

## **CHAPTER 13**

### **Finances of Urban Local Bodies**

#### **Introduction**

**13.1** According to ToR, the Commission requires to give its recommendations considering the following points -

1. Measures needed to improve the financial position of the municipalities.
2. Measures needed to improve the management of available resources.
3. Measures needed to improve the recovery of costs (user charges).
4. To consider the recommendations of the 14<sup>th</sup> FC with regard to ULBs.
5. In pursuance of the Constitutional Amendments the functions and services transferred by the State Government to the municipalities and transfer of services of employees engaged in these functions of the services’.

These local bodies are empowered to collect both tax and non-tax revenues as per relevant laws with prior approval of the government. Tax revenue mainly comes from Property and consolidated taxes and non-tax revenues are insignificant. One major concern is reluctance of ULBs to initiate measures to mobilize resources. Their increasing dependency on government grants or revenue transfers to meet their management and development needs including provision of core infrastructure.

**13.2** Broadly, the municipal finances comprise of the following sources:

- i) Own sources
  - a) Tax Resources – Property Tax, Consolidated Tax, Water Tax, Entry Tax.
  - b) Non-Tax Resources – Market fees, rents, fines, user charges, etc.
- ii) Assigned revenue – Octroi compensation, passenger tax compensation, stamp duty, etc.
- iii) Grants from State and Central Governments, State and Central Finance Commission grants.
- iv) Funds under State & Central schemes.
- v) Loans – From State Government and financial institutions.
- vi) Others

#### **Own Sources**

##### **Property Tax (PT)**

**13.3** In Chhattisgarh Property Tax is a principal source of revenue of ULBs levied under M. Corps Act (Sec. 132 (1) (a) and MC Act (Sec. 127-A, (1)). There have not been many efforts in the state to reform PT and make it buoyant. As per the M.Corp Act Sec. 143(3) PT needs to be revised once in five years. Further, there are many exemptions from PT, as can be seen from

Nagar Palik Nigam Act (Sec. 136(a) and (c-k) and MC Act, Sec. 127-A (a) and (c-k)). Self-Assessment System is already prevailed in Chhattisgarh.

13.4 In Chhattisgarh ALV of the property is the basis for levy of PT. The PT varies between six to twenty percent of the ALV and the actual rate is determined by the council as per Nagar Palik Nigam Act (Sec.135) and MC Act, (Sec.127-A (1)), and the guidelines of the Government of Chhattisgarh. As the ULBs decide on tax slab and rate there are wide variations between the taxes levied. Table 13.1 explains the variations in the rate of PT.

**Table 13.1: Rate of PT for ULBs**

(In Rupees)

Kurud		Charama		Ambikapur		
Slab	percentage of Tax	Slab	percentage of Tax	Slab	percentage of Tax	
					HH	Commercial
0 – 4800	Nil	1-5000	3	0 – 6000	Nil	Nil
4801-20000	6	5001-10000	4	6001-15000	6	9
20001-50000	8	10001-15000	5	15001-20000	6	10
>50001	10	15001-20000	6	20001-30000	6	12
		20001-25000	7	30001-40000	8	13
		25001-30000	8	40001-50000	8	14
		30001-35000	9	50001-60000	10	15
		35001-40000	10	60001-70000	12	17
				>70001	14	20
Tifra		Kawardha		Birgaon		
Slab	percentage of Tax	Slab	percentage of Tax	Slab	percentage of Tax	
					HH	Commercial
0-4800	Nil	0-4800	Nil	0-6000	Nil	
4801-15000	6	4801-15000	6	6001-20000	6	
15001-35000	8	15001-20000	7	20001-35000	8	
35001-75000	9	20001-50000	8	35001-50000	10	
>75001	10	>50001	10	50001-75000	15	
				>75001	20	

Source: Data collected from respective ULBs.

### General Exemptions

13.5 Grant of exemptions from payment of PT is a common practice in the local self government system. The Indian Constitution under Article 285 provides for exemption of all Central Government properties from PT. Chhattisgarh Municipal Acts provide a long list of exemptions from the payment of PT. Where population is more than one lakh and properties whose ALV is

less than Rs.6,000/-. Where population is less than a lakh and property having ALV of Rs. 4,800/-. Get general rebate. Owner occupied properties get 50 percent rebate in PT.

### Specific Exemptions

13.6 Properties of educational institutions; public worship or public charity; widows or minors or persons subject to physical disability or mental infirmity; freedom fighters, retired members of defense-services and their widows; blind person, abandoned women and mentally incapacitated persons; poles erected by Chhattisgarh Electricity Board and others decided by the Government of Chhattisgarh. In some cases the exemptions are conditional.

*The Commission recommends that the State Government should review the provisions relating to the exemptions in the Nagar Palik Nigam Act, Municipalities Act and consider removing or rationalizing them as recommend by the 14<sup>th</sup> Finance Commission.*

### 13.7 PT Receipts

Table 13.2 gives the details of demand and collection over a three year period. The total PT demand in year 2014-15 was Rs. 160.34 crore for all 168 ULBs which increased to Rs. 341.29 crore in year2016-17, an increase of 112.85 percent. There are, however, variations between three tiers of ULBs. The total demand in Nagar Palik Nigams was Rs. 138.84crore in year2014-15, which increased to Rs.298.37crore in year2016-17, in case of Nagar Palika Parishads, the demand increased from Rs.13.09crore in year2014-15 to Rs.29.39 crore in year2016-17, and in case of Nagar Panchayats the total demand increased from Rs.8.41 crore in year2014-15 to Rs.13.53 crore in year2016-17. The collection efficiency in the corporations has dropped to 63.44 percent in year2016-17 from 72.66 percent in year2014-15 and in the Nagar Palika Parishad to 52.84 percent in year2016-17 from 70.63 percent in year2014-15 .Nagar panchayats have shown an increase of 1.71 percent over this period.

**Table 13.2: Property Tax – Demand & Collection**

	2014-15			2015-16			2016-17		
	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection
(Rs. in crore)									
<b>Nagar Palik Nigam(13)</b>									
<b>Total</b>	138.84	100.89	72.66	169.17	119.14	70.43	298.37	189.28	63.44
<b>Nagar Palika Parishad (44)</b>									
<b>Total</b>	13.09	9.24	70.63	22.20	10.11	45.56	29.39	15.53	52.84
<b>Nagar Panchayats (111)</b>									
<b>Total</b>	8.41	4.86	57.79	10.83	5.47	50.48	13.53	8.05	59.50
<b>State (168)</b>									
<b>Total</b>	160.34	114.99	71.72	202.20	134.72	66.63	341.29	221.86	62.37

Source: Director of Urban Administration & Development, Government of Chhattisgarh

The reason for the wide gaps in the collection could be due to one practice that was brought to notice during the field visits is fudging the PT demand to show high percentage of tax collection. This was compounded by the fact that in several small ULBs no property records are maintained. Lack of efficient record maintenance as well as having a large portion of the properties under the category of exemption make the problem worse. As per JNNURM norms cumulative arrears of PT should not be more than 10 percent of the current year's demand.

*The Commission recommends that UA&D Department should develop mechanism to ensure that the municipal records, including PT records, are maintained and updated regularly. The Department should also ensure that the PT is revised forthwith and ensure reassessment every five years thereafter.*

### **13.8 PT surveys on GIS based mapping systems**

To improve the overall collection of property tax and to systematically bring in properties into the surveyed list as well as eventually provide help to the citizens in getting building approvals, payment of taxes online, GIS software is being made use of. The process has been initiated in – Raipur, Bilaspur, Rajnandgaon, Durg, Bhilai, Raigarh, Korba, Jagdalpur, Ambikapur and Chirimiri.

Post the use of the GIS software, there was an overall 2,11,430 properties. This shows the effectiveness in bringing the unassessed properties under the net of PT surveys even for future.

(Table 13.3)

**Table 13.3: Property Survey using GIS**

Sl. No.	ULB	Approx no. of property before survey	No. of Property as per survey	Increased No. of Property after survey
1	Raipur	121900	202324	80424
2	Bhilai	102000	149314	47314
3	Durg	26000	48351	22351
4	Rajnandgaon	7200	32607	25407
5	Jagdalpur	19000	23111	4111
6	Bilaspur	45000	57819	12819
7	Korba	84000	75563	-8437
8	Raigarh	9240	26359	17119
9	Ambikapur	11540	19398	7858
10	Chirimiri	20390	22854	2464
	<b>TOTAL</b>	<b>446270</b>	<b>657700</b>	<b>211430</b>

Source: Administrative report 2016-17, SUDA

Out of total area 900 sq.kms of 10 Nagar Palik Nigam, 823.20 sq.kms have been covered and a draft base map of the same has been prepared. Once validation and approval is given at the ULB level, the final base map in GIS will be produced to the respective ULBs. Once mapping on these ten corporations is brought to level, and then it will be initiated to the rest of the ULBs under the same net.

