

सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA



PERFORMANCE AUDIT OF IMPLEMENTATION OF 74TH CONSTITUTIONAL AMENDMENT ACT



GOVERNMENT OF KARNATAKA
REPORT NO. 2 OF THE YEAR 2020

Report of the
Comptroller and Auditor General of India

Performance audit
of
Implementation of 74th Constitutional
Amendment Act

Government of Karnataka
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1. This Report of the Comptroller and Auditor General of India has been prepared for submission to the Governor of Karnataka under CAG's DPC Act, 1971.
2. The State Government entrusted the audit of Urban Local Bodies except Notified Area Committees to the Comptroller and Auditor General of India under Section 14(2) of CAG's DPC Act, 1971 with effect from 2008-09 and under Technical Guidance and Supervision under Section 20(1) with effect from 2011-12 onwards.
3. The Report covering the period 2014-15 to 2018-19 contains the results of performance audit of 'Implementation of 74th Constitutional Amendment Act'.
4. Audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Highlights

Intent of the 74th Constitutional Amendment Act (74th CAA)

The Constitution of India provided a clear mandate for democratic decentralisation through the 74th Amendment which sought to create an institutional framework for ushering in democracy at the grass root level through self-governing local bodies in urban areas of the country. The 74th Constitutional Amendment came into effect on 1 June 1993 and empowered Urban Local Bodies (ULBs) to perform 18 functions listed in the 12th Schedule.

Why this Performance Audit?

To ascertain whether the State Government empowered ULBs through the creation of a robust institutional framework as well as transfer of functions, funds and functionaries.

Period of audit: 2014-15 to 2018-19

Sample: 11 functions and 44 ULBs across all tiers.

What Audit found?

Compliance to provisions of 74th CAA

- ▶ Statutory amendments, though enacted, were not implemented in letter and spirit.

Empowerment of ULBs and their functioning

- ▶ Out of the 18 functions to be transferred all except Fire Services, were transferred.
- ▶ Though all functions were to be mandatory, the State classified the functions as obligatory and discretionary.
- ▶ Actual status of implementation of functions.

Role of ULBs	No. of functions
Full jurisdiction	3
No role	2
Mere implementing agency	3
Dual role	1
Minimal role / overlapping jurisdictions	8

- The status of elections and formation of councils was as below:

Status	No. of ULBs
Elections held and councils formed	63
Elections held and councils not formed	187
Elections due but not held	23

- Tenure of Mayor/President – Mayor had a one-year term and President had a term of 2^{1/2} years. The tenures were not coterminous with the term of the Council. This affected long term planning and led to instability at the top.
- Ward Committees were not constituted in any of the City Corporations except Bruhat Bengaluru Mahanagara Palike leading to absence of community participation in local governance.
- District Planning Committee (DPC) was absent in Bagalkote district and in 29 districts where constituted, they did not function as required. Hence, comprehensive District development plan was not prepared.
- Metropolitan Planning Committee (MPC) was formed for Bengaluru area but there was no development plan.
- Delays in constitution of State Finance Commissions (SFC) and delay in implementation of the recommendations led to delays in fiscal transfers by State impacting ULBs revenues.
- The need to seek approval of the District Administration for works to be taken up from own sources of ULBs despite prior approval by the respective Councils went against the autonomy of ULBs.
- The existence of parastatals significantly eroded the autonomy of the ULBs in the implementation of functions such as urban planning and regulation of land use, slum improvement and water supply and sanitation.

Financial resources of ULBs

- ULBs were largely dependent on fiscal transfers, which constituted about 63 *per cent* of their total revenue.
- There was a shortfall of ₹15,564 crore in fiscal transfers during the period 2014-15 to 2018-19 *vis-a-vis* the recommendations of the SFC.
- Entire allocation of performance grants of ₹295.20 crore for the year 2018-19 was yet to be received, the reasons for which were not furnished.
- Assigned revenue for the year 2018-19 was yet to be released.
- Own revenue of ULBs constituted only 37 *per cent* of their total revenue. The State laws did not provide complete autonomy to ULBs in generating their own revenue.
- Omissions attributable to ULBs such as absence of reliable database, non-revision of rates *etc.*, also contributed to lesser revenue generation.

- ▶ Budget exercise was flawed and resulted in preparation of unrealistic and unscientific budgets.
- ▶ ULBs had spent on an average about 69 *per cent* of the funds available with them.
- ▶ The State limited the financial and administrative powers of ULBs which hampered the utilisation of funds.

