensure buoyancy in property tax collection. State Government amended (2010) all the three Acts to levy property tax on rateable value or capital value².

Property tax revenue depends upon the enumeration of property, tax rate, assessment and valuation system, extent of exemption and collection efficiency.

5.2.1 Property tax collection

The property tax collection in the 44 test-checked ULBs during 2015-16 to 2019-20 is given in **Table 5.2**. The ULB wise details are given in **Appendix 5.1**.

Table 5.2: Property tax demand and collection in test-checked ULBs during 2015-16 to 2019-20

Sr. No.	Year	Property tax demand	Property tax collected	Percentage of collection
		(₹ in crore)		
1	2015-16	20116.14	6041.64	30.03
2	2016-17	17587.39	6112.43	34.75
3	2017-18	18892.79	6515.28	34.49
4	2018-19	20894.53	6624.30	31.70
5	2019-20	23116.19	5810.07	25.13
6	Total	100607.04	31103.72	

Source: Information obtained from ULBs

As seen from **Table 5.2**, the property tax demand has increased by 15³ per cent during the period 2015-16 to 2019-20. The collection however, declined from 30.03 per cent during 2015-16 to 25.13 per cent during 2019-20. Out of total property tax demand of ₹ 1,00,607.04 crore in the 44 test-checked ULBs during 2015-16 to 2019-20, ₹ 84,777.14 crore (84 per cent) demand pertained to MCGM.

The status of collection efficiency analysed in audit in the 44 test-checked ULBs during 2015-16 to 2019-20 is depicted in **Table 5.3**.

Table 5.3: Collection efficiency in test-checked ULBs during 2015-16 to 2019-20

Sr. No.	Collection efficiency percentage	Municipal Corporations	Municipal Councils	Nagar Panchayats	Total
	No. of ULBs				
1	Less than 20	-	-	2	2
2	20 to 50	5	8	6	19
3	50 to 70	1	9	4	14
4	70 to 80	2	1	-	3
5	Above 80	-	6	-	6
	Total	8	24	12	44

Source: Analysis of data furnished by ULBs

² Capital value is the value per unit area of the property, as declared by the Government for the purpose of levy of Stamp Duty

³ (Property tax demand of 2019-20: 23116.19 (-) Property tax demand of 2015-16: 20116.14) *100/20116.14 = 14.91 i.e., 15 per cent

Audit noticed the following:

- The collection efficiency in 38 (86 *per cent*) out of 44 test-checked ULBs was less than 80 *per cent* thereby undermining their capacity to provide services to the citizens effectively.
- Average collection efficiency during 2015-16 to 2019-20 in the 44 test-checked ULBs was 53 *per cent* (**Appendix 5.1**).
- The average collection efficiency in Municipal Corporations was 47 *per cent* (**Appendix 5.1**). The collection efficiency in MCGM during 2015-16 to 2019-20 was only 28 *per cent*.
- The average collection efficiency in Municipal Councils and Nagar Panchayats was 54 *per cent* (**Appendix 5.1**).
- Only three ULBs (Greater Mumbai, Kulgaon-Badlapur and Talegaon-Dabhade Municipal Council) out of the 44 test-checked ULBs, were levying property tax on capital value.
- As per the Government Resolution of UDD issued in June 2017, Geographic Information System (GIS) based taxation system was to be implemented across all the municipal areas to expand the tax base by bringing all the existing unassessed properties into the tax net. Audit observed that GIS mapping of the properties was not completed in 34 out of 44 test-checked ULBs. 10 ULBs⁴, which had completed GIS mapping, implemented GIS based taxation system.
- Charges in lieu of property tax on Central and State Government properties was not levied in 13⁵ (30 *per cent*) out of 44 test-checked ULBs. Nashik Municipal Corporation did not levy charges in lieu of property tax on State Government properties while Amravati Municipal Corporation did not levy charges in lieu of property tax on Central Government properties. Sinnar Municipal Council was not levying property tax on vacant land.

Thus, the average property tax collection in the test-checked ULBs was not only low but majority of the ULBs failed to improve the buoyancy in property tax by levying property tax on capital value. Significant number of ULBs also failed to levy charges in lieu of property tax on Government properties to boost their revenue.

