

CHAPTER II

AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY MECHANISM AND FINANCIAL REPORTING ISSUES OF URBAN LOCAL BODIES

2.1 Introduction

Article 243Q of the Constitution envisages, constitution of Municipal Corporation for large urban areas, Municipal Councils for smaller urban areas, and Nagar Panchayats for areas in transition from a rural to an urban area in every State. Further, Article 243W states that the Legislature of a State may, by law, endow the municipalities with such powers and authority as may be necessary to enable them to function as institutions of Self-Government and such law may contain provisions for devolution of powers and responsibilities upon municipalities.

2.1.1 *Profile of the State*

The State of Chhattisgarh, with Raipur as its capital, came into existence on 1 November 2000 by separation of 16 districts of Chhattisgarh region from Madhya Pradesh. At present, there are 33¹ districts in the state as of March 2023.

The Madhya Pradesh/Chhattisgarh Municipalities Act, 1961 was enacted by the then undivided Madhya Pradesh, and was adopted (August 2001) in Chhattisgarh with the objective of consolidating and amending the law relating to Municipalities and to make better provision for the organisation and administration of Municipalities.

The three tiers of ULBs in Chhattisgarh are Municipal Corporations, Municipal Councils and Nagar Panchayats. At present there are 14 Municipal Corporations, 44 Municipal Councils and 112 Nagar Panchayats in the State.

The total urban population under 170 ULBs of the State was 59 lakhs as per Census 2011 which was 23.24 *per cent* of the total population of the State. The population-wise classifications of ULBs are given in the following Table 2.1:

¹ Five new districts i.e., (i) Manendragarh-Chirmiri-Bharatpur, (ii) Kairagarh-Chhuikhadan-Gandai, (iii) Mohla-Manpur-Ambagarh Chowki, (iv) Sakti, (v) Sarangarh-Bilagarh formed in September 2022 are also included in this figure.

**Table 2.1: Population-wise classification of Urban Local Bodies
(as on March 2023)**

S. No.	Population	No. of Municipal Corporations	No. of Municipal Councils	No. of Nagar Panchayats
1	Below 5,000	Nil	01	11
2	5,001 to 10,000	Nil	Nil	66
3	10,001 to 20,000	Nil	10	35
4	20,001 to 50,000	Nil	31	Nil
5	50,001 to 1,00,000	05	02	Nil
6	Above 1,00,000	09	Nil	Nil
Total		14	44*	112

(Source: Data provided by UADD Raipur as per Census 2011 and compiled by audit)

* One new Municipal Council Amleshwar in Durg District was formed in August 2022.

2.1.2 Criteria for up-gradation of ULBs

As per Section 7 of MP/CG Municipal Corporation Act (CGMCA) 1956 and Section 5 of MP/CG Municipalities Act (CGMA) 1961, a Municipal Corporation/Municipal Council/Nagar Panchayat shall be constituted in such urban area or part there of as the Governor may, having regard to the population of the area, the density of the population therein, the revenue generated for local administration, the percentage of employment in other than agricultural activities, the economic importance or such other factors, decide.

In exercise of powers conferred under above mentioned section of CGMCA and CGMA, State Government issued (February 2003) a notification stipulating that there should be one lakh or more population for Municipal Corporations, 20,000 to one lakh for Municipal Councils and 5,000 to 20,000 for Nagar Panchayats.

However, the population criteria as stipulated above for being declared as an urban local body were not strictly followed as there are 12 ULBs (one Municipal Council and 11 Nagar Panchayats) having population below 5,000.

On being pointed out (March 2023), no reply was provided by the Department.

2.2 Organisational setup for ULBs

The Urban Administration and Development Department (UADD) is the administrative department for the various Municipal Corporations, Municipal Councils and Nagar Panchayats in the State. The administrative structure of the UADD is as follows:

Organisational Chart of ULBs



A Directorate has been established under UADD, with its regional offices at Raipur, Bilaspur, Ambikapur, Jagdalpur and Durg. State Urban Development Agency (SUDA), constituted (June 2001) under UADD, is responsible for implementation and monitoring of poverty alleviation programmes in the urban areas of the State.

The other responsibilities of the UADD are to oversee the works related to public health and hygiene in urban areas, supervision of development schemes in slum areas, implementation of special schemes for upliftment of urban poor and their supervision, provision of housing facilities to urban poor, administration of *Chungi* Compensation tax fund etc.