Human resources of ULBs

- ▶ Powers to assess staff requirement and recruitment of such personnel was vested with the State Government.
- ▶ The State also vested with it the powers to regulate classification, method of recruitment, conditions of service, pay and allowances, initiate disciplinary action on staff of ULBs, transfer staff across ULBs or to other Government departments.
- ▶ Population alone was considered as a criterion for determining the sanctioned strength. This was incorrect and necessitates frequent revision with increase in population.
- ▶ The sanctioned strength varied from 2.24 to 5.80 employees per 1,000 population (2001) to 1.94 to 5.38 employees per 1,000 population (2011) in the test-checked ULBs.
- ▶ Huge vacancies across all cadres specifically in crucial technical posts resulted in absence of adequate manpower affecting delivery of citizen services.
- ▶ The executive function was being discharged by non-KMAS officers such as Revenue Officers, Managers, Senior Health Inspectors, First Division Assistants in violation of the statutory provisions. On the contrary, KMAS officers were discharging the functions of Revenue Officers, Managers and Senior Health Inspectors.
- ▶ C&R Rules provided for filling up of large number of posts (40 per cent) in the cadre of Group A in City Corporations through deputation. Posts such as Junior Health Inspector, First Division Assistant, Community Organiser were filled up on deputation, though there was no such provision. This impacts the accountability of deputed personnel to the Governing Council and Chief Executive of ULBs

What Audit recommends

- ✓ *The State Government needs to take decisive action in order to translate the vision of achieving decentralisation into reality. Steps need to be taken to ensure that the ULBs enjoy an adequate degree of autonomy in respect of the functions assigned to them.*

- ✓ *In view of the fact that the delimitation has been delayed time and again by the State Government, the task of delimitation should be entrusted to the State Election Commission in order to ensure timely elections.*
- ✓ *Ward Committees should be constituted as per the KMC Act and should be nurtured and encouraged to function effectively so that the priorities of citizens are factored into the decisions of the ULB.*
- ✓ *The full potential of the DPC and MPC mechanism should be tapped by ensuring that they meet regularly to result in optimal decision making.*
- ✓ *Delays in constitution and implementation of recommendations of the SFCs should be avoided. Further, the recommendations of SFC relating to devolution as well as institutional matters should be implemented in toto to the extent possible, taking into account the final purpose of creating genuine institutions of local governance.*
- ✓ *The Property Tax Board needs to be made functional in order to provide technical expertise to ULBs.*
- ✓ *There is a need to fully involve the democratically elected ULBs in the Planning, Regulation, Slum development and Water supply and sanitation functions.*
- ✓ *Limitations on the ability of the ULBs to raise revenues through sources such as property tax, advertisement tax, solid waste management cess etc., need to be removed urgently.*
- ✓ *Special efforts need to be made to motivate the ULBs to prepare their budgets in a scientific manner taking into account requirements of capital expenditure as well as a realistic projection of funds expected to be mobilised.*
- ✓ *Delegation of powers relating to works and other expenditure needs to be revised in order to ensure efficiency.*
- ✓ *Adequate powers over manpower resources should be delegated to ULBs in matters such as assessment and recruitment of required staff to ensure availability of qualified manpower for discharging functions.*
- ✓ *Personnel from KMAS should be deployed in ULBs to the maximum extent possible. In particular, it needs to be ensured that ULBs are headed by persons of sufficient seniority and calibre.*

1.1 74th Constitutional Amendment

The Constitution (Seventy Fourth Amendment) Act, 1992 (74th CAA) which came into effect on 1 June 1993, introduced Part IX A (the Municipalities). The Act provided a constitutional status to Urban Local Bodies (ULBs). Article 243W of the CAA authorised the State Legislatures to enact laws to endow local bodies with powers and authority as may be necessary to enable them to function as institutions of self-government and make provisions for devolution of powers and responsibilities.

The Twelfth Schedule of the Constitution enumerates 18 specific functions to be devolved to ULBs as listed in **Table 4.1**.

1.2 Trend of urbanisation in Karnataka

As per census 2011, 2.35 crore (38.67 *per cent*) out of the total population of 6.11 crore reside in urban areas. The growth rate of urban population in the decades 2001-2011 & 2011-2019¹ was 31.9 *per cent* and 25.4 *per cent* respectively.

Urban Karnataka faces multiple challenges, ranging from public health issues, poverty alleviation, waste management, depletion of natural resources etc. In this scenario, ULBs have an important role to play, as most of these issues are handled best at the local level.

1.3 Profile of Urban Local Bodies

In Karnataka, ULBs are categorised on the basis of population², geographical features³, economic status, local revenue generation and level of employment within their jurisdiction. There are 280 ULBs as shown in **Table 1.1**.

¹ Projected population in 2019 as per Directorate of Economics and Statistics, Bengaluru

² Population of 3,00,000 or more is Municipal Corporation, Population of 50,000 or more but less than 3,00,000 is City Municipal Council, Population of 20,000 or more but less than 50,000 is Town Municipal Council, Population of 10000 or more but less than 20,000 is Town Panchayats. Notified Area Committees are administered separately by a Committee.

³ Madikeri, being a district headquarter was declared as CMC though the population was less than 50,000. Similarly, 10 taluk headquarters were declared as TPs, though population was less than 10,000.

