

## Chapter V

### Financial Resources of Urban Local Bodies

The devolved functions can be carried out effectively by ULBs only when they are supported with sufficient financial resources. The main sources of finance of ULBs comprise of grants from Central/State Government and own revenue generated from various taxes, fees, user charges etc. ULBs are dependent on grants heavily as the ULBs are unable to increase their own sources of revenue as elaborated in the ensuing paragraphs.

#### 5.1 Sources of Revenue

In Rajasthan, the sources of funds of ULBs were (i) Central and State Government grants and (ii) ULBs own revenue.

The details of revenues of ULBs during the period 2015-16 to 2019-20 is indicated in **Table 5.1**.

**Table 5.1: Details showing source of revenue**

| Year         | Grants          | Own Revenue    | Total Revenue   | Percentage of own revenue w.r.t. total financial resources |
|--------------|-----------------|----------------|-----------------|--|
| 2015-16      | 2468.31         | 557.24         | 3025.55         | 18.42  |
| 2016-17      | 4225.49         | 624.93         | 4850.42         | 12.88  |
| 2017-18      | 3751.13         | 809.49         | 4560.62         | 17.75  |
| 2018-19      | 4376.70         | 591.30         | 4968.00         | 11.90  |
| 2019-20      | 2238.14         | 798.37         | 3036.51         | 26.29  |
| <b>Total</b> | <b>17059.77</b> | <b>3381.33</b> | <b>20441.10</b> | <b>16.54 (17)</b>  |

(₹ in crore)

**Source:** Information made available by DLB

It can be seen from the table above that during the period 2015-16 to 2019-20, ULBs could generate only 16.54 (17) *per cent* revenue of its own and remained significantly dependent on the grants for delivery of services. As such, for effective discharge of the devolved functions, augmentation of revenue through own sources is a first and foremost requirement. All the State/Central Finance Commissions also emphasized on ULBs generating own resources.

The State Government stated (July 2021) that the ULBs are continuously making efforts in raising their own income. Several concessions were also extended for lump sum deposit of taxes by the people. In Jaipur MCorp, the recovery of tax is also outsourced. The database was also being digitized and action for increase in own revenue is also being taken.

The reply is not convincing as the share of own revenue in total revenue is still very low and huge amount of UD tax is in arrears. Further, there were instances wherein taxes/charges were collected by parastatals and not transmitted to the ULBs resulting in lower quantum of revenue of ULBs.

## 5.2 Grants

The major share of financial resources of ULBs comprised of grants recommended by SFCs/CFCs. Timely constitution of SFC and acceptance of its recommendations have a bearing on the assured transfer of funds to ULBs. There were delays in constitution of SFCs and acceptance of recommendations by the State Government as discussed in paragraphs 4.2.9 and 5.2.2.

### 5.2.1 Short release of Grant under SFC Recommendations

As per recommendations number 3(iii) of the Fourth SFC, the State Government was to levy 2 per cent excise cess on country made liquor and the amount realised from cess was to be distributed between the ULBs and PRIs in the ratio of 24.9 per cent and 75.1 per cent respectively. The State Government did not accept the recommendation which deprived the ULBs of a considerable grant. The details of loss of grants due to non-accepting the recommendation are as under:

**Table 5.2: Non-receipt of grants due to non-acceptance of recommendations of SFC**

| Particulars  | (₹ in crore) |         |         |         |         |
|--|--------------|---------|---------|---------|---------|
|  | 2015-16      | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Net receipt from country made liquor   | 1627.00      | 1926.40 | 2110.23 | 2388.97 | 2511.09 |
| 2 per cent cess to be levied by the State Government as per recommendations of the SFC | 32.54        | 38.53   | 42.20   | 47.78   | 50.22   |
| Loss of grants (24.9 per cent of cess)   | 8.10         | 9.59    | 10.50   | 11.89   | 12.50   |

*Source: Information compiled from SFC Reports and Finance Accounts*

Thus, due to non-acceptance of SFC's recommendation, the ULBs were deprived of ₹ 52.58 crore, which could help the ULBs to serve the community in a better way.

The State Government stated (July 2021) that grants were made available considering the financial position and availability of resources.

### 5.2.2 Short release of Grant under CFC Recommendations

The 13th and 14th Finance Commission recommended basic grants and performance grants to ULBs as a percentage of divisible pool account. The position of recommendations and release there against are detailed in **Table 5.3**.