### **13.9 Property Tax Information System**

Keeping in mind the prevalent PT rates and these rates are subject to revision; a software named PTIS is being developed that will contain all information related to property taxes and their notifications which will be accessible by the public.

**13.10. (i)** *The Commission recommends that ULBs should accept credit cards/debit cards/net banking/UPI apps for Property Tax payments. Initially, the system may be introduced in Nagar Palik Nigam and extended subsequently to other ULBs.*

*(ii) The Commission recommends that a scheme of incentives for timely or advance payment of Property Tax should be worked out and widely publicized. This will enable more and effective tax collection.*

### **Consolidated Tax**

**13.11.** M.Corp Act, Sec 132(1) (c-e) and MC Act, Sec. 127(1) (c-e) provide for levy of composite general sanitation, fire and lighting taxes and together it is called 'Consolidated Tax' which is another important own source of tax revenue to ULBs. A significant aspect of this tax is that government fixes minimum rate in case of Nagar Palik Nigam and both minimum and maximum rates in case of Nagar Palika Parishad and Nagar Panchayat leaving the actual rate to be decided by the ULBs concerned. Though, the tax is levied under three different components, the income from this source is not ring-fenced or exclusively used on the specific component, but credited into the general municipal funds and expenditure incurred as part of general expenditure.

The consolidated tax was revised to Rs. 600 from Rs.150 per month. There is, however persons who are not liable to pay P.T. it is Rs.300 per month. Two important factors that govern the levy and collection of consolidated tax are: a) the tax is levied even on those properties, which are exempted from PT, and b) as a consequence, tax is levied from all property owners.

### **Demand and Collection Efficiency**

**13.12.** Unlike Property Tax, collection efficiency is low in case of consolidated tax. As shown in table 13.4 in all level of ULBs consolidated tax is increasing every year.

**Table 13.4: Consolidated Tax: Demand and Collection Efficiency**

(Rs. in crore)

	2014-15			2015-16			2016-17		
	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection
<b>Nagar Palik Nigam(13)</b>									
Total	50.14	30.46	60.75	55.60	30.95	55.67	57.80	30.97	53.58
<b>Nagar Palika Parishad (44)</b>									
Total	17.79	9.02	50.71	18.87	8.80	46.65	19.34	10.85	56.09
<b>Nagar Panchayats (111)</b>									
Total	18.12	7.45	41.15	17.69	6.57	37.15	18.92	6.49	34.29
<b>State (168)</b>									
Total	86.05	46.93	54.55	92.16	46.32	50.27	96.06	48.31	50.28

Source: Director of Urban Administration & Development, Government of Chhattisgarh

13.13. One feature of property and consolidated taxes is that in Nagar Palik Nigam and Nagar Palika Parishad the PT is higher than consolidated tax. There are many exemptions in case of PT while they are few in case of consolidated tax. The PT may have political overtone both in fixing the rate of tax, levy and collection, but consolidated tax seems to be free from such pressures. In case of corporation PT is much higher than consolidated tax because properties and buildings are large and more in numbers, in case of Nagar Palika Parishad and Nagar Panchayat, due to large numbers of exemptions and large number of properties in minimum tax rate, the difference between PT and consolidated tax is less but still PT is higher than the consolidated tax.

#### Water Tax

13.14. The water tax applicable for all ULBs is Rs. 2400 and for commercial use it is Rs. 4200 per annum. There is, however, a rebate of Rs.720 per annum to non-PT payers. Every year there is an increase in demand and collection of water tax in all ULBs as shown in table 13.5.

**Table 13.5: Water Tax: Demand and Collection**

(Rs. in crore)

	2014-15			2015-16			2016-17		
	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection
<b>Nagar Palik Nigam(13)</b>									
Total	58.84	43.66	74.20	70.97	46.23	65.14	74.47	47.58	63.90
<b>Nagar Palika Parishad (44)</b>									
Total	17.89	9.69	54.19	19.48	9.43	48.41	21.04	10.25	48.73
<b>Nagar Panchayats (111)</b>									
Total	13.74	7.89	57.39	14.20	7.27	51.22	15.06	8.16	54.20
<b>State (168)</b>									
Total	90.47	61.24	67.69	104.65	62.93	60.14	110.57	65.99	59.69

Source: Director of Urban Administration & Development

## Optional Taxes

13.15 During field visits it is observed that a majority of optional taxes are not being levied by the ULBs. Only Fees for the registration of cattle, Tax on Hoarding, Tax on Theatres, Theatrical Performances and Other Public Entertainments on per show basis being levied.

## Advertisement /Hoarding Tax

13.16 Advertisement tax is an important source of municipal revenue to ULBs. In Chhattisgarh it is being levied only by a few ULBs and income from this source appears to be small. However, Raipur is doing extremely well in generating revenue from this source. This is a highly useful source for income generation for ULBs that needs to be utilized properly.

### Income from Advertisement Tax

Nagar Palik Nigam	(Rs. In lakh)		
	2013-14	2014-15	2015-16
Raipur	190.52	176.32	277.43
Durg	20.37	20.13	48.72
Korba	21.79	18.89	41.52
Dhamtari	2.26	5.18	6.92

Source: UA & D Department

*The Commission recommends that advertisement/hoarding tax should be optimally exploited to increase revenue, in larger ULBs which have potential. The UA & D Department may formulate advertisement tax guidelines to help ULBs.*

## Non-Tax Revenues

13.17. The Municipal Acts empower ULBs the levy and collection of fees, rents, charges, etc., as user charges. This source constitutes a substantial portion of the own revenues. In Chhattisgarh, that constitute roughly one-fifth of the total revenues of the ULBs derived from sources like market fees, rents from shops, user charges from water supply and SWM and other sources like water tanker charges, building permission charges, income from septage machine, fees from documents, lease of land and buildings, etc.

## Shop Rent

13.18 Most ULBs in Chhattisgarh have constructed market places and shops that are rented or leased out. Shop rent is another important area for generation of revenue from own sources of the ULBs. The income collected from this source can be seen in table 13.6. There is a wide gap in the income generation from shop rent between the ULBs. The Nagar Palik Nigams in year 2016-17 collected 11.51 crore rupees, whereas the Nagar Palika Parishads and Nagar Panchayats collected Rs. 4.49 and Rs. 2.63 crore respectively. However it is important to note that proper

levy and collection of this rent is essential to add to the revenue generation from own sources of the ULB's.

**Table 13.6: Shop Rent: Demand and Collection**

(Rs. in crore)

	2014-15			2015-16			2016-17		
	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection
Nagar Palik Nigam(13)									
Total	13.89	10.77	77.53	14.89	11.89	79.86	15.14	11.51	76.03
Nagar Palika Parishad (44)									
Total	5.28	3.49	65.98	5.65	3.56	62.96	6.44	4.49	69.73
Nagar Panchayats (111)									
Total	4.51	2.93	64.98	4.34	2.71	62.38	4.25	2.63	61.95
State (168)									
Total	23.68	17.19	72.56	24.88	18.16	72.97	25.83	18.63	72.15

Source: Director of Urban Administration & Development

### Market Fees

13.19. UA & D Department of Chhattisgarh Government wide its order no.2405/ 1308/2018/18 Raipur dated 24/03/2018 abolished market fees on commodities brought into municipal areas for sale.

### Shop Establishment and Trade Licence Fees

13.20 Separate fees are being levied by ULBs for shop establishment and trade licence; this is unnecessary delay in process. It is observed by the Commission that people pay the shop establishment fees but they did not pay trade licence fees separately. This causes loss of revenue to the ULBs.

*The Commission recommends that to simplify the process, shop establishment and trade licence fees, both should be merged, this will increase the income of the ULBs.*

### Solid Waste Management

13.21. SWM – collection, transportation and disposal is a major expenditure in the ULBs. But, a majority of ULBs have not been collecting any user charges for this service. Some ULBs, however, initiated the process of door-to-door collection of solid waste by collecting a specified amount. The demand and collection of user charges for SWM vary substantially. SWM collection efficiency was only around 23 percent in year 2016-17.

The actual O&M expenditure on SWM in Nagar Palik Nigams and Nagar Palika Parishads including salaries, transport vehicles, POL and other incidentals are much higher than the collection and user charges. In Nagar Panchayats, problem may be much more where the expenditure on SWM would be higher without any levy and collection of user charges. The



Commission feels that the ULB should collect actual O&M costs through user charges. To capitalize on this source of revenue, a strategical approach must be formulated and implemented. UA&D Department should formulate guidelines and advise the ULBs to progressively move towards 100 percent collection of O&M through user charges on SWM. It should also prescribe the timeframe for the purpose after taking into consideration local variants.

