

Chapter – 10

Evaluation of the Financial Status of Urban Bodies

- **Devolution to Urban Bodies**
- **Review of the Financial Status of Urban Bodies**
- **Review of the Financial Status of Nagar Panchayats**
- **Review of the Financial Status of Nagar Palika Parishads**
- **Review of the Financial Status of Nagar Nigams**
- **Accounting and Audit**

10.1 In the idea of local governance, Urban Local Bodies are major link for the overall development of urban areas. The success of urban local bodies mainly depends on economic autonomy and economical and transparent use of resources. In this perspective, economic trends of urban local bodies have been analyzed in this chapter.

Devolution from Government

10.2 Rs. 9466.39 Cr. has been transferred to urban local bodies from 2017-18 to 2021-22 by the state and central government from their consolidated funds. Head-wise and year-wise details of such transferred amount can be seen in Table 10.1

Table 10.1
Transfer to Urban Bodies from Government

(Amount in Crore Rs.)

SR. No.	Description	2017-18	2018-19	2019-20	2020-21	2021-22	Total
1.	State Finance Commission	441.55	299.75	320.73	441.62	451.45	1955.10
2.	Assigned Receipts	75.55	49.02	71.98	77.42	102.45	376.42
3.	Grants From State Government	1275.56	840.14	1048.97	1048.99	1010.31	5223.97
4.	Central Finance Commission	243.80	282.04	451.56	403.50	530.00	1910.90
Total		2036.46	1470.95	1893.24	1971.53	2094.21	9466.39

Source – Budget Papers.

10.3 Of the total transfers to urban local bodies, about 21% has been transferred on the recommendation of the SFC, 4% From assigned receipts, 55% from grants by the State Government and 20% from the Central Finance Commission.

10.4 The main reason for transfer of only 4% as assigned receipts to the urban local bodies is that taxes or fees are not being collected by the State Government from most of the sources earmarked for the assigned revenue to the urban local bodies. This mainly consists of Entry Tax, which after the implementation of GST has been abolished. Due to depletion of sources of assigned revenue, the State Government is providing assistance to the urban local bodies in the form of grants. For this reason, the grant amount given by the State Government contributes about 55% to the amount transferred by the Government.

10.5 Head-wise and year-wise details of the amount transferred by the Government to Urban Administration and Development department for ULBs are shown in table 10.2

Table 10.2
Amount Distributed to Urban Bodies

(Amount in Crore Rs.)

SR. No.	Description	2017-18	2018-19	2019-20	2020-21	2021-22
1.	State Finance Commission	547.45	299.75	451.16	561.72	541.55
2.	Assigned Receipts	465.67	438.53	508.73	547.38	546.12
3.	Grants from State Government	526.32	170.10	286.04	273.14	114.53
4.	Central Finance Commission	314.27	282.04	381.09	700.00	544.70
Total		1853.71	1190.42	1627.02	2082.24	1746.90

Source – Departmental Memorandum

10.6 Chhattisgarh Municipal Urban Development Fund Rules, 2003 have been created by the department of Urban Administration and Development under Section 433 of Municipal Corporation Act 1956 and Section 355 of Municipalities Act 1961, according to rule 4 of which, all the amount transferred by the Central and State Government to the urban local bodies shall be firstly deposited in this fund. Necessary provisions for expenditure from the fund have been made in Rules 5 to 10 of this fund.

10.7 According to Rule 7 of Chhattisgarh Municipal Urban Development Fund rules 2003, fund released from the government shall be transferred to the two accounts namely- Devolution Account and Infrastructure Account

10.8 Amounts received from assigned sources are distributed from devolution account and the amounts received from the State Government on recommendation of SFC and the grants provided for capital expenditures etc. transferred in infrastructure account.

10.9 Amounts are being provided from “Infrastructure Fund” by Urban Administration and Development Department under various schemes in urban local bodies

10.10 Distribution of amounts is not being done as per formulas accepted by Central and State Government on recommendation of 13th CFC and SFC. This fact is confirmed by the departmental memorandum received from concerned departments.

10.11 Against the amount of Rs. 9466.39 crore transferred by the Government from the year 2017-18 to 2021-22, only Rs. 8500.29 crore was distributed by the departments to the bodies.

10.12 The amount received by the urban bodies from the government is firstly received in the Chhattisgarh Municipal Urban Development Fund (2003). The amount is transferred to the urban bodies as per the provisions of the above rules. It is also the responsibility of concerned Commission to recommend how the amount recommended by the Central Finance Commission and the State Finance Commission will be distributed among the urban bodies. The amount recommended by the State Finance Commission is not being distributed to the urban bodies as per distribution formula recommended by the Commission. Therefor the Commission recommends that "**distribution of the amount recommended by the State Finance Commission among the urban bodies should be ensured as per the distribution formula recommended by the State Finance Commission and the consent given by the government thereon or with appropriate amendments or changes**".