During the exit conference, the Principal Secretary stated (February 2022) that instructions would be issued to improve collection efficiency and to tax on capital value, besides levy of charges in lieu of property tax on Government

⁴ (i) Latur Municipal Corporation, (ii) Nagpur Municipal Corporation, (iii) Nashik Municipal Corporation, (iv) Bhatkuli Municipal Council, (v) Nilanga Municipal Council, (vi) Osmanabad Municipal Council, (vii) Ramtek Municipal Council, (viii) Sinnar Municipal Council, (ix) Talegaon-Dabhade Municipal Council and (x) Yavatmal Municipal Council

⁵ (i) Thane Municipal Corporation, (ii) Vasai-Virar Municipal Corporation, (iii) Malkapur Municipal Council, (iv) Nandurbar Municipal Council, (v) Sillod Municipal Council, (vi) Mohadi Nagar Panchayat (vii) Motala Nagar Panchayat, (viii) Medha Nagar Panchayat, (ix) Murbad Nagar Panchayat, (x) Renapur Nagar Panchayat, (xi) Shirala Nagar Panchayat, (xii) Shirur-Anantpal Nagar Panchayat and (xiii) Tala Nagar Panchayat

properties. As regards non-implementation of GIS based taxation system, the Principal Secretary stated that an agency is in the process of completing the GIS work.

5.2.2 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.

The State Government passed the Maharashtra Property Tax Board Act, 2011 for the constitution of the Board. The functions of the Board were to review the property tax system, suggest suitable basis for valuation and assessment of properties and recommend modalities for periodic revision of property tax assessment. However, the Board was not constituted in the State since the notification for constituting the Board was not issued.

As mentioned in **paragraph 5.2.1**, ULBs were following different methods of levying property tax, which could have been addressed by the constitution of the Property Tax Board.

During the exit conference, the Principal Secretary stated (February 2022) that Property Tax Board for the entire State was not a mandatory reform and therefore the notification was not issued.

Recommendation 7: The internal control mechanism in the ULBs may be strengthened to ensure that charges in lieu of property tax on Central and State Government properties are levied by all ULBs. The State Government may also ensure that ULBs levy property tax on capital value and complete GIS mapping of properties in a time-bound manner.

5.3 Assigned revenue of Urban Local Bodies

5.3.1 Additional Stamp Duty

As per section 149A of the MMC Act and 147A of the MMCNPIT Act, one *per cent* Additional Stamp Duty levied on sale, gift, mortgage of immovable property situated in the City/Municipal area was required to be apportioned to the respective ULBs after due appropriation as a charged expenditure on the Consolidated Fund of the State.

The one *per cent* additional stamp duty collected and appropriated to the ULBs in the State during 2015-16 to 2020-21 is given in **Table 5.4**.

Table 5.4: Additional Stamp Duty assigned to the ULBs

(₹ in crore)

Sr. No.	Year	Additional Stamp Duty collected in municipal areas	Additional Stamp Duty disbursed to ULBs	Excess /Shortage (-)
1	2015-16	896.67	896.64	(-)0.03
2	2016-17	869.82	887.42	17.60
3	2017-18	1165.72	832.15	(-)333.57
4	2018-19	1244.35	1185.83	(-) 58.52
5	2019-20	1318.27	869.07	(-)449.2
6	2020-21	500.29	Nil	(-)500.29
Total		5995.12	4671.11	(-)1324.01

Source: Information furnished by UDD and Inspector General of Registration and Controller of Stamps, Maharashtra State

It could be seen from **Table 5.4** that except in 2016-17, the additional stamp duty disbursed to the ULBs was less than the amount collected and during 2015-16 to 2020-21, ₹ 1,324.01 crore was not transferred to the ULBs.

In reply, UDD, GoM stated (December 2020) that an amount of ₹ 103.79 crore in respect of outstanding payments to Maharashtra Jeevan Pradhikaran from 21 Municipal Corporations was adjusted. However, the fact remains that an amount of ₹ 1,220.22 crore was not disbursed to ULBs even after considering the above adjustment.