**Table 5.3: Non-receipt of Performance Grant from CFC**

(₹ in crore)

| Year         | CFC (Basic)    |                |               | CFC (Performance) |               |               |
|--------------|----------------|----------------|---------------|-------------------|---------------|---------------|
|              | Allocation     | Release        | Short Release | Allocation        | Release       | Short Release |
| 2015-16      | 433.12         | 433.12         | -             | -                 | -             | -             |
| 2016-17      | 599.73         | 599.73         | -             | 177.00            | 177.00        | -             |
| 2017-18      | 692.93         | 692.93         | -             | 200.30            | 200.30        | -             |
| 2018-19      | 801.60         | 801.60         | -             | 227.47            | -             | 227.47        |
| 2019-20      | 1083.13        | 1083.13        | -             | 297.85            | -             | 297.85        |
| <b>Total</b> | <b>3610.51</b> | <b>3610.51</b> |               | <b>902.62</b>     | <b>377.30</b> | <b>525.32</b> |

*Source: Information provided by DLB*

It is evident from the above table that a sum of ₹ 525.32 crore in respect of performance grant was short released under 14th Finance Commission during 2018-19 and 2019-20. CFC recommended a total allotment of ₹ 3,610.51 crore under basic grants and ₹ 902.62 crore under performance grant for the period 2015-20. The State Government received the complete allotment under basic grant but under performance grant, a sum of ₹ 525.32 crore for the period 2018-19 to 2019-20 was not released. The matter was taken up by the Director Local Bodies with Government of India and it was stated by the Government of India that the amount could not be released due to financial constraints.

The State Government accepted (July 2021) that the amount was not received by the GoR as the GoI did not release the amount to any State.

### 5.3 Own Revenue of Urban Local Bodies

As per Section 101 to 105 of RMA, internal revenue of a municipality shall consist of its receipts from the following sources: -

- i.* Taxes;
- ii.* User charges for civic services;
- iii.* Fees and fines for performance of regulatory and other statutory functions;
- iv.* Tax on professions, trades, and employments
- v.* Tax on advertisement on public places, etc.

Position in respect of own revenue of ULBs is discussed in succeeding paragraphs:

#### 5.3.1 Property Tax (Urban Development Tax)

Government of Rajasthan issued Notification (August 2007 and August 2016) under section 104 of the RMA, vide which all the local bodies were to impose an urban development tax on land (except agriculture land) under their jurisdiction. The tax was to be recovered as per classification of the property such as commercial, residential and industrial.

The owner of the land has to self-assess the tax and deposit the same along with relevant documents in the local body. The local body concerned would make survey for those assesseees who did not submit self-assessed return. The officer concerned of the local body would also scrutinize at least 5 *per cent* cases of self-assessment and if the tax is assessed more than the self-assessed amount, the difference including penalties under section 115 of the Act would be recoverable.

During the scrutiny of records of test checked ULBs it was revealed that:

- a.** None of the test checked ULBs had a reliable data base of tax demanded, collected and outstanding at the end of financial year;
- b.** In MCorp, Ajmer, an amount of ₹ 85.89 lakh was shown as outstanding against ten assesseees. Scrutiny of record in audit revealed that verification in respect of two properties could not be made, one property was residential but classified as commercial and in one case the account was closed but shown as outstanding.
- c.** The State Government issued notification (March 2017) for revising the rate of UD tax for starred hotels vide which commercial District Level Committee (DLC) rate was to be applied on the following categories of hotels:
  - (i)** which are registered as 4/5 starred as per website of the Tourism Department, Government of India;
  - (ii)** which are not included in (i) above but having more than 50 rooms and area of 1,500 square meters;
  - (iii)** hotels/resorts which are not included in (i) and (ii) above but charging room rent of ₹ 5000/- or more per day.
- d.** During the test check of records of 14 hotels (MCorp, Jaipur), it was noticed that in case of hotels which are falling under above categories, M Corp, Jaipur continued to recover the UD Tax at industrial DLC Rate instead of Commercial DLC rate which resulted in under recovery of a sum of ₹ 1.59 crore from six hotels.
- e.** Further, as per notification issued (2007) by the State Government, UD tax from marriage garden was to be recovered on the entire area of the marriage garden. During the test check of 179 cases it was noticed that the MCorp, Jaipur under recovered UD tax of ₹ 3.47 crore from 10 marriage places by taking less area than notified while applying for registration of marriage place.
- f.** It was also observed that the MCorp Jaipur under recovered ₹ 1.79 crore from nine commercial complex by taking less area of these complexes which resulted in loss of revenue to that extent.

Thus, the MCorp, Jaipur under recovered a sum of ₹ 6.85 crore. It was also observed that MCorp, Jaipur raised lesser demand of ₹ 85.70 lakh for the year 2019-20 from four assesses. After being pointed out by audit, MCorp, Jaipur admitted the error and revised the ledger of these assesses upto the year 2020-21 and raised the demand of ₹ 1.19 crore which includes ₹ 85.70 lakh for the year 2019-20 [Appendix-II (A to D)]. This is indicative of a weak internal control.

LSGD, Government of Rajasthan vide circular dated 21 December 2015 directed all the Commissioner/Chief/ Executive Officer to examine and personally monitor 50 cases in which the highest amount of tax was due and directed that survey should be completed by February 2016. Despite these instructions, none of the 14 test checked ULBs conducted/updated the survey, in absence of which huge amount of the UD Tax was in arrears. Two test checked M Corp, Jaipur and Ajmer had online data base and it showed that an amount of ₹ 791.48 crore was outstanding as of 31 March 2020 (Table 5.4). Percentage of recovery of outstanding amount ranged between 8.88 per cent to 9.88 per cent only. This is indicative of system inefficiencies in the recovery of Tax.