10.13 As of march 2022, the closing balance in the Chhattisgarh Municipality Urban Development Fund was Rs. 966.10 crore, this is the amount received from the Government for transfer to the urban bodies, hence the commission recommends that, "**It should be ensured that the amount received for transfer to urban bodies in the urban fund is transferred to the concerned departments within 15 days, and its responsibility should be given to the directorate of Urban Administration and Development**".

Financial Review of Urban Bodies

10.14 For the study of ULBs under various heads, analysis of Financial Receipts of sample urban bodies has been done by the State Finance Commission. The details of Financial Receipts of sample urban bodies is shown in table given below.

Table 10.3
Receipts of Sample Urban Bodies

(Amount in Crore Rs.)

SR. No.	Description	2017-18		2018-19		2019-20		2020-21		2021-22	
		Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
1	Own Revenue	347.16	22.91	351.19	27.18	331.13	20.35	375.81	23.63	431.87	30.16
2	Transfer From State Government	729.92	48.18	628.88	48.68	686.53	42.20	698.88	43.94	588.13	41.08
3	Transfer From Central Government	397.93	26.26	245.86	19.03	543.03	33.38	476.66	29.97	373.42	26.08
4	Debt	1.49	0.10	0.40	0.03	0.87	0.05	0.43	0.03	0.24	0.02
5	Other	38.59	2.55	65.61	5.08	65.29	4.01	38.65	2.43	38.13	2.66
Total		1515.09	100	1291.94	100	1626.85	100	1590.43	100%	1431.79	100

Source – Data Collected by State Finance Commission

10.15 It is clear from the above table that these Urban bodies received total amount of Rs. 7456.10 crore during 2017-22, out of which annual average contribution of state transferred amount is 44%.

10.16 The percentage of revenue received by the UBs from their own sources has been around 28% annually, which is showing a trend of continuous growth, which is a positive sign.

10.17 It is also noteworthy that the ULBs are mostly dependent on the state funds to discharge their financial responsibilities, hence the local bodies should re-analyze their own existing sources of income and work on the possibilities of new sources of income in this direction. purposeful co-operation can also be taken from state government in this regard.

Receipts from Own Sources

10.18 There are two major components of own source revenue receipts of ULBs- 1. Tax revenue, 2. Non-tax revenue.

10.19 There are two major components of Tax Revenue – 1. Obligatory Taxes, 2. Optional Taxes. Similarly, there are various components under Non-tax revenue, i.e. Income from Rent/Lease, License, fees, Interest Etc. Point-wise study of Revenue receipts from own sources shall be done in the paras given below.

10.20 Article 243 (W) of the constitution provides the power to the state legislatures to authorize the urban bodies of that state to levy and appropriate taxes, fees, tolls etc. Property Tax, Consolidated Tax and Water Tax are the main obligatory Taxes under section 132(1) of the Municipal Corporation Act and section 127 (empowers the State) of Municipalities Act. The status of collection of obligatory taxes in urban bodies is explained in the table given below.

Table 10.4
Obligatory Taxes and Tax Recovery in Urban Bodies

(Amount in Crore Rs.)

Description	2017-18	2018-19	2019-20	2020-21	2021-22
Tax Demand	261.92	266.87	271.38	281.52	296.25
Tax Recovery	205.80	205.00	200.37	226.25	230.16
% of Tax Recovery	78.57	76.82	73.67	80.37	77.69
% of Tax Levying Bodies	97.56	97.56	96.34	97.56	95.12
Per Urban Body Average tax Receipt	2.50	2.50	2.44	2.75	2.80
Per Capital Body Average tax Receipt (Rs.)	618.31	615.90	601.99	679.75	691.48

Source – Data Collected by SFC

Table 10.5
Status of Various Tax Heads Under Obligatory Taxes

(Amount in Crore Rs.)