The additional stamp duty collected by the Inspector General of Registration and Controller of Stamps, Maharashtra State, from the public at the time of registration of immovable properties was remitted into the consolidated fund of the State. The additional stamp duty was, thereafter, released to the ULBs through budget. The system followed led to short release of additional stamp duty to the ULBs. The fifth SFC had recommended direct credit of additional stamp duty to the ULBs without crediting it to State Treasury which was not accepted by the Government.

During the exit conference, the Under Secretary, Finance Department stated (February 2022) that instructions have been issued to Inspector General of Registration and Controller of Stamps, Government of Maharashtra to disburse the amount and added that Government is examining the issue of direct credit of proceeds to ULBs instead of routing through the budget.

Recommendation 8: The Government may consider a mechanism for direct credit of additional stamp duty to the ULBs as recommended by the Fifth SFC and in the interim, arrange to transfer the entire collected proceeds to the ULBs.

5.3.2 Grant on account of Royalty on minor mineral

UDD, GoM decided (July 2000) to devolve Royalty on Minor Mineral collected in 'C' class Municipal Council area, subject to a maximum of ₹ five lakh per year. Audit noticed that ₹ 70.69 lakh was disbursed by the UDD to all 151 'C' class Municipal Councils as grant every year during 2015-16 to 2018-19. Grant was not disbursed during 2019-20 and 2020-21.

Audit noticed that UDD did not have municipal area-wise details of collection of Royalty on minor minerals, in the absence of which audit could not verify whether the devolvement was correctly done to the ULBs.

5.3.3 Grant of Land Revenue and Non-Agriculture Assessment

UDD, GoM decided (March 2016) to assign 15 *per cent* of the land revenue and 75 *per cent* of the non-agricultural assessment to the respective municipal councils. An amount of ₹ 16.26 crore was disbursed during 2015-16 to 2019-20. No disbursement was done during 2020-21.

Audit noticed that UDD did not have municipal area-wise details of land revenue and non-agriculture assessment, in the absence of which, audit could not verify whether the devolvement was correctly done to the ULBs.

5.4 State Government Grants

5.4.1 Nagarpalika Sahayak Anudan

The most important State Government Grant to the Municipal Councils was 'Nagarpalika Sahayak Anudan' which was in the nature of revenue grant. This grant was commenced in August 2009 by combining the existing Dearness Allowance Grant and the Octroi Grant to compensate the loss of income of the Council due to abolition of Octroi. As per the Government Resolution of August 2009 issued by UDD, the amount of 'Nagarpalika Sahayak Anudan' was to be increased by 10 per cent every year. The disbursement of Nagarpalika Sahayak Anudan in the State during 2015-16 to 2020-21 is shown in **Table 5.5**.

Table 5.5: Short disbursement of Sahayak Anudan

(₹ in crore)

Year Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Amount disbursed	1437.94	1549.37	1489.00	1684.94	1685.73	1985.73	9832.71
Amount to be disbursed considering 10 per cent increase every year from 2015-16	1437.94	1581.73	1739.90	1913.89	2105.28	2315.81	11094.55
Shortfall	-	32.36	250.90	228.95	419.55	330.08	1261.84

Source: Information furnished by UDD, GoM

As seen from **Table 5.5**, the grant had not been increased by 10 per cent every year resulting in short disbursement of ₹ 1,261.84 crore in the State during 2016-17 to 2020-21.

Audit noticed that in 13⁶ out of the 36 test-checked Municipal Councils/Nagar Panchayats, the increase was less than 10 per cent every year and the short disbursement worked out to ₹ 280.03 crore during 2016-17 to 2020-21.

5.4.2 Compensation to Municipal Corporations on abolition of Local body Tax with the introduction of Goods and Services Tax

On introduction of Goods and Services Tax (GST) in July 2017, levy of Octroi/Local Body Tax (LBT)/Entry Tax levied by Municipal Corporations was abolished. To compensate the Municipal Corporations on account of loss of revenue with the abolition of these taxes, the State Government passed the Maharashtra GST (Compensation to Local Authorities) Act, 2017. Accordingly, the loss of revenue from these taxes was being compensated by the State Government from 2017-18. The base year for calculating the compensation was 2016-17. Under Section 3 of the Act, nominal eight per cent compounded annual growth rate of revenue was considered in perpetuity.