**Table 5.4: Details showing outstanding demand of UD Tax**

| (₹ in crore)                 |                 |        |              |          |                    |
|------------------------------|-----------------|--------|--------------|----------|--------------------|
| Name of ULB                  | Opening Balance | Demand | Total Demand | Recovery | Outstanding Amount |
| Municipal Corporation Jaipur | 687.31          | 123.51 | 810.82       | 72.04    | 738.78             |
| Municipal Corporation Ajmer  | 50.06           | 8.42   | 58.48        | 5.78     | 52.70              |
| <b>Total</b>                 |                 |        |              |          | <b>791.48</b>      |

*Source: Information provided by MCorps Jaipur & Ajmer*

The State Government intimated (July 2021) that the various services of ULBs have been digitized and some are under process, which had made these services more transparent and provision for deposit of fees have also now been made online.

The reply is not acceptable as the test check of ledgers of UD Tax of MCorp, Jaipur reflected ineffective monitoring of calculation of tax at proper rates, specification of Tax Notifications etc. which resulted in less recovery of tax revenue.

### 5.3.2 Advertisement Tax

Sections 102 and 105 of RMA empowered the ULBs to levy tax on advertisement. ULBs could also levy tax on land or building used for erecting hoardings or any other structures for advertisement and issue licenses for advertisement sites.

Scrutiny of records of test checked ULBs revealed that no survey was conducted by revenue branch of ULBs to enlist sites of advertisement attracting tax, which deprived ULBs of this potential revenue source. Further, M Corp Jaipur notified Advertisement Bye Laws on 4th June 2008, according to which no commercial

establishment can display advertisement without obtaining permission from MCorp Jaipur. However, several commercial institutions installed advertisement boards without obtaining licenses. MCorp Jaipur issued notices to 36 commercial concerns for depositing ₹ 68.75 lakh, but could not recover the same which resulted in loss of revenue. The matter was brought to notice (May 2020) of the Commissioner, MCorp Jaipur by Audit, but no reply was furnished (September 2021). The State Government also did not assign specific reasons for non-recovery.

Further, MCouncil Kishangarh had 65 sites and anticipated (July 2017) a revenue of ₹ 26.28 lakh at minimum reserve price. However, it could not auction these sites since 2013-14 although it invited bids from time to time<sup>1</sup> but with long intervals and did not adopt any strategy for early handing over of these sites. This led to potential loss of revenue.

### 5.3.3 Water Charges

As mentioned in para 4.1, the Government of Rajasthan devolved the function of water supply to eight ULBs<sup>2</sup> during 2013-14. Out of eight ULBs, M Council, Ganganagar was self-reliant and operated the function from its own revenue resources while the remaining seven ULBs were getting grants from GoR under Plan and Non-Plan head for discharging this function for only five years ending with 2017-18. Grants for the years 2018-20 were released late on 31.3.2021. This put further stress on the resources of ULBs.

The analysis of water charges demanded and collected by the remaining seven ULBs is given in **Table 5.5**, which shows that the total collection of water charges ranged only between 8 to 36 *per cent* of the O&M cost and at the end of 2019-20, total water charges amounting of ₹ 21.61 crore was outstanding.

**Table 5.5: Details showing outstanding revenue and receipt of grants**

| Year  | ₹ in crore) |         |         |         |         |
|---|-------------|---------|---------|---------|---------|
|   | 2015-16     | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Opening Balance of outstanding revenue                                | 1.68        | 3.05    | 6.50    | 9.87    | 13.58   |
| Demand raised during the year   | 6.29        | 11.64   | 12.51   | 11.87   | 17.12   |
| Total Demand  | 7.97        | 14.69   | 19.01   | 21.74   | 30.70   |
| Total Collection during the year                                      | 4.92        | 8.19    | 9.14    | 8.16    | 9.09    |
| Closing Balance at the end of the year                                | 3.05        | 6.50    | 9.87    | 13.58   | 21.61   |
| Grant received under Plan and Non-Plan head from the State Government | 26.06       | 26.33   | 26.13   | 21.03   | 22.15   |
| O&M expenditure   | 60.28       | 32.55   | 33.78   | 22.28   | 25.32   |
| Collection Against O&M Cost Percentage                                | 8           | 25      | 27      | 37      | 36      |

*Source: Information provided by DLB*

<sup>1</sup> November 2016, July 2017, February 2019, March 2020 and September 2020.

<sup>2</sup> Bundi, Chomu, Ganganagar, Jaisalmer, Karauli, Nagaur, Nathdwara and Nokha.

As per Notification issued (November 2015) by the GoR, the water tariff and all other charges on all categories of consumers were to be revised every year with reference to tariff of preceding year. It was, however, observed that the Government had revised tariff during 2018-19 but soon after issuance of notification, the implementation of the said notification was stayed by GoR and as such even these eight ULBs could not revise/increase water charges in accordance with the operational costs.

Further, the State Government also withheld the grant from 2018-19 and 2019-20 till March 2021 which caused further stress on the resources of the ULBs. Reasons for withholding of grants was sought (April 2021) in audit, but the same has not been furnished (September 2021).

The State Government accepted (July 2021) the facts.