2.3 Functioning of ULBs

The Constitution (74th Amendment) Act, 1992 sought to empower ULBs to perform functions and implement schemes in relation to 18 subjects specified in the 12th schedule of the Constitution of India. The devolution of all the functions in the State has not been completed even after 20 years of its inception. Article 243X of the Constitution of India envisages that State Legislature may, by law, vest power in ULBs to impose various taxes for revenue collection. This constitutional provision has been incorporated in Clause 132 of CGMCA and Clause 127 of CGMA. The ULBs receive funds on monthly basis under *Chungi* Compensation Grant and Passenger Tax Special Grant by the State Government. In addition to this, at the ULBs level

various types of taxes have been imposed including Property tax, *Samekit Kar*, Water tax, Market fee, Export tax etc.

2.3.1 *Municipal Corporation*

According to section 9 of Chhattisgarh Municipal Corporation Act, 1956, a Municipal Corporation shall consist of a Mayor and Councillors directly elected from the Municipal Corporation area. Under section 37 of the said Act, there shall be a Mayor-in-Council for every Municipal Corporation constituted by the Mayor from amongst the elected Councillors to discharge the functions and conduct of business of the Mayor-in-Council as may be prescribed.

According to section 25 of CGMCA, the Mayor shall have administrative control over the officers and staff of his office and exercise such powers and perform such functions as described in the Act and the Rules made there under.

The Commissioner of a Corporation shall be appointed by the State Government who is the Principal Executive Officer of the Corporation and shall have the right to speak at, and otherwise take part in any meeting of the Corporation or any committee thereof but shall not be entitled to vote or to move any proposition. The office of the Commissioner shall have the administrative staff for the functions and duties as prescribed under the rules.

As per section 69 of the CGMCA the Commissioner shall perform all the duties imposed or conferred upon him by this Act and exercise supervision and control over the acts and proceedings of all Municipal Officers.

2.3.2 *Municipal Council and Nagar Panchayat*

As per Section 19 of CGMA, a Municipal Council, for a smaller urban area and Nagar Panchayat, for a transitional urban area, shall have a President and Councillors elected from the respective areas by direct election. Under Section 70 of the Act, there shall be a President-in-Council (PIC) for every Municipal Council/Nagar Panchayat which shall be constituted by the President from amongst the elected Councillors to discharge the functions and conduct of business of the PIC, as may be prescribed.

The President of the Municipal Council/Nagar Panchayat who is the President of PIC, shall preside over all meetings, watch over the financial and executive administration and perform such executive functions as may be allotted under the said Act.

As per Section 87 of the Act, the Chief Municipal Officer of a Council shall be appointed by the State Government, who shall be the Principal Executive Officer of the Municipal Council/Nagar Panchayat and shall have administrative control over the officers and staff of his office and exercise such powers and perform such functions as described in the Act and Rule made there under.

Under section 92 of the Act, Chief Municipal Officer of a Municipal Council/Nagar Panchayat subject to the general control of the President, watch over the financial and executive administration of the Council and perform all the duties and exercise all the powers specially imposed or conferred upon him, by or delegated to him, under this Act.

2.4 District Planning Committees

As per Article 243 ZD of the Constitution of India, there shall be constituted in every State at the district level, a District Planning Committee (DPC) to consolidate the plans prepared by the Panchayats and the Municipalities in the district and to prepare a draft development plan for the district as a whole.

2.4.1 Functions

Every DPC shall prepare draft development plan and function in the matters of common interest between the Panchayats and the Municipalities including spatial planning, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation, the extent and type of available resources whether financial or otherwise, consult such institutions and organizations as the Government may, by order, specify. The Chairperson of every DPC shall forward the development plan, as recommended by such Committee, to the State Government.

2.4.2 Formation of DPC and Frequency of Meeting

As per Chhattisgarh District Planning Committee Act 1995, the meetings of the Committee shall be held at least once in every quarter of the financial year. The Chairperson or in his absence a member elected by the members present shall preside over the meeting of the Committee. The Committee may also invite experts to attend its meeting.

During the District Centric Audit of five² districts, it was found that DPC was formed in all the five test checked districts but meetings of DPC were not held in four districts (Janjgir-Champa, Kondagaon, Durg and Rajnandgaon) and only one meeting was held in Surajpur district during the period 2016-17 to 2021-22.

2.5 Formation of other Committees

As per section 48-A of Chhattisgarh Municipal Corporation Act 1956, the Ward Committees shall be constituted in the territorial area of Municipal Corporation having a population of three lakh or more. And under section 48-B of Chhattisgarh Municipal Corporation Act 1956, the Mohalla Committees shall be constituted under every Municipal area which is notified by the State Government in this behalf within three months from the date of notification. Similarly, constitution of Ward Committee and Mohalla Committee is prescribed under section 72 A and 72 B of Chhattisgarh Municipalities Act 1961.