⁶ Alibaug, Barshi, Dhamangaon, Ichalkaranji, Jalna, Khamgaon, Khopoli, Kulgaon-Badalapur, Nandurbar, Osmanabad, Sillod, Talegaon-Dabhade and Yavatmal

The base year revenue of the 25 Municipal Corporations⁷ as certified by the DLFA was ₹ 7,642.05 crore. The Base Year revenue of Octroi of MCGM was not certified by the DLFA and the amount of ₹ 7,192.67 crore declared by the Municipal Corporation of Greater Mumbai (MCGM) was accepted by the Government. The compensations released by the State Government is shown in **Table 5.6**.

Table 5.6: GST compensation on abolition of Octroi/LBT released by the State Government

(₹ in crore)				
Amount certified by DLFA	2017-18	2018-19	2019-20	2020-21
14834.72 (including ₹ 7192.67 crore of MCGM)	12085.25	17469.22	19104.48	20616.60
<i>Source: Information furnished by UDD, GoM</i>				

Audit observed that the State Government was compensating the Municipal Corporations for the loss sustained due to abolition of Octroi/LBT, as per the Maharashtra GST (compensation to Local Authorities) Act, 2017.

Out of the eight test-checked Municipal Corporations, only Nagpur Municipal Corporation was granted excess compensation of ₹ 1,140.59 crore during 2018-19 to 2020-21. The excess compensation was due to the change in base year revenue of the Corporation which was increased from ₹ 540.85 crore to ₹ 886.43 crore. This was done as per an Ordinance (November 2018) to amend the original Maharashtra GST (Compensation to Local Authorities Act, 2017) whereby provision was made to change the base year revenue by the Government, if claimed by any Municipal Corporation. Audit further noticed that the revised base year revenue was not audited by the DLFA though Section 5(3) of the Maharashtra GST (compensation to Local Authorities) Act, 2017 stipulated that the base year revenue shall be audited by the DLFA.

During the exit conference, the Principal Secretary stated (February 2022) that the issue of audit of revised base year revenue of Nagpur Municipal Corporation would be looked into.

5.4.3 Grant in lieu of abolition of Yatra Kar (Pilgrimage Tax)

‘Yatra Kar’ (pilgrimage tax) levied by different ULBs at places of religious importance was abolished by the Government in January 1978 and in lieu of it, allowed ‘Yatra Kar Anudan’ to seven Municipal Councils of Alandi, Jejuri, Paithan, Pandharpur, Ramtek, Trimbak, and Tuljapur every year. The said grant was increased (October 2016) from ₹ 50 lakh to ₹ 1.25 crore in respect of Trimbak and to ₹ 62.50 lakh from ₹ 25 lakh in respect of Ramtek from 2016-17 onwards. Audit, however, noticed that grant in lieu of abolition of ‘Yatra Kar’ to the tune of ₹ 7.50 crore⁸ for the period 2017-18 to 2020-21 was not disbursed to the two test-checked Municipal Councils of Trimbak and Ramtek

⁷ The base year for Panvel Municipal Corporation which was established in October 2016 was 2016-17

⁸ Trimbak ₹ 1.25 crore x 4 years and Ramtek ₹ 62.5 lakh x 4 years for the period 2017-21

5.4.4 Road Grant

The Road Grant was released for construction and maintenance of roads in municipal area. 10 per cent of Motor Vehicle Tax collected during preceding year was to be devolved to the ULBs in the subsequent year as road grant for construction and maintenance of roads in urban areas. The grant comprises of Normal Road Grant and Special Road Grant. Normal Road Grant was a fixed amount which was released to all ULBs according to their type and class. Any amount remaining after disbursement of Normal Road Grant was released as Special Road Grant after assessing the need of ULBs demanding the grant. For the Normal Road Grant, the implementing agency was the concerned ULB while for the Special Road Grant, the agency for execution of construction and maintenance of road was decided by the Government.

The status of motor vehicle tax collected, amount eligible for disbursement as road tax, amount disbursed during 2015-16 to 2020-21 in the State is shown in Table 5.7.