### **Assigned Revenues**

**13.22.** Assigned revenues are the important sources of income to the ULBs, as described below:-

1. Entry tax (Octroi compensation) grants
2. Passenger tax grants
3. Stamp and registration fees grant
4. Entertainment tax grants
5. F L license fees grant
6. Excise duty surcharge grant
7. Tax on vehicles (compensation) grant
8. General purpose grants
9. Minor mineral royalty grant.

### **Entry tax (octroi compensation) grant**

**13.23** Octroi was abolished in year 1974 and in lieu of loss of revenue, ULBs were given compensation. Subsequently, Entry Tax was introduced in its place and ULBs were collecting the tax which was taken over by the government in year 1996 and proceeds given to them. Since 1<sup>st</sup> September 2007 Govt. of Chhattisgarh has changed the policy, now octroi compensation is given 26 Rupees per person per month on the basis of 2011 Censes.

### **Stamp Duty**

**13.24** The Government is levying one percent additional stamp duty under the Indian Stamp Duty Act, 1889 on the instruments of conveyance. In the past, stamp duty was levied at nine percent but, as per JNNURM reform condition, the Government brought it down to five percent. At present the additional stamp duty of one percent is being distributed to ULBs.

Details of assigned revenue grant to ULBs from Financial Year 2014-15 to 2017-18 are given below in Table 13.7.

**Table 13.7: Assigned Revenues Sources**

(Rs. in crore)

S.no.	Name of Scheme	2014-15	2015-16	2016-17	2017-18
1	Entry tax (octroi compensation) grant	860.00	935.98	893.24	936.00
2	Stamp & registration fees grant	55.00	62.00	69.00	69.00
3	FL license fees grant	19.20	19.20	19.42	35.50
4	Tax on vehicles grant	5.40	5.40	5.40	5.40
5	Entertainment tax grant	12.10	16.01	19.38	20.10
6	Excise duty surcharge grant	12.00	13.19	13.51	14.46
7	Passenger tax grant	8.00	8.00	8.00	8.00
8	General purpose grant	8.00	8.00	8.00	8.00
9	Minor mineral royalty grant	0.00	3.03	4.65	4.43
	<b>Total</b>	<b>979.70</b>	<b>1070.81</b>	<b>1040.60</b>	<b>1100.89</b>

**Goods and Service tax (GST)**

13.25 Goods & Service tax is applicable from 1st July 2017. It will have a large impact on finances of ULBs. All Indirect Taxes are merged into GST and is to be compensated to enable ULBs to perform their duties.

**Transfers from the Central Government**

13.26. The ULBs of the state have also received funds from the Central Government for implementing various central sponsored schemes and programmes.

13.27. Central Government grants include the grants given by the Central Finance Commission, and the grants given for the implementation of centrally sponsored schemes implemented by the Municipalities.

13.28 Under 14<sup>th</sup> Finance Commission devolution to states increased from 32% to 42% resulting state share 3.08% in 14<sup>th</sup> FC which was only 2.42% in 13<sup>th</sup> FC.

Table 13.8 show the status of allocation to ULBs of Chhattisgarh under 14<sup>th</sup> FC.

**Table 13.8: 14<sup>th</sup> Finance Commission Grants to the ULBs (for the period 2015-20)**

(Rs. in Crore)

Component of Grant	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Basic grant	152.39	211.01	243.80	282.04	381.09	1270.33
Performance grant	0.0	62.28	70.47	80.03	104.80	317.58
<b>Total</b>	<b>152.39</b>	<b>273.29</b>	<b>314.27</b>	<b>362.07</b>	<b>485.89</b>	<b>1587.91</b>

Source; Department of Urban Administration & Development, Chhattisgarh

## LOAN

13.29. Government of Chhattisgarh provides help to get loan facility to ULBs for infrastructure projects. The loans have also part grant component which varies between Nagar Palik Nigam, Nagar Palika Parishad and Nagar Panchayat. This is a good sign as the ULBs begin to think that they cannot expect to receive only grants from the government without any effort on their part.

Until March, 2017 only 17 ULBs accessed the loan facility for infrastructure development viz., shopping complexes, sewerage, market place development, etc., to the tune of Rs.376.19 crore. The installments towards repayment of loans are deducted by the DUA&D from the Octroi compensation being paid to ULBs every month. After payment of both principal and interest the ULBs have still dues of about Rs.239.61 crore. Of this, Bilaspur have Rs. 231.52 crore and Raipur Nagar Palik Nigam have Rs 5.19 crore dues and the remaining dues on other 15 ULBs, as can be seen from table 13.9.

**Table 13.9: Status on Loans**

(Rs in lakh)			
Sl. No.	Name of ULB	Loan Amount	Total Due
1	Ambikapur	133.49	0
2	Bhilai	94.20	0
3	Bhilai Charoda	581.18	24.58
4	Bilaspur	21853.18	23152.77
5	Dongargaon	75.00	0
6	Durg	482.77	0
7	Gobranavapara	27.93	0
8	Goraila	58.12	0
9	Jagdapur	240.82	0
10	Kanker	30.00	0
11	Kawardha	530.74	264.76
12	Kharsia	138	0
13	Korba	7124	0
14	Raigarh	122.67	0
15	Raipur	5487.37	519.02
16	Rajnandgaon	601.67	0
17	Takhtapur	38.12	0
	<b>Total</b>	<b>37619.26</b>	<b>23961.13</b>

Source: Director of Urban Administration and Development

The ULBs should be encouraged to undertake credit rating and access bond markets for financing infrastructure. They should be encouraged to access loans from banks and financial institutions by structuring commercially viable projects. Towns in Tamil Nadu, Maharashtra and Karnataka have used debt market bonds to finance urban infrastructure.

*The Commission recommends that the ULBs must be encouraged to go for Credit Rating, their credit worthiness and make efforts to improve and be eligible to obtain loans from the financial market.*

### **Accounts**

**13.30.** At present the UA & D Department had taken significant steps to adopt Double Entry System, as the result most of the ULBs in Chhattisgarh have been following double entry accounting system. Apart from that there appear to be several problems in the conversion of double entry system at the ULB level. Important among them are shown below:

- (i) Absence of effective supervision;
- (ii) Non-submission of relevant records by the ULBs to the CA Firms;
- (iii) No training and orientation provided by CA Firms to ULB employees, as a result of which the ULBs are not in a position to undertake migration by themselves;
- (iv) Absence of computer systems and broadband internet connectivity in some ULBs;
- (v) Absence of sufficient numbers of accounting staff and those who are in position, do not have adequate computer knowledge to facilitate online entry of accounts data.

**13.31** The efforts of government to fast track the migration to Double Entry System after investing resources did not yield the expected results.

*The Commission recommends that substantial number of accountants should be posted in all ULBs. Efforts should be directed to develop internal capacity of officials within a given time frame.*

### **Stock of Assets in ULBs**

**13.32** The Commissions observed that record keeping of assets is very poor in ULBs. The Government of India has developed an application to record the assets of ULBs and PRIs, termed as 'National Asset Directory' (NAD), all the details are available in the website [www.assetdirectory.gov.in](http://www.assetdirectory.gov.in). The aim of website is to keep stocks of all the assets created, controlled and maintained by the PRIs/ULB/Line Departments and assign a code to each asset for its unique identification leading to effective utilization of the Assets. NAD software application will be primarily used by the officials of PRIs, ULBs, P&RD Department and Other Line Departments of the State.

*The Commission recommends that a onetime exercise be undertaken to take stock of assets in a standard format with the ULBs. It should involve ensuring the numbering and*

recording of the assets along with indication of physical location thereof for all ULBs. Standard operating procedures may be framed for maintaining records of such assets as well as disposal thereof along with the timeframe within which it should be done in every ULBs. Specified official should be given responsibility of maintaining and updating such record.

## Audit

13.33 Audit plays important role in effective financial management of local bodies. Local Fund Audit Directorate (LFAD) is responsible to audit the accounts of local bodies. There appear to be a backlog of audit paras as can be seen from table 13.10. A major problem is the accumulation of large audit objections and ULBs failure to address them.

**Table 13.10: Details of Pending Audit Paras (as on year 2016-17)**

Sl. No.	ULBs	Total Pending	Currently Resolved
1	Nagar Palik Nigam	7068	1429
2	Nagar Palika Parishad	10281	1731
3	Nagar Panchayats	12550	2296
	<b>Total</b>	<b>29899</b>	<b>5456</b>

Source: Directorate of Local Fund Audit

There are 69023 balance audit objections involving about Rs.449.66 crore in ULBs (table 13.11).