Description	2017&18	2018&19	2019&20	2020&21	2021&22
Property Tax	123.88	123.52	120.75	137.63	145.16
Per Urban Body Average Tax Receipt	1.51	1.50	1.47	1.67	1.77
Per Capita Average Tax Receipt (Rs.)	372.18	371.21	362.78	413.49	436.12
Consolidated Tax	34.55	34.14	32.05	36.98	34.17
Per Urban Body Average Tax Receipt	0.42	0.41	0.39	0.45	0.41
Per Capita Average Tax Receipt (Rs.)	103.81	102.57	96.32	111.11	102.66
Water Tax	47.37	47.33	47.56	51.64	50.82
Per Urban Body Average Tax Receipt	0.57	0.57	0.58	0.62	0.61
Per Capita Average Tax Receipt (Rs.)	142.32	142.21	142.89	155.15	152.7

Source - Data Collected by SFC

10.21 Under obligatory taxes, the average of tax recovery against tax demand is about 77%. There is an increasing trend in both the amount of recovery and the ratio of recovery

against tax demand which shows appositive indication, however there is still possibility of improving the said proportion.

Optional Tax

10.22 Property Tax is the major component under obligatory taxes which shares 60% of the revenue received from the obligatory tax. In the total tax revenue also, the share of the property tax is about 44%, this is the very important source of Income for Urban local bodies. The average tax receipt per urban body under the head of property tax is approximately Rs 1.5 Cr. Similarly, the average tax receipt per person in UBs is approximately Rs. 391.

10.23 In the Municipal Corporation Act 1956 and Municipality Act 1961, UBs are conferred with the power to impose optional taxes. Various taxes are Included under optional taxes such as - Demonstration Tax, Advertisement Tax, Education Cess, Drainage Tax etc. Status of tax receipts and tax recovery under the optional taxes on the basis of the sample study conducted by the 4th SFC is shown in the tables given below-

Table 10.6

Status of Tax Demand and Tax Recovery of Sample Urban Bodies in Context of Optional Taxes

Description	2017-18	2018-19	2019-20	2020-21	2021-22
Tax Demand (Crore Rs.)	53.03	47.55	42.45	51.85	52.32
Tax Recovery (Crore Rs.)	74.22	62.48	61.14	77.84	105.73
% of Recovery Against Demand (%)	139.96	131.4	144.03	150.11	202.06
% of Tax Levying Bodies (%)	90.24	80.49	71.59	71.95	69.51
Per Urban Body Average Tax Receipt (In Lakh Rs.)	90.51	76.20	74.56	94.93	128.94
Per Capita Average Tax Receipt (Rs.)	222.98	187.74	183.7	233.8	317.67

Source - Data Collected by SFC

10.24 Local UBs received revenue of Rs. 381.21 Cr. during 2017-22 in the form of optional taxes, out of which about Rs. 241 Cr. Was received under the head of "miscellaneous" or "other taxes".

10.25 Percentage of recovery against demand in optional taxes has been around 150%. which can be called a very encouraging performance, but the percentages of bodies levying taxes under various heads is very low. For example, between 2017-22, UBs received an amount of Rs. 59.82 Cr. in the form of 'Education Cess' but in the same period, the average percentage of UBs imposing 'Education Cess' has been only 5.8%. Similarly, the UBs received a total amount of Rs. 31.94 Cr. in the form of 'Advertisement Taxes'. but the number of bodies that did not levy the above taxes is almost two-third (63%). The above situation indicates the lack of will power of the UBs and their indifference towards achieving financial autonomy.

10.26 In 2017-18, the number of bodies levying market fees was almost two-third (75.61%) whereby revenue of Rs. 7.48 Cr. was received by the UBs. As per Chhattisgarh Government, UAD Department's Letter number 3420/1308/2018/18, By Dated 28th April 2018, collection of "Market Fees" has been stopped with effect from 1st April 2018.

Table 10.7
Status of Tax Recovery / Tax Demand of Sample Urban Bodies In Context of Optional Taxes

(Amount in Crore Rs.)

Description	2017–18	2018–19	2019–20	2020–21	2021–22
Demonstration Tax	0.23	0.43	0.17	0.07	0.15
Advertisement Tax	3.76	5.42	2.83	8.43	11.50
Market Fees	7.48	0.56	3.97	3.03	3.54
Education Cess	7.84	13.35	13.05	14.48	11.11
Animal Registration	0.60	0.43	0.59	0.23	0.36
Toilet Tax	0.45	0.10	0.19	0.21	0.31
Terminal Tax	5.52	4.68	5.18	4.34	5.00
Other Taxes	48.31	37.47	35.11	47.01	73.72
Total	74.19	62.48	61.09	77.80	105.69

Source - Data Collected by SFC

Non-Tax Revenue of Urban bodies

10.27 Urban local bodies are conferred with power to collect taxes in the form of Tax, fees, surcharge etc. by Municipal Corporation Act 1956 and Municipalities ACT 1961. These are called Non-Tax revenue. Based on the sample study of the SFC, the average share of non-tax revenue in the revenue receipts from own sources of urban local bodies is 21%. which

is much less as compared to tax revenue. Therefore, it is necessary for the financial health of urban bodies that sufficient efforts should be made to increase tax revenue as well as non-tax revenue. Comparative details of tax revenue and non-tax revenue has been given in table 10.8