#### 5.3.4 Non-receipt of Sewerage Tax Recovered by PHED

As per Notification issued (March 2017) by the Government of Rajasthan, PHED should recover sewerage charges (20 per cent of water charges) and sewerage treatment plant charges (13 per cent of water charges) and amount recovered should be transferred to the ULBs concerned so that better sewerage facilities can be provided to the habitants.

Test check of records of two Municipal Corporations, i.e. Jaipur and Ajmer revealed that PHED Jaipur recovered sewerage charges but did not transfer full amount to M Corp Jaipur while PHED Ajmer did not remit any amount to MCorp Ajmer during the period 2015-16 to 2019-2020 as detailed in **Table 5.6**.

**Table 5.6: Details of outstanding amount of sewerage tax from PHED**

| (₹ in crore)  |                              |                    |                                |
|---------------|------------------------------|--------------------|--------------------------------|
| Name of ULB   | Amount recovered by the PHED | Amount transferred | Amount still to be transferred |
| M Corp Jaipur | 31.19                        | 1.12               | 30.07                          |
| M Corp Ajmer  | 2.42                         | -                  | 2.42                           |
| <b>Total</b>  |                              |                    | <b>32.49</b>                   |

*Source: Information provided by MCorp, Jaipur & Ajmer*

Thus, PHED did not transfer ₹ 32.49 crore recovered from the users despite the fact that these ULBs are incurring huge expenditure on sewerage system of these cities. This resulted in further stress on the inadequate resources of ULBs. Allowing another State Department to collect the tax due to ULBs, thus, hindered their financial empowerment as envisaged in 74<sup>th</sup> CAA.

The State Government stated (July 2021) that efforts for recovery of outstanding amount from PHED were being made at the appropriate level.

#### 5.3.5 Solid Waste Management Cess

Government of Rajasthan, DLB, issued (March 2015) gazette notification for levy and collection of user charges for door-to-door garbage collection. Scrutiny of records in 14 test checked ULBs revealed that in 13 ULBs though the ULBs started door to door collection of garbage, they did not collect the user charges.

On being pointed out by audit it was intimated by MCorp, Ajmer, M Council Kishangarh, M Board Bagaru that these charges could not be recovered due to protest by the elected representatives of the people. MCouncil Sikar and M Board Chomu did not specify the reason for non-collection of user charges. In MCouncil, Kishangarh the Board also passed resolutions against the gazette notification. The issue was not taken up with State Government. MBoard, Lalsot replied (April 2021) that only an amount of ₹ 0.20 crore was recovered and complete recovery could not be made due to shortage of staff and resources and now the committee has been constituted and amount would be recovered. The reply is not convincing as the amount recovered relates to carrying charges and not the user charges which were to be collected from households.

Since the delivery of municipal services involve cost, it was necessary to estimate the cost of each municipal service and effect recovery in appropriate manner. It is also pertinent to mention here that these 13 test checked ULBs incurred a sum of ₹ 429.54 crore on solid waste management. However, they did not recover an estimated amount of ₹ 329.82 crore (*Appendix-III*) against the user charges under the Government Notification.

The State Government intimated (July 2021) that the bye laws were notified in 2019 for recovery of user charges. ULBs were in the process of passing the resolution. However, the same could not be imposed on citizens due to pandemic. The reply is not tenable as the Notification of levying user charges was issued in 2015 and despite elapse of long time, ULBs were not recovering the charges which resulted in extra burden on the ULBs in delivery of the service.

### 5.3.6 Rent from Shops

The ULBs were empowered to collect rent from the buildings let out to private agencies and the rent was to be revised periodically. Scrutiny of records of two test checked ULBs (Ajmer and Kishangarh) showed that rent from shops amounting to ₹ 0.24 crore was in arrears as at the end of March 2020. In other test checked ULBs, no records regarding demand, collection and balance registers were made available, in absence of which audit could not ascertain the amount demanded, collected and outstanding.

It was also observed that Government of Rajasthan, DLB issued (October 2018) orders for letting out all the shops on 99 years lease basis. The amount of lease was based on the tenancy period i.e. shops let out prior to 1950; between 26.01.1950 to 10.08.1983, 11.08.1983 to 17.06.1999 for which lease amount was to be recovered at the rate of 25 per cent; 50 per cent and 75 per cent of reserve price of the area. The MCorp Ajmer and MCouncil Kishangarh did not take any action for recovery of rent/regularization of shops.

The State Government stated (July 2021) that development of software in this regard is in process.



### 5.3.7 Trade License

As per provisions of Trade License Bye Laws (2008), no person can commence business activity without obtaining a trade license from the ULBs. The State Government also issued (January 2017) orders for fixing of license fees for hotels and other commercial concerns. As per condition numbers 5 and 6, Health Officer or Dy. Commissioner have to issue/renew the license. On non-compliance with these bye laws or not depositing the prescribed license fee, the Health Officer would take action for closure of commercial activities.

Scrutiny of records revealed that ULBs did not have demand, collection and balance register of licensees nor produced any report of survey conducted by these ULBs to audit, in absence of which audit could not verify the actual demand, collection and balance amount to be recovered from these licensees. However, it was observed that MCorp Jaipur had online process of applying/issuing licenses to commercial establishments and issued/renewed 1,025 licenses to those concerns which applied online. Audit is of the view that this figure is quite low, considering the increasing trend of business activity in the city.