**Table 13.11: Details of Audit Queries**

(Rs. in Crore)

Sl. No.	ULBs	Total Queries		Queries Addressed		Balance	
		No.	Amount	No.	Amount	No.	Amount
1	Nagar Palik Nigam	15429	332.32	24	1.87	15225	330.45 (73.49%)
2	Nagar Palika Parishad	16909	49.62	157	0.3	16752	49.32 (10.97%)
3	Nagar Panchayats	37329	70.08	283	0.19	37046	69.89 (15.54%)
	<b>Total</b>	<b>69487</b>	<b>452.02</b>	<b>464</b>	<b>2.36</b>	<b>69023</b>	<b>449.66 (100.00%)</b>

Source: Directorate of Local Fund Audit, Chhattisgarh

The amount involved is very high in the Nagar Palik Nigams with 73.49 percent of the total amount. It required further attention.

LFAD is constrained by staff crunch and limited use of information technology seems to constrain the auditors to undertake the audit of local bodies. This appears to be a serious constraint not only pending the audit process but also affecting strengthening financial management of ULBs. Unless efforts are initiated forthwith there will be a major problem. Special drive should be initiated to address all audit objections expeditiously. There are many problems involved in the audit system of local bodies including:

- i) Absence of proper accounting system in the ULBs.
- ii) Records of account are not made available during audit.
- iii) Compliance to audit reports are not submitted.
- iv) Audit fee is not being paid by the ULBs.
- v) No action is being taken by ULBs on audit reports.
- vi) Limited modernization and use of IT.

*The Commission recommends that for financial control and transparency the Pre-Audit System in ULBs should be adopted.*

### **The Chhattisgarh Infrastructure Development Fund**

13.34. The State Government established the Chhattisgarh Infrastructure Development Fund (CIDF) under the Chhattisgarh Nagar Vikas Nidhi Niyam, 2003. The Fund consists of two accounts (1) Devolution (Nyagaman) account and (2) Infrastructure (Adhosanrachana) account. The objectives of the Fund includes devolutions of Entry Tax to ULBs, sanction of grants from the corpus for specific purposes, channeling grants received from Government of Chhattisgarh, state and central Finance Commissions to ULBs, repayment of installments of outstanding loan raised by the ULBs directly from CIDF with the undertaking of responsibilities of repayment of installments. The receipts of Entry Tax, grants from state and central finance Commission, other miscellaneous state grants and other funds are credited into CIDF. The Entry Tax as Octroi compensation, Stamp Duty, Bar License and other compensations payable to ULBs, SFC grants for improvement of basic services and other state grants for capital works, etc. are also credited to this fund.

One percent of Entry Tax from the devolution account is deposited into separate fund called 'Yantriki Prakoshtha' (Technical Cell) to support technical assistance to ULBs.

### **Models for Capital Expenditure**

13.35. There is also need to develop models of capital expenditure for creating and maintaining urban infrastructure assets such as water supply, sewerage, sanitation, SWM, roads, etc. The Commission discussed borrowings from financial market, credit rating, adoption of PPP models, etc.

### **Land Based Financial Resources**

13.36 The Commission elsewhere recommended that the ULBs be enabled to have access to land to use for asset creation and development. There is a talk of land-based fiscal tools as a major instrument for leveraging funds for city-level infrastructure development. Implementation of this

requires capacity building of local bodies. The major issue here is that constitutionally, Land is a State subject. The resources can be raised through these measures.

*The Commission recommends that an inventory of land and, land-based financing sources - conversion charges, betterment charges, development charges, etc; pricing of Floor Space Index (FSI) above a certain limit, within overall planning guidelines and to put in place a transparent and accountable mechanism for monetization which would contribute to creating urban infrastructure assets.*

### **Public Private Partnership (PPP, 3P or P3)**

13.37 Public Private Partnership is a mode of implementing government programmes/schemes in partnership with the private sector. The ULBs should adopt appropriate PPP models viz., management contracts, Build, Operate and Transfer (BOT) and Build, Own, Operate and Transfer (BOOT), etc. BOT and BOOT models may be preferable where capital requirement and managerial expertise is high with long gestation period. These models may be adopted in O&M of STPs and water treatment plants, water supply projects, door to door collection of solid waste, setting up compost and waste to energy plants, parking complexes, etc. For this purpose ULBs may create project specific Special Purpose Vehicles. The government should formulate an enabling policy, regulatory and institutional framework and ULBs should develop adequate capacity to structure and implement the projects.

Places/ULBs where public private model has been successfully used:

Sl. No.	Municipal Services / Activity	City / ULB
1	Sanitation	Thane, Navi Mumbai, Ludhiyana, Bengluru, Kolkata, Amaravati
2	Solid waste management	Ahamedabad, Nashik, Pune, Kolkata, Surat, Haldia, Madurai, Alandur
3	Water supply	Kolkata, Vishakhapatnam, Nagpur
4	Street sweeping	Surat, Ahmedabad, Nashik
5	Billing - Water, Property Tax, Staff Salary etc.	Ludhiyana, Ulhasnagar
6	Commercial Complex	Indore

### **Establishing Revolving Fund**

13.38 A state level revolving fund shall be established to provide commercial loans to ULBs for financing infrastructure. The repayments of the loans should be ploughed back into the Fund to make it viable and sustainable. Funding should be based on commercial viability of the project and implementation of financial reforms to make ULBs creditworthy and their capacity to take loan will increase. This Fund could also be used to leverage projects under PPP.

## Awards for Best Performance

13.39. The following cash awards to ULBs are recommended as incentive for good performance:

I. One award would be on the basis of performance in-

- Additional revenue mobilization (excluding the income from sale of land) from own resources in one year - current financial year compared to preceding financial year.
- Maintenance of accounts including updation of Asset Register.
- Productive and timely use of funds.

II. Award would be for the level of services provided in the field of-

- Sanitation
- Street lights
- Drainage of Waste Water
- Disposal of Solid Waste
- Maintenance of Public Places

The requirement of funds for awards to the Urban Local Bodies is shown in Table 13.12

**Table 13.12 Requirement of funds for Awards**

(Rs. in lakh)

ULBs	State Level No. of Awards	Amount of Award	Total Amount
Nagar Palik Nigam	Category - I - 1	20.00	40.00
	Category - II - 1	20.00	
Nagar Palika Parishad	Category - I - 3	15.00, 10.00, 5.00	60.00
	Category - II - 3	15.00, 10.00, 5.00	
Nagar Panchayats	Category - I - 3	10.00, 7.50, 5.00	45.00
	Category - II - 3	10.00, 7.50, 5.00	
<b>Total</b>			<b>145.00</b>

The selection of Nagar Palik Nigam, Nagar Palika Parishad and Nagar Panchayat for awards would be done by a Committee to be constituted by the State Government.

13.40. The Commission recommends that the Ward and Mohalla Committees be incentivized for their contributions to collect 90 percent of the current demand and allocate a portion of the PT collected – say 20 to 25 percent for infrastructure provision or other services as proposed by these Committees. This would facilitate active and effective participation of civic communities in not only mobilizing resources but also in development effort. The Commission believes, in the long run, such participatory culture would facilitate sustainable urban development.

13.41. The councilors including Elderman in the ULBs are allotted a councilor's fund called 'Parshad Nidhi' every year to undertake works relating to repairs and maintenance of roads, drains, water supply systems, public toilets, etc. The 'Councilor's Fund' is being allotted by the government from Chhattisgarh Urban Infrastructure Fund.



The Commission recommends that the Councilor Fund should be made from the departmental budget and not from the Infrastructure Fund.