During the District Centric Audit of five districts, it was found that Ward/Mohalla Committees were not constituted in seven³ out of 15 ULBs of five districts. However, in eight⁴ ULBs where Ward/Mohalla Committees

² Rajnandgaon, Janjgir-Champa, Kondagaon, Surajpur, Durg

³ Nagar Nigam Rajnandgaon, Nagar Palika Parishad Akaltara, Nagar Panchayat Keshkal, Nagar Panchayat Arjunda, Nagar Panchayat Nawagarh, Nagar Panchayat Dongargaon, Nagar Palika Parishad Amleshwar

⁴ Nagar Panchayat Shivrinarayan, Nagar Palika Parishad Kondagaon, Nagar Panchayat Pharsgaon, Nagar Panchayat Bhatagaon, Nagar Panchayat Pratappur, Nagar Panchayat Jarhi, Nagar Palika Parishad Dipika, Nagar Palika Parishad Surajpur

have been constituted, in five⁵ ULBs no meeting of Ward/Mohalla committee was held during the period 2016-17 to 2021-22. Out of the remaining three ULBs (Nagar Palika Parishad Surajpur and Nagar Palika Parishad Dipka and Nagar Panchayat Pharasgaon) where Ward/Mohalla committee have been constituted, Nagar Palika Parishad, Dipka and Nagar Panchayat Pharasgaon did not provide details of meetings to Audit while Nagar Palika, Surajpur stated that the last meeting of Ward/Mohalla committee was held in March and April 2022 only.

2.6 Devolution of functions to ULBs

The 74th Constitutional Amendment Act sought to empower ULBs to perform functions and implement schemes in relation to 18 subjects specified in the 12th Schedule. Article 243W of the Constitutional Amendment Act authorized the State Legislatures to enact laws to endow local bodies with powers and authority as may be necessary to enable them to function as institutions of self-governance and make provisions for devolution of powers and responsibilities.

Status of devolution of functions in Chhattisgarh was sought from department. Department intimated (October 2024) that vide the adoption of Laws order, 2001, the laws which were in force in the State of Madhya Pradesh immediately before the formation of the State of Chhattisgarh, were adopted in the State of Chhattisgarh. This included the Madhya Pradesh Municipal Corporation Act, 1956 and the Madhya Pradesh Municipalities Act, 1961 (renamed as The Chhattisgarh Municipal Corporation Act, 1956 and the Chhattisgarh Municipalities Act, 1961) which contained the provisions for assigning the 18 functions to ULBs.

It was however observed that function/activities relating to 'Fire Services' and 'School Education' were transferred (2015) to 'Home Department' and 'School Education Department' respectively from the Local Bodies. Thus, devolution of all the functions to ULBs was not completed in the State.

2.7 Status of Accounts in Urban Local Bodies

On the recommendation of 11th Finance Commission, Government of India (GOI) had entrusted the responsibility of prescribing appropriate accounting formats for the ULBs to the Comptroller and Auditor General of India (CAG).

The Ministry of Urban Development, GOI has developed (2004) the National Municipal Accounts Manual (NMAM) as recommended by the CAG's Task Force. The Deputy Chief Executive Officer, State Urban Development Agency intimated (September 2023) that as of March 2023, all the ULBs had completed preparation of accounts up to the year 2021-22 according to NMAM.

⁵ Nagar Panchayat Shivrinarayan, Nagar Palika Parishad Kondagoan, Nagar Panchayat Bhatagoan, Nagar Panchayat Pratappur, Nagar Panchayat Jarhi

2.7.1 Preparation and submission of accounts of Urban Local Bodies

As per provisions of CGMCA and CGMA accounts of receipts and expenditure of the Corporation shall be kept in such manner and in such form as may be prescribed by the State Government. The Corporation shall, as soon as the accounts of the past year have been finally passed by it, transmit to the Government, the accounts in such forms as the Government may from time to time direct.

It further provides that there shall be an auditor specially appointed by the Government to examine and audit the accounts of the Corporation. The auditor shall from time to time examine and audit the accounts in accordance with the arrangements approved by the Government in this behalf.

Moreover, the Chief Municipal Officer shall within four months from the date of close of the financial year, cause to prepare a financial statement containing an income and expenditure account and receipts and payments account for the financial year in respect of the Council. The Chief Municipal Officer shall place the financial statement and the balance sheet before the house of the Council, which after examination of the same, shall adopt and remit them to the auditor as may be appointed in this behalf by the State Government.