Table 10.8
Own Tax Revenue and Non-Tax Revenue of Sample Urban Bodies

(Amount in %)

Description	2017-18	2018-19	2019-20	2020-21	2021-2022
(A) Tax Revenue (1+2)	80.66	76.16	78.97	80.92	77.77
1. Obligatory Taxes	59.2	58.37	60.4	60.2	53.29
2. Optional Taxes	21.46	17.79	18.57	20.72	24.48
(B) Non-Tax Revenue	19.34	23.84	21.03	19.08	22.30
Total (A+B)	100	100	100	100	100

Source - Data Collected by SFC

10.28 According to sample study conducted by the SFC, between the period of 2017-22, urban local bodies received an amount of Rs. 388 Cr. as non-tax revenue, out of which the highest amount of Rs. 183 Cr. was received under the head of 'Other revenue'. In the above period, revenue of approximately Rs. 47 Cr. was received in the form of 'Rent or lease' but there is a continuous trend of decrease in it. License or permission fees is an important source of income for UBs and despite continuous fluctuations, 13% of non-tax revenue generated on the above head during 2017-22. There is a possibility of further increase in this through Simplification of processes and payment through online means. At present scenario, in view of the continuous expansion of residential colonies, there is a possibility of UBs getting more and more revenue from new private construction projects as well as real estate colonies permissions, hence positive efforts in this direction through a definite roadmap are necessary. In table 10.9. head-wise detailed information of 5-years data has been given in table 10.9

Table 10.9
Non-Tax Revenue Receipts of Sample Gram Panchayat and % of Various Heads
In Non Tax Revenue

(Amount in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-22	
	Amount	% of Non Tax Revenue								
Rent/Lease	12.62	18.81	9.46	11.3	9.04	13	9.20	12.83	9.85	10.27
Licence Fees	2.11	3.15	1.54	1.84	1.58	2.28	1.52	2.13	1.99	2.08
Interest	1.21	1.82	1.83	2.19	2.30	3.32	2.64	3.69	2.47	2.57
Revenue From Parks	2.93	4.37	1.55	1.86	1.09	1.58	0.54	0.76	0.67	0.71
Building and Colony Permision	5.18	7.72	9.57	11.43	10.28	14.78	9.19	12.82	10.38	10.82
Parking Tax	0.01	0.02	0	0	0.00	0	0	0	0	0
Sale of Fertilizers	0.00	0	0.07	0.09	0.02	0.04	0.32	0.45	0.32	0.34
Penalty	2.00	2.98	2.67	3.19	3.84	5.52	3.28	4.58	3.17	3.3
User Charges	0.31	0.48	0.42	0.51	0.96	1.39	1.10	1.55	0.92	0.96
Revenue From Other Sources	32.48	48.38	49.23	58.82	31.22	44.86	33.29	46.43	37.27	38.84
Total	67.13	100	83.70	100	69.61	100	71.70	100	95.96	100

Source - Data Collected by SFC

Expenditure Structure of Urban Local Bodies

10.29 Based on the sample study conducted by the 4th SFC, the Structure of the Expenditure of Urban Local Bodies is explained in table 10.10 and 10.11.

Table 10.10
Structure of The Expenditure of Sample Urban Bodies

(Amount in Crore Rs.)

Description	2017–18		2018–19		2019–20		2020–21		2021–22	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
1. Revenue expenditure	555.86	58.10	669.47	55.50	635.14	37.60	598.98	37.60	578.75	52.20
2. Capital expenditure	372.56	38.97	469.75	38.98	952.4	56.42	940.03	59.00	464.13	41.87
3. expenditure on Welfare Schemes	14.87	1.56	36.38	3.02	48.77	2.89	27.45	1.72	30.61	2.76
4. expenditure Against Miscellaneous Receipts	12.81	1.34	29.48	2.45	51.72	3.06	26.67	1.67	34.90	3.15
Total expenditure	956.11	100	1205.09	100	1688.04	100	1593.14	100	1108.40	100

Source - Data Collected by SFC

Table 10.11
Structure of Revenue Expenditure of Sample Urban Bodies

(Amount in Crore Rs.)