### Receipts and expenditure

13.42. The Third Finance Commission examined the complete financial performance of all 168 Urban Local Bodies for the financial year 2011-12 to 2015-16, to understand its financial health. (Table 13.13)

**Table 13.13: Receipts and expenditure of all 168 urban local bodies**

(Rs. in crore)							
S No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL
1	MANDATORY TAXES UNDER SECTION 132(1)	161.78	174.82	197.84	215.33	246.19	995.96
2	DISCRETIONARY TAXES UNDER SECTION 132(6)	77.39	107.33	116.31	125.95	129.17	556.15
3	VARIED TAX REVENUES	90.68	115.20	148.75	190.48	148.97	694.08
4	TOTAL OF REVENUE INCOME FROM OWN SOURCES	329.85	397.35	462.90	531.76	524.33	2246.19
5	TRANSFERS FROM STATE GOVERNMENT	467.14	670.43	517.88	646.55	571.01	2873.01
6	GRANTS RECEIVED FROM CENTRAL GOVERNMENT	906.10	943.40	999.78	834.70	722.66	4406.64
7	TOTAL OF OTHER REVENUES AND GRANTS	1373.24	1613.83	1517.66	1481.25	1293.67	7279.65
8	OVERALL TOTAL RECEIPTS	1703.09	2011.18	1980.56	2013.01	1818.00	9525.84
9	OVERALL REVENUE EXPENDITURE	424.89	450.80	560.34	590.90	477.75	2504.68
10	OVERALL CAPITAL EXPENDITURE	598.27	881.06	1291.81	976.46	785.93	4533.53
11	OVERALL TOTAL EXPENDITURE	1023.16	1331.86	1852.15	1567.36	1263.68	7038.21
12	OVERALL SURPLUS OR DEFICIT	679.93	679.32	128.41	445.65	554.32	2487.63

Source: Calculated from data collected from site and SUDA

The one big thing which emerges from the above table is that all ULBs put together have generated substantial surplus income. This is a very positive sign indicating that these ULBs are contributing to the exchequer in a positive manner rather than being a set of bodies, which are making a negative contribution.

After having 2 years of consistent performance in year 2011-12 and 2012-13, where substantial Overall Surplus was generated, the ULBs saw a sudden dip in the financial year 2013-14. The ULBs put together lost nearly 81% of their surplus. It fell from Rs 679.32 cr. in the year 2012-13 to Rs 128.41 cr. in the financial year 2013-14. This slip was captured well in time and then in the subsequent years of 2014-15 and 2015-16 it has shown an increasing trend, and hence things came under control.

The dip in the overall Surplus in the years 2013-14 was caused due to a substantial increase in the capital expenditure. As compared to year 2012-13, the Capital Expenditure rose by 46.67%. The Revenue expenditure was also increased by 24.30% (taking the overall increase in total expenditure to 40%). Nevertheless the revenues from all taxes put together, and the receipts and transfers from the State and Central Govt. could not keep pace with this increase in expenditure.

13.43 As can be seen from the table below, the Overall Total Receipts of the ULBs have been broadly classified into two main groups, i.e. "Revenue Income from Own Sources" and "Grants, Transfers from State and Central Govt.". These two items are further analysed in table 13.14.

**Table 13.14: Ratio of revenue from own sources and grants to total revenues of ULBs**

		(Rs. in crore/Percentage)					
S No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL
1	REVENUE FROM OWN SOURCES	329.90	397.35	462.90	531.75	524.33	2246.23
		19.37%	19.76%	23.37%	26.42%	28.84%	23.55%
2	REVENUE FROM STATE & CENTRAL GRANTS	1373.24	1613.83	1517.66	1481.25	1293.67	7279.65
		80.63%	80.24%	76.63%	73.58%	71.16%	76.45%
	TOTAL REVENUE	1703.14	2011.18	1980.56	2013.00	1818.00	9525.88
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

The proportion of revenue income from own sources to the total overall receipts of the ULBs increased from 19.37 % in the financial year 2011-12 to 28.84% in the financial year 2015-16. This way it is an average of 24% in the five years period of 2011-16. The balance 76% of the total receipts is coming from grants and transfers from the State Govt. and Central Govt. This is not a very healthy sign. This analysis indicates a very low share of internal revenues and high dependency on State and Central Grants, indicating the need to strengthen the internal resources so that the ULBs do not have to depend on the benevolence of the State Govt. and become self-sufficient. Commission feels that this should be in the range of at least 35% to 40% which will start giving the much required empowerment and independence to the ULBs. This will become the basis and foundation for taking up lot of independent reforms in this sector.

In the previous years 2006 to 2011 this ratio was 22:78 whereas in the year 2011 to 2016 this ratio is 24:76. This indicates that from a long time there is no remarkable improvement has taken place in this direction.

### **Expenditure**

13.44. The Overall Expenditure of the ULBs has been divided into two main categories, i.e. Overall Revenue Expenditure and Overall Capital Expenditure.

Revenue Expenditure includes items of recurring nature including employee salaries, pensions, management costs, operations and maintenance costs etc.

Capital Expenditure includes investments on infrastructure projects in various sectors related to Water Supply, Sewerage, Solid Waste Management, Storm Water Drainage, Roads, and Street Lights etc.

The table no. 13.15 gives the summary of these two types of expenditure of the last five years period, in terms of actual numbers and their individual proportion to the Overall Expenditure.

**Table 13.15: Ratio of revenue expenditure and capital expenditure to total expenditure of all 168 ULBS**

S No	PARTICULARS	(Rs. in crore/Percentage)					
		2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
1	OVERALL REVENUE EXPENDITURE	424.89	450.80	560.34	590.90	477.75	2504.68
		41.53%	33.85%	30.25%	37.70%	37.81%	36.23%
2	OVERALL CAPITAL EXPENDITURE	598.27	881.06	1291.81	976.46	785.93	4533.53
		58.47%	66.15%	69.75%	62.30%	62.19%	63.77%
	<b>OVERALL TOTAL EXPENDITURE</b>	<b>1023.16</b>	<b>1331.86</b>	<b>1852.15</b>	<b>1567.36</b>	<b>1263.68</b>	<b>7038.21</b>
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

From the above it can be seen that the Overall Revenue Expenditure has been in the average range of 36% of the Overall Expenditure in the five year period 2011-16. Accordingly the Capital Expenditure has been in the range of 64% of the Overall Expenditure in this five year period of 2011-16. The corresponding figure in the previous period of 2006-2011, was 42% for Revenue Expenditure and 58% for Capital Expenditure.

If we look at table 13.14 and 13.15 we can see that against 36% being spent on revenue expenditure, Revenues from Own Sources is around 24%. This could mean that ULBs are meeting part of their Revenue Expenditure from the Transfers and Grants from the State and Central Government. This is not a very encouraging thing to happen. Efforts should be made that entire amount of Revenue Expenditure should be covered through Revenues from Own Sources.

### Category wise analysis

13.45 To understand and get some better insights into the functioning of ULBs, the financial position for the five year period of 2011-16 pertaining to 168 ULBs, of three classes (13 Nagar PalikNigam, 44 Nagar Palika Parishad and 111 Nagar Panchayat) study is given below.

### Analysis of Receipts and Expenditure of 13 Nagar Palik Nigams

13.46 These 13 Nagar Palik Nigams displayed a continuous and moderate growth in the collection of Mandatory Taxes, Discretionary Taxes and Varied Taxes. The transfers and grants both from the State and Central Govt. were also in line with the previous five years on 2006-2011. The Revenue Expenditure in relation to these 13 Nagar Palik Nigams was also in line with their previous year's performance.

In the financial year 2013-14, there was a substantial Capital Investments of Rs. 1153.82 crore in 13 Nagar Palik Nigams, (as compared to Rs. 753.05 crore in the year 2012-13). This had a huge impact and there was a complete erosion of the Surplus from these bodies. 95% of the Overall Surplus was lost, in the year 2013-14 as compared to year 2012-13.

**Table 13.16: Receipt and expenditure of all 13 Nagar Palik Nigams.**

S. No	PARTICULARS	(Rs. in crore)					TOTAL
		2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	
1	MANDATORY TAXES UNDER SECTION 132(1)	127.53	140.60	160.91	169.85	196.32	795.21
2	DISCRETIONARY TAXES UNDER SECTION 132(6)	56.18	55.07	63.90	63.86	60.87	299.88
3	VARIED TAX REVENUES	75.05	96.68	129.19	169.00	125.10	595.02
4	TOTAL OF REVENUE INCOME FROM OWN SOURCES	258.76	292.35	354.00	402.71	382.29	1690.11
5	TRANSFERS FROM STATE GOVERNMENT	350.90	499.84	348.98	484.18	409.92	2093.82
6	GRANTS RECEIVED FROM CENTRAL GOVERNMENT	838.37	811.52	895.18	742.86	590.58	3878.51
7	TOTAL OF OTHER REVENUES AND GRANTS	1189.27	1311.36	1244.16	1227.04	1000.50	5972.33
8	OVERALL TOTAL RECEIPTS	1448.03	1603.71	1598.16	1629.75	1382.79	7662.44
9	OVERALL REVENUE EXPENDITURE	331.72	333.50	418.66	439.30	315.92	1839.10
10	OVERALL CAPITAL EXPENDITURE	530.34	753.05	1153.82	867.36	654.30	3958.87
11	OVERALL TOTAL EXPENDITURE	862.06	1086.55	1572.48	1306.66	970.22	5797.97
12	OVERALL SURPLUS OR DEFICIT	585.97	517.16	25.68	323.09	412.57	1864.47

Source: Calculated from data collected from site and SUDA

13.47 In the last 5 years under consideration, there has been a steady growth in the Revenue from Own Sources for these 13 Nagar Palik Nigams put together. Overall Situations related to 168 ULBs as a group, in the case of 13 Nagar Palik Nigams taken up together, there is an over dependence on Grants and Transfers from the Government, it is also obvious that Grants and Transfers from the Government is declining every year. This element forms nearly 78% of the Overall Receipts, against the average of 76% for all the 168 ULBs.