The Chief Municipal Officer shall forward the copy of adopted financial statements, balance sheet and report of the auditor to the State Government together with a report of action taken thereon by the Municipalities and shall also send copies thereof to the auditor.

Chhattisgarh State Audit (CSA) is the Primary Auditor of Local Bodies and currently CSA is conducting audit and doing certification of accounts of ULBs. As of March 2023, accounts of all 170 ULBs up to the financial year 2021-22 have been prepared and the accounts of 2022-23 are under process. **Table 2.2** below indicates the status of accounts certified by the CSA.

Table 2.2: Status of certification of accounts as of March 2022

S. No.	Financial year	Total pendency at the end of previous year	No. of accounts due for certification in the year	Accounts certified in the year	Total accounts due for certification at the end of year
1	2017-18	492	146	114	524
2	2018-19	524	168	75	617
3	2019-20	617	168	71	714
4	2020-21	714	168	74	808
5	2021-22	808	167	81	894
Total				415	

(Source: Data provided by CSA Chhattisgarh)

Director, Chhattisgarh State Audit, Raipur informed (December 2023) that between 2017-2022, 415 accounts of ULBs were certified and 894 accounts are still due for certification. However, Director, CSA did not give any reasons for pendency of certification of accounts.

2.8 Audit arrangement

2.8.1 Primary Auditor

Director of Chhattisgarh State Audit (CSA) is the Primary Auditor (Statutory Auditor) of accounts of Local Bodies. The State Government appointed (February 2004) Director, Chhattisgarh State Audit (CSA) as primary auditor for audit of Local Bodies who shall work under the Technical Guidance and Support (TGS) of the Comptroller Auditor General of India (C&AG).

The total Number of ULBs audited by CSA is given in following **Table 2.3** below:

Table 2.3: Number of ULBs audited by CSA

	Year	No. of Units during the year		Total No. of Municipal Corporations in State	No. of Municipal Corporations audited	Total No. of Municipal Councils in State	No. of Municipal Councils audited	Total No. of Nagar Panchayats in State	No. of Nagar Panchayats audited
		Total	Audited						
1.	2016-17	167	77	13	6	43	18	111	53
2.	2017-18	167	82	13	9	43	27	111	46
3.	2018-19	168	49	13	5	44	15	111	29
4.	2019-20	168	41	13	3	44	12	111	26
5.	2020-21	168	35	13	2	44	9	111	24
6.	2021-22	167	33	14	3	43	4	110	26

(Source: Information provided by Directorate, Chhattisgarh State Audit)

The position of units audited by CSA during the period 2016-17 to 2021-22 and the outstanding observation till March 2022 are shown in the **Table 2.4** below:

Table 2.4: Outstanding audit observations of CSA

S. No.	Financial Year	No. of Unit Audited	Total No. of outstanding audit observations	Observation taken during the year	No. of objections settled during the year	No. of observation Outstanding
1	2016-17	77	64101	5386	464	69023
2	2017-18	82	69023	4167	495	72695
3	2018-19	49	72695	3946	180	76461
4	2019-20	41	76461	2010	243	78228
5	2020-21	35	78228	1878	45	80061
6	2021-22	33	80061	1524	151	81434

(Source: Information provided by Directorate, Local Fund Audit)

It is evident from the above table that there are 81434 number of audit observations pending for settlement as of March 2022.

Director, Chhattisgarh State Audit stated (July 2023) that lack of knowledge about the rules and regulations among the staff of the auditee units and shortage of staff in auditee units are the major reasons for pendency of large number of outstanding observations.

Recommendation:

State Government should take steps for capacity building at the functional

levels of the local bodies.

2.9 Response to Audit observations

According to TGS arrangement, the CSA shall pursue the compliance of such paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as his own reports.

During the period 2016-17 to 2021-22, audit of 137 units of ULBs was undertaken by AG (Audit) Chhattisgarh in which 1613 number of audit observations were made. Details of outstanding audit observations of AG's IRs are shown in the following **Table 2.5**:

Table 2.5: Outstanding audit observations of AG's Inspection Reports

S. No.	Financial Year	Total No. of Units audited during the year	No. of observation outstanding (OB) at the beginning of year	Observation taken during the year	No. of observations settled	No. of observations Outstanding at the end of the year
1	2016-17	34	526	403	29	900
2	2017-18	31	900	385	26	1259
3	2018-19	10	1259	154	5	1408
4	2019-20	0	1408	0	46	1362
5	2020-21	41	1362	448	96	1714
6	2021-22	21	1714	223	75	1862
Total		137		1613	277	

It is evident from the above table that during this period only 277 audit observation could be settled and therefore, 1862 audit observations were pending for settlement as of March 2022, out of which 526 observations pertained to period prior to 2016-17.