The State Government stated (July 2021) that various services of ULBs have been digitized or under process of digitization which would make these services more transparent. The reply is not convincing as ULBs did not survey the properties falling under license regime and without survey, the digitization would not serve any purpose.

### 5.3.8 Fire Services

The ULBs have been entrusted the fire service function with main objective to prevent fire, extinguish fire and protect life and properties on occurrence of fire incidents across all the area including that beyond the municipal area. Further, ULBs had also been conferred powers under RMA and its bye-laws to levy fire tax in form of fire cess and No Objection Certificate (NOC) charges.

Maintenance and Operation of Fire service require huge capital expenditure in form of fire vehicles, fuel, manpower, etc. and during the years 2015-20, the test checked ULBs incurred ₹ 45.82 crore on Fire Services. For rejuvenation of fire services, Government of Rajasthan levied fire cess for high rise buildings vide order dated 4 October 2013. It was observed in audit that parastatals are issuing building construction permission and the Urban Development and Housing Department issued orders for obtaining fire NOC from the concerned ULB but the fire cess was being recovered by the permission granting parastatals agencies i.e. UDAs/UITs/RIICO/RHB, etc. Thus, the fire cess recovered by these parastatal agencies were not being passed on to the concerned ULBs, though they provide fire services.

It was further observed that after fixing rate of fire cess in 2013 at ₹ 100 per square meter, the Government reduced the rate to ₹ 50 per square meter through Unified Building Bye Laws, 2017 despite the fact that the cost to deliver the fire services depicted an increasing trend, which also hampered the revenue of these ULBs.

During the test check of records of MCorp, Jaipur it was noticed that the Board in its meeting dated 27 December 2017 increased the rate of fire NOC charges from ₹ 2/- sq feet to ₹ 50/- sq meter, but the Fire Branch of the MCorp, Jaipur did not recover the fire NOC charges at enhanced rate and defied the resolution of the Board, which deprived the MCorp, Jaipur of revenue amounting to ₹ 2.55 crore in 79 test checked cases (*Appendix IV*). It was worthwhile to mention here that the Commissioner, MCorp, Jaipur circulated the above decision of the Board after eight months.

Further, DLB recruited (December 2016) 610 firemen and posted them in various ULBs but the DLB issued orders for deployment of these firemen, who are technical staff, for other administrative works and hired firemen on contract basis. MBoard, Chomu, Chaksu and MCouncil, Kishangarh deputed four firemen in DLB and Regional Offices for clerical works and hired firemen through private agencies. Thus, on the one hand these ULBs are facing acute shortage of manpower while on the other, firemen were being deputed for routine official work.

The State Government stated (July 2021) that the fire cess amount is being recovered by various agencies and are deposited in Escrow account opened at DLB office under which all departments would deposit the fire cess collected, which is being used for strengthening of firefighting system. The reply is not acceptable as no details of utilisation of fire cess amount (deposited in escrow account) was provided. Further, the reply is silent on the issue of fire NOC charges not being recovered at prescribed rates.

*Recommendations 8: ULBs should have more autonomy in raising revenues and for augmentation of its own resources. Efforts should be made for enhancing tax collection capacity of ULBs through provision and training of staff, provision of electronic tax payment and improved assessment processes. PHED and other parastatals should pass on all the revenue collected on behalf of ULBs for strengthening their financial position.*

#### 5.4 Tapping of various sources of revenue by ULBs

The 4<sup>th</sup> and 5<sup>th</sup> SFCs had identified three sources of tax revenue and 14 sources of non-tax revenue such as building plan/license approval fees, trade license fee etc., that could be levied by ULBs to augment their own resources. Audit observed that out of 17 identified sources of tax, the ULBs were tapping only eleven sources and for these too the recovery was partial or in some cases was very negligible. The details of remaining six sources that were not tapped are indicated in **Table 5.7**.

**Table 5.7: Details of sources of taxes not tapped by ULBs**

| Sr. No. | Source  | Statutory Provision | Levied |
|---------|---|---------------------|--------|
| 1       | Tax on profession, trade, callings and employment | Yes                 | No     |
| 2       | Toll on roads and bridges                         | Yes                 | No     |
| 3       | Tax for pollution control                         | Yes                 | No     |
| 4       | Lighting tax                                      | Yes                 | No     |
| 5       | Tax on congregation                               | Yes                 | No     |
| 6       | Surcharge on Stamp duty                           | Yes                 | No     |

**Source:** Information compiled from RMA and database of ULBs

It can be seen from the table above that tax on aforesaid activities could be a good source of revenue which the ULBs failed to materialize. The details of revenue sources, status of levy and statutory provisions are indicated in **Appendix-V**.

The State Government accepted (July 2021) that ULBs are levying taxes only on eleven sources and bye laws were being prepared for getting other services under tax regime.