**Table 13.17: Ratio of revenue from own sources and grants to total revenues for 13 Nagar Palik Nigams**

(Rs. in crore/Percentage)

S. No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL
1	REVENUE FROM OWN SOURCES	258.76	292.35	354.00	402.72	382.29	1690.12
		17.87%	18.23%	22.15%	24.71%	27.65%	22.12%
2	REVENUE FROM GRANTS	1189.27	1311.36	1244.16	1227.04	1000.50	5972.33
		82.13%	81.77%	77.85%	75.29%	72.35%	77.88%
	TOTAL REVENUE	1448.03	1603.71	1598.16	1629.76	1382.79	7662.45
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

**13.48** The average Revenue Expenditure for all the 168 ULBs is 36%, whereas for 13 Nagar Palik Nigams it is 32.40 %. The average Capital Expenditure for all the ULBs is 64%, for 13 Nagar Palik Nigams it is 67.60%, which is result of substantial 73.38% Capital Investment done in the financial year 2013-14. It became normal in the next two years.

**Table 13.18: Ratio of revenue expenditure and capital expenditure to total expenditure of 13 Nagar Palik Nigams**

S No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL
1	OVERALL REVENUE EXPENDITURE	331.72	333.50	418.66	439.30	315.92	1839.10
		38.48%	30.69%	26.62%	33.62%	32.56%	32.40%
2	OVERALL CAPITAL EXPENDITURE	530.34	753.05	1153.82	867.36	654.30	3958.87
		61.52%	69.31%	73.38%	66.38%	67.44%	67.60%
3	OVERALL TOTAL EXPENDITURE	862.06	1086.55	1572.48	1306.66	970.22	5797.97
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

### Analysis of Receipts and Expenditure of Nagar Palika Parishad

The consolidated performance of 44 Nagar Palika Parishad in the State of Chhattisgarh, for the financial years 2011-12 to 2015-16 is captured and summarized in the study below.

**13.49** In the five years under consideration, they have showed normal and consistent growth in the collection of the Mandatory, Discretionary, and Varied Taxes, except in the financial year 2013-14. There was a marginal decline as compared to year 2012-13. A similar marginal decline was also witnessed in the Total Grants and Transfers from the Government. The performance in

the year 2014-15 was also a year of decline in respect of most of the factors under consideration. But substantial improvement was observed in the financial year 2015-16.

**Table 13.19: Receipt and expenditure of all 44 Nagar Palika Parishad**

(Rs. in crore)							
S No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL
1	MANDATORY TAXES UNDER SECTION 132(1)	18.97	20.80	22.28	27.34	30.61	120.00
2	DISCRETIONARY TAXES UNDER SECTION 132(6)	10.16	15.18	11.56	12.34	14.38	63.62
3	VARIED TAX REVENUES	8.35	11.30	10.40	12.85	13.86	56.76
4	TOTAL OF REVENUE INCOME FROM OWN SOURCES	37.48	47.28	44.24	52.53	58.85	240.38
5	TRANSFERS FROM STATE GOVERNMENT	70.28	96.43	100.66	90.87	103.40	461.64
6	GRANTS RECEIVED FROM CENTRAL GOVERNMENT	25.66	50.85	39.34	27.15	48.95	191.95
7	TOTAL OF OTHER REVENUES AND GRANTS	95.94	147.28	140.00	118.02	152.35	653.59
8	OVERALL TOTAL RECEIPTS	133.42	194.56	184.24	170.55	211.20	893.97
9	OVERALL REVENUE EXPENDITURE	62.00	71.78	91.97	97.82	101.93	425.50
10	OVERALL CAPITAL EXPENDITURE	33.63	60.38	72.27	51.83	70.99	289.10
11	OVERALL TOTAL EXPENDITURE	95.63	132.16	164.24	149.65	172.92	714.60
12	OVERALL SURPLUS OR DEFICIT	37.79	62.40	20.00	20.90	38.28	179.37

Source: Calculated from data collected from site and SUDA

13.50 In the case of these 44 Nagar Palika Parishad, the overall average for Revenue from Own Sources is around 27%, against the overall average of 24% for all the 168 ULBs put together. The funds from Grants and Transfers constituted an average of 73% against of the overall average of 76%. Though the difference looks marginal, but the fact that they are lower than the overall average, should be viewed in a positive manner.

**Table 13.20: Ratio of revenue from own sources and grants to total revenues of 44 Nagar Palika Parishad**

(Rs. in crore/Percentage)							
S No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL
1	REVENUE FROM OWN SOURCES	37.48	47.28	44.24	52.53	58.85	240.38
		28.09%	24.30%	24.01%	30.80%	27.86%	27.01%
2	REVENUE FROM GRANTS	95.94	147.28	140.00	118.02	152.35	653.39
		71.91%	75.70%	75.99%	69.20%	72.14%	72.99%
3	TOTAL REVENUE	133.42	194.56	184.24	170.55	211.20	893.97
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

13.51 The Revenue Expenditure for these 44 Nagar Palika Parishad has average of around 60%, as compared to the average of all ULBs 36%. The Capital Expenditure of NPP has hence

averaged to 40% as compared to the all ULBs average is 64%. This means that less amount of investments in the Capital Assets have been made, but it has to be ensured that there is no decline in the Service Delivery in the future years.

**Table 13.21: Ratio of revenue expenditure and capital expenditure to total expenditure of 44 Nagar Palika Parishad**

(Rs. in crore/Percentage)							
S No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL
1	OVERALL REVENUE	62.00	71.78	91.97	97.82	101.93	425.50
	EXPENDITURE	64.83%	54.31%	56.00%	65.37%	58.95%	59.89%
2	OVERALL CAPITAL	33.63	60.38	72.27	51.83	70.99	289.10
	EXPENDITURE	35.17%	45.69%	44.00%	34.63%	41.05%	40.11%
3	OVERALL TOTAL EXPENDITURE	95.63	132.16	164.24	149.65	172.92	714.60
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

### Analysis of Receipts and Expenditure of Nagar Panchayats

The consolidated performance of all the 111 Nagar Panchayats for the financial year 2011-12 to 2015-16 is captured and summarized in the study below.

13.52 These 111 Nagar Panchayats, form the lower rung of the 168 ULBs in the State. Though they look large in quantitative number, there are many qualitative issues with these small sized entities. Their overall contribution is marginal though they sometime become a bigger drain on the resources. In the year 2012-2013, they displayed a substantial and significant performance in collection of Mandatory, Discretionary and Varied Taxes and were also a better recipient of Transfers and Grants from the State and Central Government. They got an all-time high of Rs. 155.19 crore in 10 years period from year 2006 to 2016. It helped them achieve 77% growth in the overall surplus over the previous years. It increases from Rs. 56.22 crore in year 2011-12 to Rs. 99.76 crore in the year 2012-13. Such Annual Growth Rate have not been witnessed in any of the subsequent years in Urban Local Bodies.

**Table 13.22: Receipt and expenditure of all 111 Nagar Panchayats**

(Rs. in crore)							
S. No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL
1	MANDATORY TAXES UNDER SECTION 132(1)	15.28	13.42	14.65	18.14	19.26	80.75
2	DISCRETIONARY TAXES UNDER SECTION 132(6)	11.05	37.08	40.85	49.75	53.92	192.65
3	VARIED TAX REVENUES	7.33	7.22	9.16	8.62	10.01	42.34
4	TOTAL OF REVENUE INCOME FROM OWN SOURCES	33.66	57.72	64.66	76.51	83.19	315.74
5	TRANSFERS FROM STATE GOVERNMENT	45.96	74.16	68.24	71.50	57.69	317.55

6	GRANTS RECEIVED FROM CENTRAL GOVERNMENT	42.07	81.03	65.26	64.69	83.13	336.18
7	TOTAL OF OTHER REVENUES AND GRANTS	88.03	155.19	133.50	136.19	140.82	653.73
8	OVERALL TOTAL RECEIPTS	121.69	212.91	198.16	212.70	224.01	969.47
9	OVERALL REVENUE EXPENDITURE	31.17	45.52	49.71	53.78	59.90	240.08
10	OVERALL CAPITAL EXPENDITURE	34.30	67.63	65.22	57.27	60.64	285.06
11	OVERALL TOTAL EXPENDITURE	65.47	113.15	114.93	111.05	120.54	525.14
12	OVERALL SURPLUS OR DEFICIT	56.22	99.76	83.23	101.65	103.47	444.33

Source: Calculated from data collected from site and SUDA

13.53 These 111 Nagar Panchayats have displayed a better average of Revenue from Own Sources, in comparison to the Grants and Transfers from Government. The overall average of the Revenue from Own Sources is 32.10 % as compared to 24% overall average for the 168 ULBs. Hence revenue from own sources of Nagar Panchayats is more than the overall average of all the ULBs. Against the overall average of grants for all 168 ULBs taken together is 76%, for these 111 Nagar Panchayats, this ratio is low as 68%. Hence the dependence on Grants and Transfers is lower here. This is something which needs to be appreciated and encouraged.