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

2.10 Ombudsman

The 13th Finance Commission had recommended for constituting a separate ombudsman for local bodies by amending the respective State Panchayat and Municipal Acts.

Chhattisgarh *Lok Aayog Adhinyam*, 2002 provides provisions for appointment and functions of certain authorities for the inquiry into, information of misconduct of complaint against certain public servants and for the matters connected therewith.

Department informed (February 2023) that total 64 cases pertaining to ULBs were lodged under *Lok Aayukt* during 2016-17 to 2021-22 and the number of outstanding cases was 12 as of March 2022. Details of outstanding cases lodged under *Lok Aayukt* are shown in the following **Table 2.6**:

Table 2.6: Outstanding cases lodged under Lok Aayukt

S. No.	Financial Year	Previous outstanding cases	No. of cases lodged during the year	No. of cases settled during the year	No. of cases Outstanding
1	2016-17	08	11	05	14
2	2017-18	14	19	01	32
3	2018-19	32	13	34	11
4	2019-20	11	12	16	07
5	2020-21	07	05	02	10
6	2021-22	10	04	02	12
Total			64	60	

(Source: Information provided by UADD, Raipur)

2.11 Social Audit

Under the ‘Mahatma Gandhi National Rural Employment Guarantee’ Audit of Scheme Rules, 2011, Chhattisgarh Social Audit Unit (CSAU) was constituted (September 2013) as an independent agency with the objective to work towards strengthening the Social Audit process in Chhattisgarh.

As per information received from Director, Chhattisgarh Social Audit Unit, social audit of the programmes/schemes of ULBs has not been taken up from the year 2016 to 2022 by the Social Audit Unit of Chhattisgarh.

2.12 Service Level Benchmark

Service Level Benchmarking has been developed and released (2008) by the Ministry of Urban Development (MoUD), which seeks to (i) identify a minimum set of standard performance parameters for the water and sanitation sector that are commonly understood and used by all stakeholders across the country; (ii) define a common minimum framework for monitoring and reporting on these indicators and (iii) set out guidelines on how to operationalize this framework in a phased manner. The framework encompasses 28 performance indicators under four categories i.e., Water Supply, Waste water Management, Solid waste Management and Storm water drainage. Further, Fifteenth Finance Commission has linked grants to ULBs with achievement of service level benchmarks on drinking water supply, rainwater harvesting and water recycling, solid waste management and sanitation.

The performance of ULBs against Service Level Benchmarks (SLBs) was not satisfactory. SLBs for water supply provided for 24 hours water supply and 135 liters per capita per day (lpcd). During test check of 13⁶ ULBs of four⁷ districts, it was observed that ULBs were able to provide water only for two to six hours per day. Further, the benchmark of providing 135 lpcd was never achieved in the test checked ULBs where the water supply ranged from 33-125 lpcd. Similarly, SLB provides 100 *per cent* coverage of storm water

⁶ (i) Nagar Panchayats - Sitapur, Lakhanpur, Dornapal, Konta, Nagari, Magarlod, Kurud, Bhakhra, Aamadi (ii) Nagar Palika – Narayanpur, Sukma (iii) Municipal Corporation – Ambikapur, Dhamatri

⁷ Surguja, Narayanpur, Sukma, Dhamtari.

drainage network. However, in seven out of 13 test checked units, only 10 to 32 per cent coverage of storm water was achieved.

2.13 Submission of Utilisation Certificates

As per Rule 182 of the Chhattisgarh Financial Code Vol-I, in case of an annual or a non-recurring conditional grant, the Departmental officer on whose signature or counter-signature Grant-in-aid bill is drawn, shall furnish the Utilisation Certificates (UCs) to the Accountant General on or before September 30 of the year following that to which the grant is related. A total of 685 UCs of the amount ₹ 6,338.06 crore were submitted by the department to Accountant General during the period 2016-2022. There was no pendency in submission of UCs by the department to Accountant General.

2.14 Internal Audit and Internal Control System of ULBs

As per section 417 A and section 322 of the CGMCA and CGMA respectively, the State Government or the Municipalities may provide for internal audit of the day-to-day accounts of the Municipalities in the manner prescribed.