Description	2017–18		2018–19		2019–20		2020–21		2021–22	
	Amt.	%								
A. Establishment Expenditure	326.94	58.82	352.12	52.60	381.93	60.13	371.11	61.96	337.99	58.40
B. Maintenance Expenditure	228.92	41.18	317.35	47.40	253.21	39.86	227.87	38.03	240.76	41.60
Revenue Expenditure (A+B)	555.86	100	669.47	100	635.14	100	598.98	100	578.75	100

Source - Data Collected by SFC

10.30 It is clear from the above tables that the largest share of total expenditure in the sample urban bodies has been 'Revenue Expenditure' which is about 48% of the total expenditure. Similarly, the share of capital expenditure in the total expenditure between the year 2017-22 is about 47% which is almost equal to the revenue expenditure. Since revenue expenditure is of non-performing nature, it would be better to make efforts to reduce revenue expenditure for the fiscal health of urban bodies.

10.31 The largest component of revenue expenditure is 'Establishment Expenditure' which shares 58% of total revenue expenditure and 97% of revenue from own sources. Maintenance Expenditure is about 42% of total revenue expenditure.

10.32 The Establishment Expenditure of all the urban bodies of the state is about 97 percent of their own revenue, hence the Commission recommends that "**The Establishment Expenditure should be reviewed and reduced**".

Accounts and Audit

10.33 On the recommendation of the Central Finance Commission, Double Entry Accounting System has been adopted for the maintenance of the accounts of UBs. For maintaining the account of local UBs, the services of chartered accountants are being hired from external sources by the UAD Department.

10.34 At present, condition of accounts maintenance is not so satisfactory. According to the information given by Chhattisgarh State Audit Directorate, in the current accounting system, major financial forms like ledger, balance sheet, income-expenditure statements are not being prepared. The data received by the commission from UBs also shows that the condition of account maintenance is not satisfactory.

10.35 Even after getting the work of account maintenance in urban bodies done through outsourcing, satisfactory results have not been achieved, hence the Commission recommends that "**the work of accounts maintenance in urban bodies should be re-institutionalized and for this, training of officers and employees should be ensured**".

10.36 There is a need to make rules by the government for classification of budget and accounting in urban bodies. The Commission recommends that, "**a methodology for classification of accounting should be introduced by the Government, in which the method of classification of accounting is in accordance with the classification made for governance. For this, an expert committee should be constituted by the government**,

which should include Accountant General, Finance Department, Director state Audit and representatives of Urban Administration and Development Department".

10.37 "A software for budget and accounting should also be developed in all the urban bodies of the state so that uniformity, quality, accuracy and transparency in accounting and account maintenance can be ensured and reliable data can be obtained for policy making".

10.38 Chhattisgarh State Audit Directorate is the constitutional auditor of UBs. Of the three levels of local urban bodies, the highest number of audit queries is pending in Nagar Panchayats. A large number of audit queries are also pending for resolution in Municipal Corporation and Municipality. The information about pending audit queries for the last 5 years is as follows in the table-

Table 10.12
Information of Audit Objections in Urban Bodies in The Last 5 Years

(Amount in Crore Rs.)

Body	Residual Objections (Year 2016-17)		Raised Objections		Resolved Objections		Residual Objections at Present	
	NO.	%	NO.	%	NO.	%	NO.	%
Nagar Nigam	15376	3319.35	1217	3174.32	55	93.86	16538	6399.81
Nagar Palika Parishad	16960	485.94	4078	523.72	224	0.95	20814	1008.71
Nagar Panchayat	36687	691.36	8239	223.26	844	12.72	44082	1101.91
Total	69023	4496.65	13534	3921.30	1123	107.53	81434	8510.43

Source – Information Received from State Audit Department, Chhattisgarh

10.39 The number of pending years for audit is very high. Therefore, "the Commission recommends that, Chhattisgarh State Audit Department should timely action on this".

10.40 After the formation of Chhattisgarh State, audit of 791 financial years is pending as of march 2022, the information of which is given in the Table below-

Table 10.13
Information of Pending Years

(Amount in Crore Rs.)

SR. No.	Body	Total No of Bodies	No. of Pending Years	No. of Financial Years of Audited Bodies in 2021-22	No. of Residual Pending Years
1	Nagar Nigam	14	84	4	80
2	Nagar Palika Parishad	43	242	9	233
3	Nagar Panchayat	110	546	68	478
	Total	167	872	81	791

Source – Information Received from State Audit Department, Chhattisgarh

10.41 At present, 81434 pending objections worth Rs. 8510.43 crore are pending for resolution, hence the Commission recommends the, "**objections should be resolved by setting a time limit**".