**Table 13.23: Ratio of revenue from own sources and grants to total revenues of 111 Nagar Panchayats**

(Rs in crore/Percentage)

S No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
1	REVENUE FROM OWN SOURCES	33.66	57.73	64.66	76.51	83.19	315.75
		27.66%	27.11%	32.63%	35.97%	37.14%	32.10%
2	REVENUE FROM GRANTS	88.03	155.19	133.50	136.19	140.82	653.73
		72.34%	72.89%	67.37%	64.03%	62.86%	67.90%
3	TOTAL REVENUE	121.69	212.92	198.16	212.70	224.01	969.48
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

13.54 Against the overall average of 64% for all the 168 ULBs put together for the Capital Expenditure, the overall average for this group of 111 Nagar Panchayats is just 54%. This could indicate that the Capital Investments in these geographical areas is lower than required and a proper assessment should be made to understand this situation.

**Table 13.24: Ratio of revenue expenditure and capital expenditure to total expenditure of 111 Nagar Panchayats**

(Rs in crore/Percentage)

S No	PARTICULARS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
1	OVERALL REVENUE EXPENDITURE	31.17	45.52	49.71	53.78	59.90	240.08
		47.61%	40.23%	43.25%	48.43%	49.69%	45.84%



2	OVERALL CAPITAL EXPENDITURE	34.30	67.63	65.22	57.27	60.64	285.06
		52.39%	59.77%	56.75%	51.57%	50.31%	54.16%
3	OVERALL TOTAL EXPENDITURE	65.47	113.15	114.93	111.05	120.54	525.14
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

In order to understand the functioning and the performance of these 168 ULBs in the last 5 years, and to get a better picture of the issues which could be happening in this sector, we have done a further detailed overall analysis of this information.

### Analysis of Mandatory Taxes

13.55 As expected the 13 Nagar Palik Nigams contribute nearly 80% of the collections of Mandatory Taxes required to be done under Section 132(1), 44 Nagar Palika Parishad contribute 12% and 8% comes from the 111 Nagar Panchayats. It indicates that the low level of income potential of the Nagar Palika Parishads & Nagar Panchayats when compared to Nagar Palik Nigams. According to the Commission Nagar Palika Parishads & Nagar Panchayats should increase their recovery of Mandatory Taxes.

**Table 13.25: Description of Mandatory Taxes**

(Rs in crore/Percentage)

1	MANDATORY TAXES UNDER SECTION 132(1)	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAM.	127.53	140.60	160.91	169.85	196.32	795.21
		78.83%	80.42%	81.33%	78.88%	79.75%	79.84%
	44 NAGAR PALIKA PARISHADS	18.97	20.80	22.28	27.34	30.61	120.00
		11.73%	11.90%	11.26%	12.70%	12.43%	12.00%
	111 NAGAR PANCHAYATS	15.28	13.42	14.65	18.14	19.26	80.75
		9.44%	7.68%	7.40%	8.42%	7.82%	8.16%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	161.78	174.82	197.84	215.33	246.19	995.96
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

### Discretionary Taxes

13.56 In the case of Discretionary Taxes, the 111 Nagar Panchayats, seems to be contributing more than the 44 Nagar Palika Parishads. The year on year and the overall average for the last five years for the Nagar Panchayats is nearly 3 times than that of the contribution done by the Nagar Palika Parishads. Moreover, the combined contribution done by the 44 Nagar Palika Parishads and 111 Nagar Panchayats put together, contribute nearly 45% of the overall collections of 168 ULBs. This is a good development which needs to be further improved.

**Table 13.26: Description of Discretionary Taxes**

(Rs in crore/Percentage)

2	DISCRETIONARY TAXES UNDER SECTION 132(6)	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMs	56.18	55.07	63.90	63.86	60.87	299.88
		72.59%	51.31%	54.94%	50.70%	47.12%	55.33%
	44 NAGAR PALIKA PARISHADS	10.16	15.18	11.56	12.34	14.38	63.62
		13.13%	14.14%	9.94%	9.80%	11.13%	11.63%
	111 NAGAR PANCHAYATS	11.05	37.08	40.85	49.75	53.92	192.65
		14.28%	34.55%	35.12%	39.50%	41.74%	33.04%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	77.39	107.33	116.31	125.95	129.17	556.15
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

### Analysis of Varied Taxes

13.57 In the case of the Varied Tax Revenues, the Nagar Palik Nigams have an upper hand. They contribute more than 85%. Nagar Palika Parishads and Nagar Panchayats have a very marginal role to play here.

**Table 13.27: Description of Varied Taxes**

(Rs in crore/Percentage)

3	VARIED TAX REVENUES	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMs	75.05	96.68	129.19	169.00	125.10	595.02
		82.72%	83.92%	86.85%	88.73%	83.98%	85.24%
	44 NAGAR PALIKA PARISHADS	8.35	11.30	10.40	12.85	13.86	56.76
		9.20%	9.81%	6.99%	6.75%	9.30%	8.41%
	111 NAGAR PANCHAYATS	7.33	7.22	9.16	8.62	10.01	42.34
		8.08%	6.27%	6.16%	4.53%	6.72%	6.35%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	90.73	115.20	148.75	190.47	148.97	694.12
		100.00%	100.00%	100.00%	100.00%	100.00%	100.0%

Source: Calculated from data collected from site and SUDA

### Revenue from Own Sources

13.58 Considering all these sources in unison, revenue from Own Sources the Nagar Palik Nigams contribute nearly 75%, Nagar Palika Parishads nearly 11% and Nagar Panchayats nearly 14% of the Revenue. There is potential to generate more revenues in the Nagar Palika Parishad and Nagar Panchayats too, and all it requires is concentrated efforts spread of over a period of 2 to 3 years and then reap the resultant benefits.

**Table 13.28: Description of revenue income from own sources**

(Rs in crore/Percentage)

4	TOTAL OF REVENUE INCOME FROM OWN SOURCES	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMs	258.78	292.35	354.01	402.71	382.29	1690.14
		78.44%	73.57%	76.47%	75.73%	72.84%	75.41%
	44 NAGAR PALIKA PARISHADS	37.48	47.28	44.24	52.53	58.85	240.38
		11.36%	11.90%	9.56%	9.88%	11.21%	10.78%
	111 NAGAR PANCHAYATS	33.66	57.72	64.66	76.51	83.69	316.24
		10.20%	14.53%	13.97%	14.39%	15.95%	13.81%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	329.92	397.35	462.91	531.75	524.83	2246.76
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

**Transfers from State Government**

13.59 In respect of Transfers and Grants from the State Government, the 13 Nagar Palik Nigams consume around 73% of the funds and the balance 27% goes to the 44 Nagar Palika Parishads and 111 Nagar Panchayats.

**Table 13.29: Description of transfers from State Government**

(Rs in crore/Percentage)

5	TRANSFERS FROM STATE GOVERNMENT	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMs	350.90	499.84	348.98	484.18	409.92	2093.82
		75.12%	74.56%	67.39%	74.89%	71.79%	72.75%
	44 NAGAR PALIKA PARISHADS	70.28	96.43	100.66	90.87	103.40	461.64
		15.04%	14.38%	19.44%	14.05%	18.11%	16.21%
	111 NAGAR PANCHAYATS	45.96	74.16	68.24	71.50	57.69	317.55
		9.84%	11.06%	13.18%	11.06%	10.10%	11.05%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	467.14	670.43	517.88	646.55	571.01	2873.01
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: SUDA

**Transfers from Central Government**

13.60 In the case of Transfers and Grants from the Central Government, the Nagar Palik Nigams are getting a much larger 88% of share. Only the balance 12% is going to the other bodies. Interestingly the Nagar Panchayats are getting nearly 8% and Nagar Palika Parishads are getting nearly 4%, because of the Special Area Grants under the 13<sup>th</sup> Central Finance Commission is largely given to Nagar Panchayats.