As per UADD, the internal audit system has been functioning in 168 ULBs of the State since November 2015. Under the system, five Chartered Accountant (CA) firms perform the pre audit works and submit their reports to UADD. Further, a monitoring cell was formed under Additional Director (Finance) and retired Senior Auditor from Local Fund Audit for examination and compliance of internal audit reports. However, monitoring of compliances is pending due to discontinuation of services of retired Senior Auditor and services of CA firms from October 2020.

2.15 Financial Reporting Issues

2.15.1 Sources of revenue

There are mainly two sources of revenue for local bodies viz. Government grants and own revenues. Government grants comprise of funds released by the State Government and Government of India (GoI) on the recommendation of State/Central Finance Commission and funds received for implementation of various schemes. Own revenue sources of ULBs comprise of tax and non-tax revenues realised by them. The ULBs earn revenue from their own resources through various taxes like property tax, water tax, entertainment tax; user charges from water supply, drainage or sewerage disposal/treatment, door-to-door collection of solid waste etc. The ULBs also obtain loans for implementation of various schemes relating to urban development. The details of revenue resources of ULBs in the State for the last six years are given in the following **Table 2.7**:

Table 2.7: Revenue resources of Urban Local Bodies

(₹ in crore)

S. No.	Year	Grant-in-aid	Own Revenue Collection (Percentage of total Revenue)	Total
1	2016-17	2956.30	589.40 (17)	3545.70
2	2017-18	2999.60	614.61 (17)	3614.21
3	2018-19	2418.40	571.67(19)	2992.73
4	2019-20	2853.55	587.05(17)	3440.60
5	2020-21	3384.93	640.66(16)	4025.59
6	2021-22	3515.22	649.92(16)	4165.13
Total		18128.00	3653.31(17)	21783.96

(Source: Information provided by UADD, Raipur)

It may be seen from **Table 2.7** that the share of own revenue in the total resources of the ULBs varied between 16 to 19 *per cent* during 2016-17 to 2021-22. Thus, it is clear that the own revenue of ULBs has remained stagnant over the period of six years.

2.15.2 Budget Preparation and Approval

As per Section 97 of CGMCA read with section 116 of CGMA, budget is to be prepared based on probable receipts and expenditures for the following financial year and the same is to be as practical and accurate as possible. Further, final budget is to be passed before 31 March for the ensuing year.

Audit observed that in Raigarh district, the budget for the year 2018-19 to 2020-21 was prepared by the two⁸ of the three⁹ test checked ULBs except in Municipal Council, Kharsia where it was not prepared for 2020-21. However, no records for its submission to Director, UADD for approval were made available to audit. Further scrutiny revealed that budget was passed after a delay of 38 to 122 days from the prescribed date (31 March every year) by the ULBs.

2.15.3 Budgetary Allocation and Expenditure

Funds (share of tax revenue of the State, scheme funds and grants etc.) allocated to ULBs by the State Government through budget including State share of the GoI schemes and grants recommended by Fourteenth and Fifteenth Finance Commission are given in the following **Table 2.8**:

⁸ Municipal Corporation Raigarh (RMC) and Nagar Panchayat Pussore (NPP)

⁹ Municipal Corporation Raigarh (RMC), Municipal Council Kharsia (MCK) and Nagar Panchayat Pussore(NPP)

Table 2.8: Details of allocation and expenditure of funds

(₹ in crore)

S. No.	Year	Budgetary Allocation	Expenditure	Savings	Percentage of Savings
1	2016-17	3664.27	2956.30	707.97	19.32
2	2017-18	3409.13	2999.60	409.53	12.01
3	2018-19	4023.35	2418.40	1604.95	39.89
4	2019-20	4112.28	2853.55	1258.73	30.61
5	2020-21	4107.11	3384.93	722.18	17.58
6	2021-22	4099.82	3515.22	584.60	14.26
Total		23415.96	18128	5287.96	

(Source: Information provided by UADD, Raipur)

The budget allocation for ULBs increased by 12 per cent¹⁰ over the period of 2016-17 to 2021-22. However, UADD could not spend the entire budgetary allocation on ULBs, and savings ranged from 12 to 40 per cent during this period.