Opening Balance and Closing balance

10.42 According to sample data, the opening balance of the year 2017-18 in urban bodies was Rs. 879.29 crore and the closing balance was Rs. 1440.05 crore. The closing balance increased to Rs. 1801.63 crore in 2021-22. It is estimated that in 2021-22, the closing balance of all the urban bodies will be Rs. 3735.50 Crore. It has mentioned in the point 10.11 of this chapter that as of the year 2022, the closing balance in the Urban Development Fund is Rs. 966.10 crore. Thus, the total closing balance is estimated to Rs. 4701.60 crore.

10.43 On the basis of the sample study by 4th SFC and the study of the given tables, it is clear that between the year 2017-22, Nagar Panchayats received total amount of Rs. 931.64 Cr. under various heads.

10.44 The receipts of Nagar Panchayats from their own sources are about 11% of the total receipts. Hence, it is clear that in order to meet their financial needs, the Nagar Panchayat are completely dependent on the funds transferred from the State and the Centre. Amount transferred from the State shares 2/3 part of the total receipts of Nagar Panchayats.

10.45 From 2017-22, the receipts of Nagar Panchayats from their own sources has been approximately 111 Cr., in which the share of tax revenue is 61%. It is noteworthy that about one third of the total tax income is received from property tax, but in the context of the said tax, the percentage of tax collection against tax demand is only 56%. Similarly, the share of Water Tax in the total tax income is about 24%, but only 50% amount is being recovered against the tax demand. Therefore, substantial improvement is required in this situation, because both i.e. property tax and water tax are major sources of Income for Nagar Panchayats.

Table 10.14
Financial Status of Sample Nagar Panchayat

(Amount in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-22	
	Amt.	%								
1. Revenue Receipts from Own Sources	22.27	13.57	22.37	12.03	18.87	8.50	23.58	13.83	24.64	13.05
2. Transfer from State Government	113.20	68.98	136.79	73.57	131.92	59.39	113.43	66.53	123.60	65.43
3. Transfer from Central Government	21.40	13.03	14.55	07.82	31.77	14.30	22.74	13.33	30.66	16.23
4. Miscellaneous Receipts	07.23	04.42	12.23	06.58	39.55	17.81	10.76	06.31	09.98	06.29
5. Grant Total	164.12	100	185.97	100	222.13	100	170.53	100	188.89	100

Source – Data Collected By SFC.

10.46 Status of recovery against the demand under optional taxes is better than that of obligatory taxes, but the number of tax levying bodies in most of the heads under optional taxes like Performance tax, Advertisement tax, terminal tax etc. is very less and even in some cases it is negligible, which is indicative of the lack of willpower of the Nagar Panchayats and their indifference towards the goal of financial autonomy.

10.47 Nagar Panchayats are highest in number among the Urban local bodies of the state and considering that, the Nagar Panchayats are important link of development in rural to urban transitional areas, hence it is necessary for Nagar Panchayats to expand their financial dimensions.

10.48 During 2018-19 to 2021-22, there has been decreasing trend in revenue expenditure. However, revenue expenditure is 46% of the total expenditure which is undesirable condition.

Table 10.15
Structure of Expenditure of Sample Nagar Panchayats and Percentage Share in The Total Expenditure

(Amount in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-2022	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
1. Revenue expenditure	49.66	45.44	52.82	31.95	60.59	29.09	60.36	37.35	60.27	36.19
2. Capital expenditure	48.90	44.75	85.04	51.44	87.92	42.21	73.41	45.42	80.53	48.35
3. expenditure on Welfare Schemes	3.77	3.45	14.31	8.66	24.43	11.73	15.16	9.38	12.88	7.73
4. expenditure on Miscellaneous Heads	6.95	6.36	13.16	7.96	35.34	16.97	12.68	7.85	12.86	7.72
Total	109.28	100.0	165.33	100.00	208.28	100.00	161.61	100.0	166.54	100.0

Source – Data Collected by SFC.

Table 10.16
Structure of Revenue Expenditure of Sample Nagar Panchayats

(Amount in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-22	
	Amt.	%								
A. Establishment Expenditure	34.93	70.34	38.02	71.99	41.93	69.21	42.68	70.71	42.11	69.87
B. Maintenance Expenditure	14.73	29.66	14.80	28.01	18.66	30.79	17.68	29.29	18.16	30.13
Revenue Expenditure (A+B)	49.66	100.00	52.82	100.00	60.59	100.00	60.36	100.00	60.27	100.00

Source – Data Collected by SFC.