**Table 13.30: Description of Grants received from Central Government**

(Rs in crore/Percentage)

6	GRANTS RECEIVED FROM CENTRAL GOVERNMENT	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMs	838.37	811.52	895.18	742.86	590.58	3878.51
		92.53%	86.02%	89.54%	89.00%	81.72%	87.76%
	44 NAGAR PALIKA PARISHADS	25.66	50.85	39.34	27.15	48.95	191.95
		2.83%	5.39%	3.93%	3.25%	6.77%	4.44%
	111 NAGAR PANCHAYATS	42.07	81.03	65.26	64.69	83.13	336.18
		4.64%	8.59%	6.53%	7.75%	11.50%	7.80%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	906.10	943.40	999.78	834.70	722.66	4406.64
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

**Description of Other revenues**

**13.61** When the overall transfers and grants from the State and Centre are clubbed together, both the 44 Nagar Palika Parishads and 111 Nagar Panchayats, get 9% each from the overall pool. The balance 82% goes to the 13 Nagar Palik Nigams.

**Table 13.31: Description of Other revenues**

(Rs in crore/Percentage)

7	TOTAL OF OTHER REVENUES AND GRANTS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMs	1189.27	1311.36	1244.16	1227.04	1000.50	5972.33
		86.60%	81.26%	81.98%	82.84%	77.34%	82.00%
	44 NAGAR PALIKA PARISHADS	95.94	147.28	140.00	118.02	152.35	653.59
		6.99%	9.13%	9.22%	7.97%	11.78%	9.02%
	111 NAGAR PANCHAYATS	88.03	155.19	133.50	136.19	140.82	653.73
		6.41%	9.62%	8.80%	9.19%	10.89%	8.98%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	1373.24	1613.83	1517.66	1481.25	1293.67	7279.65
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

**Total Receipts**

**13.62** As expected the Nagar Palik Nigams contributed 80% of the Total Receipts of these ULBs. The share of Nagar Palika Parishads and Nagar Panchayats is more or less equal to 10% each. In the view of Commission it would be ideal if their total contribution can be increased to 15% each.

**Table 13.32: Description of total receipts**

(Rs in crore/Percentage)

8	TOTAL RECEIPTS	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMs	1448.03	1603.71	1598.16	1629.75	1382.79	7662.44
		85.02%	79.74%	80.69%	80.96%	76.06%	80.50%
	44 NAGAR PALIKA PARISHADS	133.42	194.56	184.24	170.55	211.20	893.97
		7.83%	9.67%	9.30%	8.47%	11.62%	9.38%
	111 NAGAR PANCHAYATS	121.69	212.91	198.16	212.70	224.01	969.47
		7.15%	10.59%	10.01%	10.57%	12.32%	10.12%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	1703.14	2011.18	1980.56	2013.00	1818.00	9525.88
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

**Total Revenue Expenditure**

**13.63** The 13 Nagar Palik Nigams spend nearly 73% of the overall Revenue Expenditure and the balance 27% is shared by 44 Nagar Palika Parishads and 111 Nagar Panchayats.

**Table 13.33: Description of overall revenue expenditure**

(Rs in crore/Percentage)

9	OVERALL REVENUE EXPENDITURE	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMs	331.72	333.50	418.66	439.30	315.92	1839.10
		78.07%	73.98%	74.72%	74.34%	66.13%	73.45%
	44 NAGAR PALIKA PARISHADS	62.00	71.78	91.97	97.82	101.93	425.50
		14.59%	15.92%	16.41%	16.55%	21.34%	16.96%
	111 NAGAR PANCHAYATS	31.17	45.52	49.71	53.78	59.90	240.08
		7.34%	10.10%	8.87%	9.10%	12.54%	9.59%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	424.89	450.80	560.34	590.90	477.75	2504.68
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

**Description of Capital expenditure**

**13.64** The bulk of Capital Expenditure nearly 87% is happening in the 13 Nagar Palik Nigams. The balance 13% is being equally shared between the 44 Nagar Palika Parishads and 111 Nagar Panchayats.

**Table 13.34: Description of Capital expenditure**

(Rs in crore/Percentage)

10	OVERALL CAPITAL EXPENDITURE	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMs	530.35	753.05	1153.82	867.36	654.3	3958.78
		88.65%	85.47%	89.32%	88.83%	83.25%	87.10%
	44 NAGAR PALIKA PARISHADS	33.63	60.38	72.27	51.83	70.99	289.1
		5.62%	6.85%	5.63%	5.31%	9.03%	6.49%
	111 NAGAR PANCHAYATS	34.3	67.63	65.22	57.27	60.64	285.06
		5.73%	7.68%	5.05%	5.87%	7.72%	6.41%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	598.28	881.06	1291.31	976.46	785.93	4533.04
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

### Description of Total Expenditure

13.65 Considering both the revenue and capital expenditure together, the least expenditure is happening in the Nagar Panchayats approx. 8%, in Nagar Palika Parishads approx. 10% and Nagar Palik Nigams are consuming approx. 82% of the overall expenditure of the ULBs.

**Table 13.35: Description of Overall total expenditure**

(Rs in crore/Percentage)

11	OVERALL TOTAL EXPENDITURE	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMS	862.07	1086.55	1572.48	1306.66	970.22	5797.88
		84.25%	81.58%	84.92%	83.37%	76.78%	82.18%
	44 NAGAR PALIKA PARISHADS	95.63	132.16	164.24	149.65	172.92	714.60
		9.35%	9.92%	8.87%	9.55%	13.68%	10.27%
	111 NAGAR PANCHAYATS	65.47	113.15	114.93	111.05	120.54	525.14
		6.40%	8.50%	6.21%	7.09%	9.54%	7.55%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	1023.17	1331.86	1851.65	1567.36	1263.68	7037.72
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

### Description of Surplus or Deficit

13.66 The belowtable show a very interesting picture of the state of affairs of the 168 ULBs in the state. The lower rung, 111 Nagar Panchayats contribute a substantial part 26% of the Surplus generated. The middle rung, 44 Nagar Palika Parishads contribute a marginal portion of 8%. Expectedly the 13 Nagar Palik Nigams contribute 66% of the Overall Surplus, though they get 73% of the Transfers and Grants from the State Government and 88% of Transfers and Grants from the Central Government.

**Table 13.36: Description of overall surplus or deficit**

(Rs in crore/Percentage)

12	OVERALL SURPLUS OR DEFICIT	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	TOTAL average
	13 NAGAR PALIK NIGAMS	585.97	517.76	25.68	323.09	412.57	1865.07
		86.17%	76.15%	19.92%	72.50%	74.43%	65.83%
	44 NAGAR PALIKA PARISHADS	37.79	62.40	20.00	20.90	38.28	179.37
		5.56%	9.18%	15.51%	4.69%	6.91%	8.37%
	111 NAGAR PANCHAYATS	56.22	99.76	83.23	101.65	103.47	444.33
		8.27%	14.67%	64.56%	22.81%	18.67%	25.80%
	TOTAL FOR ALL 168 URBAN LOCAL BODIES	679.98	679.92	128.91	445.64	554.32	2488.77
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated from data collected from site and SUDA

## Suggestions of Commission

13.67. The Commission consulted on different levels with ULBs on their diverse problems and invited their suggestions. These problems were related to policy, administration, personnel and finances. The Commission examined these problems and suggestions carefully and makes the following suggestions:

- (i) **Delayed receipt of funds:** The delayed receipt of funds from government affects payment of salaries to staff, operation of mid-day meal scheme, implementation of welfare programs, etc.

It is suggested that the Government should ensure timely release of funds so that implementation of on-going programs is not affected and to sustain morale of people working on the projects.

- (ii) **Unspent grants:** It is understood that in some ULBs large amount of funds released under several development schemes are not utilized either due to the absence of detailed project reports, for want of technical staff or for other reasons. As a result, funds are lying with the ULBs unspent for long period. This is against the principles of prudent financial management.

It is suggested that the DUA & D should regularly monitor the implementation of development schemes and expenditure pattern and initiate corrective measures where required.

- (iii) **Funds for Development Schemes:** The Commission observed that the development schemes under which ULBs get funds do not enable them to implement the schemes holistically as scheme guidelines restrict the use of funds for specific purposes.

It is suggested that government may re-examine some of these suggestions and review the guidelines of development schemes and make appropriate changes as necessary.

\*\*\*\*\*