## 5.5 Budget Planning and Expenditure

As per Section 87 of RMA, Chief Municipal Officer shall prepare the budget estimates before 15th of January of each year. The Chairperson shall present the budget estimates to Municipality not later than 31st January of each year and it shall be passed by the Municipality prior to 15th February of each year. Budget proposals duly approved by the Municipality, sent to Government. Findings on the budget estimates are as follows:

### 5.5.1 Unrealistic Preparation of Budget Estimates

Budget estimates play vital role in the process of Budgetary Control. Scrutiny of records of test checked ULBs revealed that the budget estimates were prepared by the ULBs without considering the actual income and expenditure in the preceding year and the expected trend. The State Government also failed to review these budget proposals after submission in a proper way. The major deficiencies noticed are detailed below:

(i) Budget estimates of receipts and expenditure were not based on the actual receipts/expenditure in the previous years but prepared by increasing a certain percentage in the estimates of previous year irrespective of the actual figures.

(ii) The budget estimates were forwarded to the State Government and the GoR approved these budget estimates without ascertaining actual receipt and expenditure of previous year. Further, prior to December 2010, budget estimates were to be submitted to Finance Committee of the Municipality concerned before approval of Municipal Board. The State Government amended (December 2010) Section 87(1) of RMA according to which the above provision was deleted. As a result, the budget proposals were not being checked by the Finance Committee. Thus, due to removal of provision 87(1) and non-checking at DLB level, the budget estimates were not realistic.

Due to non-preparation of budget estimates on sound footings, the actual receipt varied from 13.30 per cent to 155 per cent<sup>3</sup>, whereas the actual expenditure varied from 9 per cent to 137 per cent<sup>4</sup> of the budget estimates as per details given in **Appendix-VI**.

<sup>3</sup> M Council Sikar, MBoard Nawalgarh, Bagru, Jobner, Lalsot recorded variation exceeding 100 per cent.

<sup>4</sup> M Board Bagru, Jobner, Shahpura, and Lalsot recorded variation exceeding 100 per cent.

The State Government stated (July 2021) that ULBs were being directed to prepare budget estimates on actual receipt basis.

### 5.5.2 Expenditure of Urban Local Bodies

The main categories of expenditure of ULBs can broadly be classified under five major categories i.e. General Expenditure, Public health and sanitation, Maintenance of civic amenities, Expenditure on development works, and Miscellaneous non-recurring expenditure. The details of expenditure incurred by ULBs in the State during the period 2015-16 to 2019-20 are given in **Table 5.8**.

**Table 5.8: Details of Expenditure incurred by ULBs under various heads**

| Year    | (₹ in crore)                     |                                |                                 |                                  |   |                   |
|---------|----------------------------------|--------------------------------|---------------------------------|----------------------------------|---|-------------------|
|         | General Expenditure              | Public health and sanitation   | Maintenance of civic amenities  | Expenditure on development works | Miscellaneous non-recurring expenditure | Total expenditure |
| 2015-16 | 1020.77                          | 103.79                         | 485.27                          | 1280.47                          | 183.29                                  | 3073.59           |
| 2016-17 | 1496.88                          | 255.15                         | 419.09                          | 1521.30                          | 383.96                                  | 4076.38           |
| 2017-18 | 1588.41                          | 355.23                         | 424.66                          | 2193.18                          | 330.32                                  | 4891.80           |
| 2018-19 | 2052.40                          | 456.74                         | 497.91                          | 3217.04                          | 363.39                                  | 6587.48           |
| 2019-20 | 1112.76                          | 197.88                         | 179.87                          | 1733.04                          | 225.68                                  | 3449.23           |
|         | <b>7271.22</b><br><b>(32.93)</b> | <b>1368.79</b><br><b>(6.2)</b> | <b>2006.80</b><br><b>(9.08)</b> | <b>9945.03</b><br><b>(45.04)</b> | <b>1486.64</b><br><b>(6.73)</b>         | <b>22078.48</b>   |

*Source: Information provided by DLB*

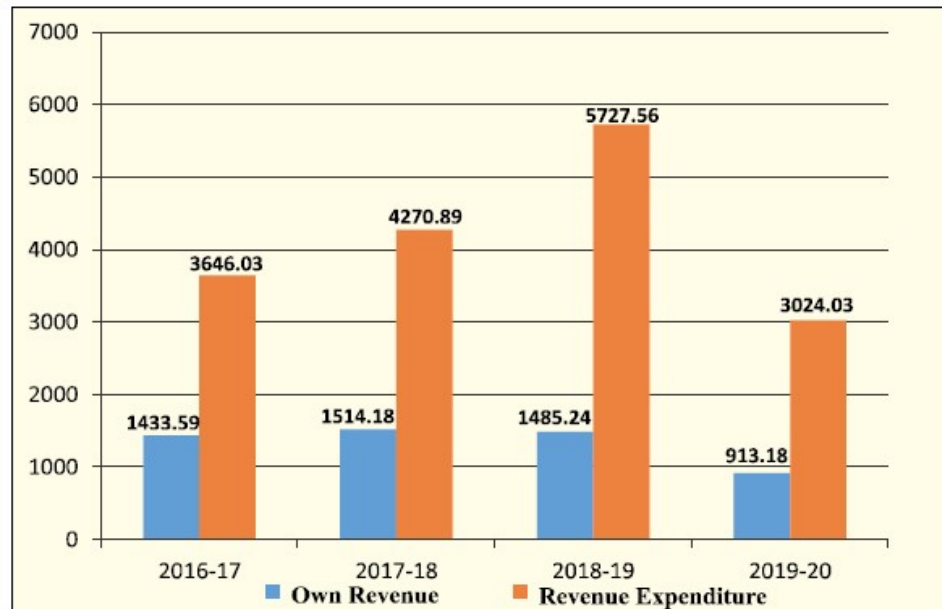
It was observed that general expenditure and miscellaneous non-recurring expenditure constitute 39.66 (32.93 plus 6.73) *per cent* of the total expenditure while only 45.04 *per cent* of the expenditure was incurred on various development works including those under various grants received from government. This indicates that the basic work of development was not being given due importance.