10.49 Receipts from own sources in Nagar Panchayats are only 11 percent of total receipts and tax collection against tax demand is between 50 to 60%. Hence it is clear that Nagar Panchayats need to make efforts to increase tax collection against tax demand. The receipts from own sources of all the urban bodies of the state is 25 percent of the total receipts, hence **the commission recommends that "The target of receipts from own sources of Nagar Panchayats and Nagar Palikas should be set at 25 percent of the total receipts".**

Review of The Financial Status of Nagar Palika Parishads

10.50 It is clear from table 10.17 that the average receipts from own sources of Nagar Palika Parishads during the period 2017-22 is 16% of the total receipts. From this, it is clear that, in order to meet their financial needs, Nagar Palika Parishads are mostly dependent on the funds transferred from state and central government.

10.51 Between 2017-22, the receipts from the Nagar Palika Parishad's own sources were approximately Rs. 220 Cr., out of which an average revenue of Rs. 1.1 Cr. were received per urban body under tax revenue of the total receipts, 11% of the revenue was received under tax revenue and 4.5% amount was received under non-tax revenue. There has been a trend of increase in non-tax revenue from the year 2020-21 to 2021-22 while in the same period, there has been a trend of partial fluctuation in tax revenue.

10.52 Property tax is an important source of income of Nagar Palika Parishads, which contributes the 31% to the total tax income, but the percentage of tax collection against tax demand is 68%, which is likely to be improved. Similarly, the contribution of water tax to the total tax income of Nagar Palika Parishads is about 18%, but the recovery percentage of water tax against the tax demand is only 43%, which signifies a very disappointing scenario.

10.53 The average percentage of collection under optional taxes is 116%, which is a very good situation, but except for a few heads, the number of tax levying UBs for most of the heads is very less which shows the indifference of Nagar Palika Parishads towards the goal of financial autonomy. Nagar Palika Parishads should also make serious efforts for levy and collection of optional taxes.

Table 10.17
Financial Status of Sample Nagar Palika Parishads

(Amount in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-2022	
	Amt.	%								
(I) Revenue Receipts From Own Sources	44.99	17.40	41.58	15.98	37.21	11.59	48.49	16.67	48.13	15.87
(II) Transfer From State Government	179.00	69.21	187.06	71.89	214.15	66.67	185.42	63.76	177.01	58.34
(III) Transfer From Center	26.92	10.41	21.63	8.32	57.51	17.90	47.60	16.37	69.99	23.70
(vi) Miscellaneous Receipts	7.69	2.98	9.90	3.81	12.34	3.84	9.31	3.20	8.25	2.72
(v) Grand Total	258.61	100	260.19	100	321.23	100	290.83	100	303.39	100

Source – Data Collected by SFC.

10.54 The revenue expenditure of the sample Nagar Palika Parishads between 2017-22 is about 45.5% of the total expenditure and capital expenditure is 45% of revenue expenditure. Since, the revenue expenditure is of non-performing in nature, hence for fiscal health of Nagar Palika Parishads revenue expenditure is expected to be reduced. There is a continuous declining trend in revenue expenditure between 2019-20 to 2021-22 which is a positive sign. The largest component of the revenue expenditures 'Establishment Expenditure' which is 71% of the total revenue expenditure. The trend of increase in the establishment expenditure and decrease in maintenance expenditure in the total revenue expenditure is a worrying fact. The financial trends of Nagar Palika Parishads can be seen in Table no. 10.17 to 10.19.

10.55 In Nagar Palika Parishads, there are two major components of Revenue Expenditure namely Establishment Expenditure and Maintenance Expenditure. In the structure of Revenue Expenditure of the last 5 years, there is a trend of increase in Establishment Expenditure and decrease in Maintenance Expenditure. Therefore, **the Commission recommends that "the ratio of Establishment Expenditure and Maintenance Expenditure in Revenue Expenditure should be fixed and on the basis of that, supervision of all the urban bodies should be done".**

Table 10.18
Structure of the Expenditure of Sample Nagar Palika Parishads

(Amount in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-2022	
	Amt.	%								
(1) Revenue Expenditure	79.83	46.83	99.35	44.77	99.08	43.90	95.33	47.36	84.55	44.62
(2) Capital Expenditure	78.70	46.17	93.51	42.14	102.61	45.46	91.94	45.68	86.57	45.69
(3) Expenditure of Welfare Schemes	6.09	3.57	17.07	7.69	16.02	7.10	7.27	3.61	7.68	4.05
(4) Expenditure on Miscellaneous Heads	5.85	3.43	11.99	5.40	8.01	3.55	6.74	3.35	10.69	5.64
Total	170.47	100	221.92	100	225.72	100	201.28	100	189.49	100

Source – Data Collected by SFC.