Table 5.7: Short disbursement of Road Grant

(₹ in crore)

Year	Total Motor Vehicle Tax Collected in the previous year (1)	10 per cent of Total Collection (2)	Amount of Road Grant (Normal and Special Road Grant) disbursed (3)	Difference (4= 2-3)
2015-16	4555.91	455.59	450	5.59
2016-17	5100.23	510.02	405	105.02
2017-18	5636.77	563.67	450	113.67
2018-19	7108.98	710.89	405	305.89
2019-20	7065.47	706.54	358	348.54
2020-21	6560.94	656.10	125	531.1
Total				1409.81

Source: Information compiled from State Finance Accounts and obtained from UDD, GoM

Thus, there was short disbursement of Road Grant amounting to ₹ 1,409.81 crore to the ULBs during 2015-16 to 2020-21.

During the exit conference, the Principal Secretary stated (February 2022) that non-disbursement/short disbursement of the grant on account of royalty on minerals, grant of land revenue and Non-Agricultural Assessment, and short disbursement of *Nagarpalika Sahayak Anudan*, Road Tax, Yatra Kar was due to budgetary constraints.

Recommendation 9: Government should ensure that assigned revenue and grants to ULBs are disbursed in full without any delay.

5.5 Central Finance Commission Grant

Article 280(3)(C) of the Constitution of India mandated the Central Finance Commission (CFC) to recommend measures to augment the Consolidated Fund of a State to supplement the resources of Municipalities based on the recommendations of the respective SFCs. The Thirteenth CFC and the Fourteenth CFC recommended the release of basic and performance grant to ULBs as a percentage of divisible pool account⁹.

⁹ Portion of gross tax revenue which is distributed between the Centre and the States

As per the Fourteenth CFC, the Basic and Performance Grant to be devolved/allocated to Maharashtra, the amount devolved to Maharashtra and further disbursement to the ULBs is given in **Table 5.8**.

Table 5.8: Devolution of Central Finance Commission Grants

(₹ in crore)

Sr. No.	Year	Basic Grant to be devolved	Basic Grant devolved to the State	Basic Grant devolved to the ULBs	Performance grant allocated	Performance grant received by State Government/ ULBs
1	2015-16	1191.24	1191.24	1191.24	--	-
2	2016-17	1649.49	1649.49	1649.49	486.82	486.82
3	2017-18	1905.49	1905.83	1905.83	550.91	-
4	2018-19	2204.70	2204.70	2204.70	625.63	-
5	2019-20	2979.02	2979.02	2979.02	819.21	550.91 ¹⁰

Source: Information obtained from Fourteenth FC Report and GRs issued by UDD, GoM in respective year and information furnished by DMA

As seen from **Table 5.8**, the entire basic grant has been devolved to the ULBs. However, performance grant of ₹ 1,444.84 crore for the years 2018-19 and 2019-20 was not received by the State Government.

During the exit conference, the Principal Secretary stated (February 2022) that the performance grant was not disbursed by the Government of India to any of the States.

5.6 Accounts and Audit of Urban Local Bodies

Article 243Z of the Constitution of India stipulated that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by Municipalities and audit of such accounts. Director, Local Fund Accounts Audit (DLFA) was the statutory auditor of the ULBs under section 109AA of the MbMC Act, 107A of the MMC Act and 104 of the MMCNPIT Act. Audit noticed arrears in audit by DLFA in the 44 test-checked ULBs as shown in **Appendix 5.2**. In 27 (61 *per cent*) out of 44 test-checked ULBs, the arrears in audit was for more than three years. The Maharashtra Municipal Accounts Code, 2013 stipulated maintenance of accounts on accrual basis¹¹. Audit also noticed that in the 44 test-checked ULBs, 14 ULBs (32 *per cent*) did not prepare accounts on accrual basis (**Appendix 5.3**).

During the exit conference, the Principal Secretary stated (February 2022) that instructions would be issued to ULBs to maintain accounts on accrual basis. As regards arrears in audit, Director, Local Fund Accounts Audit stated that arrears were on account of shortage of staff and efforts would be made to reduce the arrears.

¹⁰ Second instalment of performance grant of ₹ 550.91 crore was to be devolved in the year 2017-18 which was actually devolved by the Centre to State and then finally to ULBs in 2019-20

¹¹ Accrual method of accounting is the method where revenue or expenses are recorded when a transaction occurs rather than when payment is received or made