The State Government accepted (July 2021) the fact that the expenditure was mainly incurred on essential services and after spending funds on essential services, salaries and contractual obligations, remaining funds were used for developmental work. The fact remains that development works were not given due importance by ULBs due to higher administrative expenditures.

### 5.5.3 Resource-Expenditure Gap

The ULBs were able to generate own resources only to the extent of 32.07 *per cent* of the revenue expenditure during the period 2016-17 to 2019-20. A comparison of the own revenue to revenue expenditure showed large gaps as depicted in **Chart 2**, which needs to be addressed by ULBs.

Chart 2: Resource-expenditure gap in ULBs (₹in crore)



The above chart indicates that ULBs were still largely dependent on Central/State grants and were unable to generate their own revenue to be financially independent.

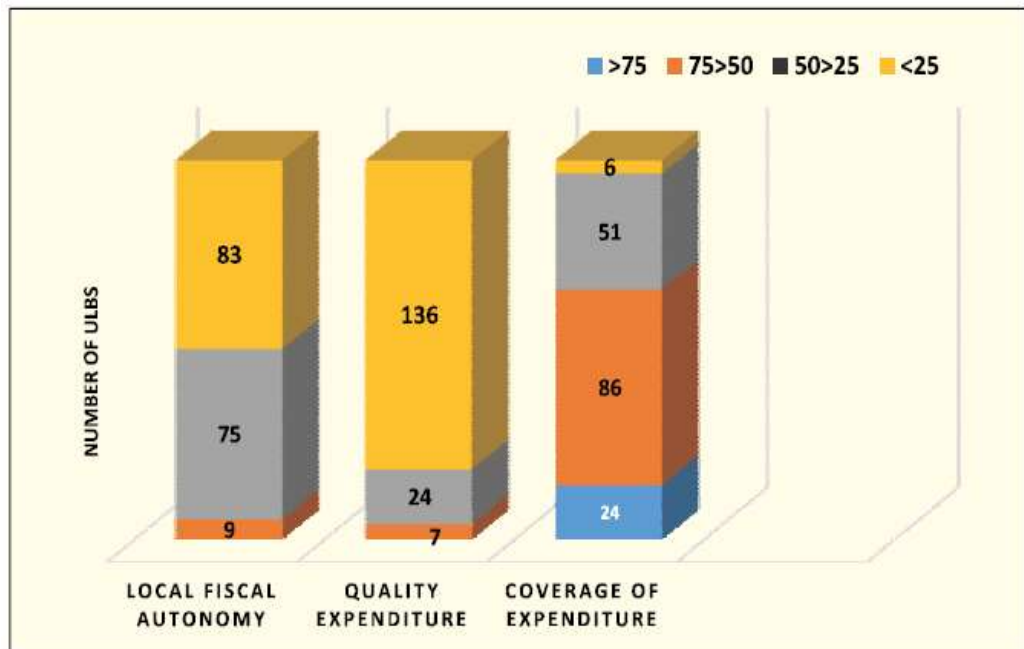
#### 5.5.4 Analysis of Resources-Expenditure Gap

CFC and SFC continuously emphasized on increasing own resources of ULBs. In the recommendation number 2.9 of fifth SFC, it was emphasized that ULBs should endeavor to become self-reliant, increase own revenue and recover the operation and maintenance cost of basic services in their respective jurisdiction. ULBs should also engineer an efficient system of financial management to transform them into self-reliant and accountable governance center.

In respect of finances of ULBs, DLB provided the database to audit for the period 2018-19 in respect of 167 ULBs, which was analyzed for study of fiscal autonomy and quality of expenditure in the ULBs. The three ratios, as detailed below, were considered in the analysis.

- (i) **Local fiscal autonomy:** This is the share of own revenue to the total revenue of the ULB.
- (ii) **Quality of expenditure:** This is the share of O&M expenditure in total revenue expenditure. If this ratio is high, the quality of expenditure is considered better.
- (iii) **Coverage of revenue expenditure from own revenue sources (self-reliance):** This is the proportion of revenue expenditures that are covered through the own revenue sources.