Table 10.19
Structure of Revenue Expenditure of Sample Nagar Palika Parishads

(Amt. in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-22	
	Amt.	%								
A. Establishment Expenditure	54.52	68.30	65.23	65.66	69.49	70.14	69.56	72.97	66.71	78.89
B. Maintenance Expenditure	25.31	31.70	34.12	34.34	29.59	29.85	25.77	27.03	17.84	21.10
Revenue Expenditure(A+B)	79.83	100	99.35	100	99.08	100	95.33	100	84.55	100

Source – Data Collected by SFC.

Review of Financial Status of Nagar Nigams

10.56 On the basis of sample data which is clear from table no. 10.20, in the period of 2017-22, Municipal Corporations of their own income, are getting 30% from their own sources. 35% from the State Government and 33% from the SFC.

10.57 The revenue received from Nagar Nigams' own sources is about 30% of the total receipts, which shows a better situation than that of Nagar Panchayats and Nagar Palika Parishads. Tax revenue accounts for about 81% of the revenue received from own sources. The share

of property tax in the total tax income is 48% and the percentage of collection of property tax against the tax demand is 90%. which in comparison to Nagar Panchayats and Nagar Nigams be said for better situation. Property tax is an important source of income of Nagar Nigams, hence more efforts are required in order to increase the share of property tax in the total tax income.

10.58 The percentage of tax collection against tax demand under optional taxes is much more than the target, but still the percentage of bodies which do not levy education cess, animal registration fees, toilet tax and drainage tax under optional taxes is high which shows the indifference of Nagar Nigams in achieving the goal of financial autonomy. Therefore, Nagar Nigams are expected to expand the scope of revenue generation from their own sources in an effort to reduce excessive dependence on grants from the State Government.

Table 10.20
Structure of The Income of Nagar Nigams

(Amt. in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-2022	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
(I) Revenue Receipts From Own Sources	279.89	25.67	287.23	33.96	275.03	25.38	303.73	26.90	359.08	38.21
(II) Receipts From State Government	435.71	39.96	305.01	36.06	340.45	31.42	400.02	35.43	287.51	30.59
(III) Receipts From Central Government	349.60	32.06	209.66	24.79	453.74	41.88	406.32	35.99	273.03	29.05
(v) Receipts From Miscellaneous Heads	25.15	2.31	43.86	5.19	14.25	1.32	19.00	1.68	20.12	2.14
Total	1090.36	100	845.76	100	1083.48	100	1129.07	100	939.75	100

Source – Data Collected by SFC.

10.59 Of the total expenditure of Nagar Nigams, revenue expenditure is more than 51%. and capital expenditure is 46%. In the years 2019-20 and 2020-21, the share of revenue expenditure is less than capital expenditure.

10.60 Of revenue expenditure, establishment expenditure is 55% and maintenance expenditure is 45% respectively.

Table 10.21
Structure of The Expenditure of Sample Nagar Nigams

(Amt. in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-22	
	Amt.	%								
(I) Revenue Expenditure	425.63	63.29	516.68	63.38	474.71	38.02	443.08	36.14	433.00	57.8
(II) Capital Expenditure	241.9	35.97	289.22	35.48	757.77	60.69	770.79	62.87	294.95	39.4
(III) Expenditure on Welfare Schemes	5.00	0.74	5.00	0.61	8.00	0.64	5.00	0.41	10.00	1.3
Expenditure on Miscellaneous Heads	0.00	0.00	4.33	0.53	8.14	0.65	7.13	0.58	11.34	1.5
Total	672.53	100	815.23	100	1248.62	100	1226	100	749.29	100

Source – Data Collected by SFC.

10.61 The growth rate of revenue expenditure of Nagar Nigams has been 0.90%. which indicates a partially positive situation, moreover, the annual growth rate of capital expenditure is 5.08%. Since capital expenditure is of performing nature in which future revenue possibilities are inherent and furthermore, capital expenditure for roads, drains. Public health and infrastructural work is inevitable in municipal areas, increase in capital expenditure is a better indicator. The Financial Trends of Nagar Nigams can be seen in table no. 10.20 to 10.22.

Table 10.22
Structure of The Revenue Expenditure of Sample Nagar Nigams

(Amt. in Crore Rs.)

Description	2017-18		2018-19		2019-20		2020-21		2021-22	
	Amt.	%								
(I) Establishment Expenditure	236.76	56%	248.25	48%	269.83	57%	258.78	58%	228.31	53%
(II) Maintenance Expenditure	188.87	44%	268.43	52%	204.88	43%	184.30	42%	204.69	47%
Revenue Expenditure	425.63	100%	516.68	100%	474.71	100%	443.08	100%	433.00	100%

Source – Data Collected by SFC.

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