2.15.4 Chhattisgarh Infrastructure Development Fund (CIDF)

Chhattisgarh Municipal Urban Development Fund Rules, 2003 had been framed in respect of transfer of entry tax on the entry of goods in local areas and other receipts to ULBs for mobilizing additional resources for their infrastructure development. Rule 7 provides for opening of two accounts namely Devolution Account and Infrastructure Account. The amount of entry tax which is transferred every year to the ULBs as a compensation to the Octroi as per budget provision shall be transferred to Devolution Account. The remaining amount after the amount of every tax provided in the budget and which has been transferred to the Devolution Account, shall be transferred to the Infrastructure Account. The Infrastructure Account shall also consist of the funds received in accordance with the recommendations of State Finance Commission (SFC) and funds received for specific capital works by the State Government. These funds are utilised for purposes like road repair works, schemes related to drinking water, improvement of Fire Brigade services, any specific programme of the State Government, management of waste and development of basic amenities in the ULBs. The allocation and expenditure of funds under the Chhattisgarh Infrastructure Development Fund (CIDF) during 2016-17 to 2021-22 is given in the following **Table 2.9**:

¹⁰ Percentage increase of Budget allocation during 2021-22 in comparison to 2016-17= $(4099.82-3664.27)*100/3664.27 = 11.88$ per cent

Table 2.9: Details of allocation/expenditure of funds

(₹ in crore)

S. No.	Financial Year	Allocation		Total	Expenditure*		Total
		Devolution Account	Infrastructure Account		Devolution Account	Infrastructure Account	
1	2016-17	336.34	1154.19	1490.53	336.34	1154.19	1490.53
2	2017-18	329.27	1582.85	1912.12	329.27	1582.85	1912.12
3	2018-19	272.13	922.79	1194.92	272.13	922.79	1194.92
4	2019-20	288.81	1282.67	1571.48	288.81	1282.67	1571.48
5	2020-21	293.94	1393.09	1687.03	293.94	1393.09	1687.03
6	2021-22	322.44	1361.87	1684.31	322.44	1361.87	1684.31
Grand Total		1842.93	7697.46	9540.39	1842.93	7697.46	9540.39

(Source: Information provided by UADD, Raipur) (*the entire allocation amount released to ULBs booked as expenditure)

2.15.5 Recommendations of the State Finance Commission (SFC)

Devolution of State Own Tax Revenue (SOTR) to ULBs as recommended by SFCs and modifications accepted by State Government has been presented in **Table 2.10**.

Table 2.10: Devolution of SOTR to ULBs accepted by the State Government as per recommendation of State Finance Commissions

(in per cent)

S. No.	State Finance Commission	Award Period	Recommendation of Devolution by SFC	Devolution accepted by the State Government
1	First	2007-12	1.66	1.21
2	Second	2012-20	1.85	1.85
3	Third	2020-25	2.09	2.09
4	Fourth	2025-30	-	-

(Source: Third State Finance Commission Report)

The details of fund flow with regard to recommendation by SFC, devolution accepted, and actual budget allocated and released to ULBs by the State Government during 2017-22 are shown in **Table 2.11**.

Table 2.11: SFC projections vis-à-vis Devolution accepted and Actual budget/expenditure for ULBs by the State Government during 2017-22

(₹ in crore)

S. No.	Year	Percentage recommended by SFC	Devolution accepted by State Government	Net Own Tax Revenue of the State	Budget to be allocated by the State Government	Budget allocated by State Government	Actual release By State Government
1	2017-18	(1.85)	(1.85)	18,577.89	343.69	441.55	383.88
2	2018-19	(1.85)	(1.85)	21,120.80	390.73	299.76	139.79
3	2019-20	(1.85)	(1.85)	21,630.73	400.17	320.73	374.90
4	2020-21	(2.09)	(2.09)	21,580.13	451.02	441.62	365.36
5	2021-22	(2.09)	(2.09)	25,743.56	538.04	451.45	299.67

(Source: UADD, Raipur and Finance Accounts of Chhattisgarh state)

The reports of the Second SFC and Third SFC mentioned that only Net Tax Revenues of the State is to be shared with PRIs and ULBs. As per the method mentioned in the SFC report, the Net Tax Revenues of the State has been arrived at by deducting from State Own Tax Revenue (SOTR), the proceed of three¹¹ taxes which are transferred in full to the local bodies and the expenditure incurred in the collection of the remaining taxes¹². Further, for calculation of Net SOTR, data of SOTR provided by Panchayat Directorate, Raipur and data of cost of collection and taxes transferred in full to local bodies as provided in Finance Accounts of Chhattisgarh State for the respective years have been taken into consideration.

As can be seen from the foregoing table, the State Government has allocated less budget to ULBs as per the accepted devolution from 2017-18 to 2021-22. Actual fund released to ULB was as per the budget allocation during 2017-22 except in 2020-21 where marginal decline was observed.