Chart 3: Ratio wise performance of ULBs



Source: Data provided by the DLB

It can be seen from the above chart that:

- None of the ULBs had share of own revenue in the total revenue exceeding 75 per cent while 83 ULBs were having this share below 25 per cent. Thus, most of the ULBs are too far from becoming self-reliant.
- None of the ULBs had share of O&M expenditure in the total revenue expenditure exceeding 75 per cent while 136 ULBs were having this share below 25 per cent. Thus, the quality of expenditure was not satisfactory.
- In only 24 ULBs, the coverage of revenue expenditure from own revenue sources was in excess of 75 per cent. In 86 ULBs, this was between 50 to 75 per cent and in 51 ULBs, the coverage was between 25 to 50 per cent and in 06 ULBs, the coverage was below 25 per cent.

The State Government intimated (July 2021) that efforts are being made to enhance own resources of revenue for ULBs.

### 5.6 Under Utilisation of Grants

Government of India and Government of Rajasthan allocated funds under various schemes for betterment and upliftment of the common people. The State Finance Commission in its recommendations also emphasized on timely utilization of these funds. During the scrutiny of records relating to utilization of various grants received by the test checked ULBs, it was observed that huge amount of grants received during the period 2015-16 to 2019-20 remained unutilized as per details given in **Table 5.9**.

Table 5.9: Detail of utilization of grants

(₹ in crore)

| Name of local bodies | Name of scheme | Allotment | Expenditure | Unspent balance |
|----------------------|----------------|-----------|-------------|-----------------|
| M Board Bagru        | 5th SFC        | 13.56     | 7.58        | 5.98            |
| M Board Chomu        | 5th SFC        | 25.77     | 7.65        | 18.12           |
| M Corp Ajmer         | <b>SBM</b>     | 21.76     | 14.07       | 7.69            |
| M Council Sikar      | <b>5th SFC</b> | 36.13     | 24.06       | 12.07           |
|                      | <b>14 CFC</b>  | 34.65     | 28.83       | 5.82            |
| M Corp Jaipur        | SBM            | 105.63    | 104.14      | 1.49            |
| M Board Chaksu       | NULM           | 0.80      | 0.03        | 0.77            |
| M Board Shahpura     | Vth SFC        | 12.87     | 8.56        | 4.31            |
|                      | 14th CFC       | 11.68     | 7.52        | 4.16            |
| M Board Lalsot       | SFC            | 12.95     | 12.37       | 0.58            |
|                      | SBM            | 3.03      | 2.37        | 0.66            |
| M Board Thanagaji    | CFC            | 1.87      | 0.26        | 1.61            |
|                      | SFC            | 1.37      | 0.36        | 1.01            |
|                      | SBM            | 0.20      | 0.08        | 0.12            |
|                      | <b>Total</b>   |           |             | <b>64.39</b>    |

*Source: Information provided by the concerned ULBs*

It is evident from the above table that despite repeated concerns expressed by the SFCs, the test checked ULBs could not utilise the allotted grants of ₹ 64.39 crore which remained unspent at the end of 2019-20. It also shows the lack of monitoring at the level of State Government.

The State Government stated (July 2021) that instructions were issued for expenditure and utilisation certificates. The unspent balance represents liabilities to be discharged against various works. The reply is not acceptable as the amounts were lying unspent for a long time and delayed the desired benefits.

## 5.7 Financial Powers of Urban Local Bodies

Fiscal autonomy can be complete only when supported by decentralization of financial and administrative powers. For efficient discharge of devolved functions, following was also necessary:

- an efficient and reliable administration;
- improved local governance with delegation of sufficient powers;
- enhanced accountability and responsiveness;
- improved capacity of the local people to participate in the decision-making process, especially with regard to service delivery; and
- increased motivation etc.

### 5.7.1 Powers Relating to Works

The State Government revised (February 2015) the administrative, technical and tender approval powers relating to ULBs for undertaking basic infrastructure works. The administrative approval powers as per the above orders is given in **Table 5.10**.

**Table 5.10: Details of delegation of powers to ULBs.**

| Category of ULB | Board                  | (₹ in crore)      |                             |                   |                 |            |
|-----------------|------------------------|-------------------|-----------------------------|-------------------|-----------------|------------|
|                 |                        | Finance Committee | Commissioner/ Chief Officer | Zone Commissioner | Mayor/ chairman | Government |
| M Corp          | Up to budget provision | 5.00              | 1.00                        | 0.10              | 2.00            | Full power |
| M Council       | -do-                   | 1.00              | 0.02                        | -                 | 0.50            | -          |
| M Board         | -do-                   | 0.50              | 0.01                        | -                 | 0.25            | -          |

*Source: Government of Rajasthan order*

Thus, the State Government had conferred only limited financial powers to the local governance and full power vested with Government itself. Further, most of ULBs did not form the Finance Committee and resultantly it deprived the elected representatives of the local population from participating in decision making process.

The State Government stated (July 2021) that financial powers have been delegated to ULBs under RMA but due to lack of expertise and financial resources, the State Government issued sanctions and there was no delay in granting sanctions. The fact remains that ULBs could not be made financially empowered.

***Recommendations 9: The State Government should work on enhancing the capacity of ULBs by direct devolution even through separate budgeting for ULBs. Efforts should also be made to form finance committees in ULBs and to revise the delegation of powers for greater autonomy.***