2.15.6 Recommendations of the Central Finance Commission

Fourteenth Finance Commission Grants

The Fourteenth Finance Commission had recommended two types of grants, namely, basic grant and performance grant, for Gram Panchayats (GPs) and Municipalities. The purpose of the basic grant is to provide unconditional support to the GPs and Municipalities for delivering the basic functions assigned to them under their respective statutes, such as (i) water supply (ii) sanitation (iii) sewerage (iv) maintenance of community assets, (v) footpaths and (vi) street lighting (vii) burial and cremation grounds etc. In the case of Performance Grant, a detailed procedure for the disbursal of the Performance Grant to ULBs would have to be designed by the State Government concerned, subject to certain eligibility criteria.

The GoI released amount of ₹ 1,403.08 crore during 2015-16 to 2019-20 against sanctioned amount of ₹ 1,587.91 as recommended by Fourteenth Finance Commission. The State Government did not get the Performance Grant of ₹ 80.03 crore during 2018-19 and ₹ 104.80 crore during 2019-20. The details of allotment and expenditure of Fourteenth Finance Commission grant are given in the following **Table 2.12**:

¹¹ Land Revenue, Tax on Goods and Passengers, Other Taxes on Commodity and Services.

¹² Cost of collection of four taxes i.e., Stamp & Registration, State Excise, Commercial Tax, Tax on Vehicles.

Table 2.12: Details of allocation and expenditure of FFC grant

(₹ in crore)

S. No.	Year	Allocation			Expenditure
		Basic Grant	Performance Grant	Total	
1	2015-16	152.39	0.00	152.39	152.39
2	2016-17	211.01	62.28	273.29	273.29
3	2017-18	243.80	70.47	314.27	314.27
4	2018-19	282.04	0.00	282.04	282.04
5	2019-20	381.09	0.00	381.09	381.09
Total		1270.33	132.75	1403.08	1403.08

(Source: Information provided by UADD, Raipur)

Fifteenth Finance Commission Grants

The GoI released amount of ₹ 1,244.70 crore as Basic and Performance Grant during the years 2020-21 and 2021-22 as per recommendations of Fifteenth Finance Commission. The department spent the entire amount received during 2020-21 and 2021-22 as Fifteenth Finance Commission Grant by the end of March 2023.

2.15.7 Adoption of Budget and Accounting formats

Government of India in consultation with the CAG, had formulated (December 2004) National Municipal Accounts Manual (NMAM) with double entry system for greater transparency and control over finances. Further, Section 125 B of CGMA provides that State Government shall prescribe and maintain a manual to be called as Chhattisgarh Municipal Accounts Manual (CGMAM) containing details of all financial matters and procedures relating thereto in respect of Municipal Corporation.

The State Urban Development Authority informed (February 2023) that currently integration of Accrual based Double Entry Accounting System Module in e-governance software is under process and after successful integration real time data entry shall be started. Accrual based double entry accounting system is under progress in all ULBs parallel to cash basis accounting system.

2.15.8 Position of outstanding loans

State Government gives loans to ULBs for various development works. As per information provided by UADD, ₹ 164.86 crore loans were outstanding against various ULBs as on 31 March 2022. The repayment of principal of ₹ 2.94 crore and interest of ₹ 0.55 crore was made during the year 2021-22. However, no loan was provided to the ULBs in the year 2021-22. The ULBs wise details of outstanding loans, as on 31 March 2022 is shown in the following **Table 2.13**:

Table 2.13: Details of outstanding loans

(₹ in crore)

S. No	Name of ULBs	Balance as on 01 April 2021 (Principal+ Interest)	Fresh loan with interest during 2021-22	Repayment during 2021-22		Outstanding principal as on 31 March 2022	Outstanding Interest as on 31 March 2022	Total Outstanding as on 31 March 2022
				Principal	Interest			
1	M.C. Bilaspur	8.85	0	2.50	0.53	5.41	0.40	5.81
2	M.C. Bilaspur	56.08	0	0	0	40.52	15.56	56.08
3	M.C. Bilaspur	39.55	0	0	0	29.00	10.55	39.55
4	M.C. Bilaspur	61.28	0	0	0	43.50	17.78	61.28
5	M.C. Kawardha	0.47	0	0.44	0.02	0	0	0
6	N.P Bagicha	2.14	0	0	0	1.70	0.44	2.14
Total		168.37		2.94	0.55	120.13	44.73	164.86

(Source: Information provided by UADD)

The accumulation of interest on the loans may have an adverse effect on the finances of the ULBs.

Revised Chapter-II was issued to the State Government in November 2024 and response of the Government is awaited.