1.1: Category-wise ULBs in Karnataka State

Type of ULB	Number of ULBs
City Corporations (CC)	11
City Municipal Councils (CMC)	58
Town Municipal Councils (TMC)	115
Town Panchayats (TP)	92
Notified Area Committees (NAC)	04
Total	280

Source: Annual Administration Report 2018-19 of UDD

The CCs are governed by the Karnataka Municipal Corporations Act, 1976 and other ULBs are governed by the Karnataka Municipalities Act, 1964. Each Corporation/Municipal area has been divided into wards, which are determined and notified by the State Government for the purpose of election of Councilors. All ULBs except NACs have an elected body comprising Corporators / Councilors. NACs are administered separately by a Committee under the control of Deputy Commissioner.

1.4 Organisation Structure of Urban Governance in Karnataka

The Urban Development Department (UDD), headed by the Additional Chief Secretary to the Government, is the nodal department for the governance of all ULBs. The Directorate of Municipal Administration (DMA) established in December 1984, functions as an interface between the State Government and ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP), which functions directly under UDD. In accordance with the powers conferred under the KMC Act, the DMA monitors these ULBs through a network of District Urban Development Cells (DUDC) headed by a Project Director who reports to the Deputy Commissioner of the concerned district on a day to day basis. The organisation structure with respect to functioning of ULBs in the State is indicated in **Appendix 1.1**.

In addition to ULBs, the UDD has key parastatal agencies that deliver or facilitate urban infrastructure and services such as Karnataka Urban Water Supply and Sewerage Board (KUWS&DB), Karnataka Urban Infrastructure Development Finance Corporation (KUIDFC), 31 Urban Development Authorities (UDA), 52 Town Planning Authorities (TPA), Bengaluru Water Supply and Sewerage Board (BWSSB), Bengaluru Development Authority (BDA) and Bengaluru Metropolitan Regional Development Authority under its control. The other parastatals such as Karnataka Slum Development Board (KSDB), Karnataka Industrial Area Development Board (KIADB) and State Road Transport Corporations under the departments of Housing, Industries and Commerce and Transport respectively also deliver urban services. The details of parastatals and their functions are in **Appendix 1.2**.

2.1 Audit objectives

The Performance Audit (PA) seeks to ascertain

- Whether provisions of 74th CAA have been adequately covered in State legislations?
- Whether ULBs were empowered by the State Government to discharge their functions effectively through the creation of appropriately designed institutions/institutional mechanisms and the functioning thereof?
- Whether ULBs have access and powers to raise financial resources commensurate with their functions?
- Whether ULBs have powers to mobilise and incentivise human resources commensurate with their functions?

2.2 Audit criteria

The criteria for the PA were derived from the following:

- ✓ Constitutional (74th) Amendment Act, 1992;
- ✓ Karnataka Municipal Corporations Act, 1976 (KMC Act);
- ✓ Karnataka Municipalities Act, 1964 (KM Act);
- ✓ Karnataka Town & Country Planning Act, 1961;
- ✓ Karnataka Urban Development Authorities Act, 1983;
- ✓ Model Municipal Law, 2003
- ✓ The Karnataka Municipalities Accounting and Budgeting Rules, 2006;
- ✓ Central Public Health and Environmental Engineering Organization Manual;
- ✓ Central/State Finance Commission Reports;
- ✓ Report of the Second Administrative Reforms Commission; and
- ✓ State Government orders, notifications, circulars and instructions issued from time to time.

2.3 Audit scope and methodology

The Performance Audit covering the period April 2014 to March 2019 was carried out in two stages from April to November 2019. Stage-I comprised audit of implementation of CAA by the State Government and parastatals and Stage-II comprised test-check of 44 ULBs across all tiers and selected 11 functions. ULBs were selected through simple random sampling with population as per 2011 census as the size measure from each tier of ULBs. The

list of ULBs selected is indicated in **Appendix 2.1**. Out of 18 functions identified in the 12th Schedule, activities relating to following 11 functions were selected for test-check.

- i) Urban planning including town planning;
- ii) Regulation of land-use and construction of building;
- iii) Planning for economic and social development;
- iv) Roads and Bridges;
- v) Water supply for domestic, industrial and commercial purpose;
- vi) Public health, sanitation conservancy and solid waste management;
- vii) Safeguarding the interests of weaker section of society, including the handicapped and mentally retarded;
- viii) Slum improvement and up-gradation;
- ix) Urban poverty alleviation;
- x) Provision of urban amenities and facilities such as parks, gardens, playgrounds; and
- xi) Public amenities including street lighting, parking lots, bus stops and public conveniences.

An Entry Conference was held on 2 April 2019 with the Principal Secretary, UDD, in which the audit methodology, scope, objectives and criteria were explained. An Exit Conference was scheduled on 17 July 2020 but it could not be held due to key officers of the department having to quarantine themselves due to the Corona pandemic. Departmental replies wherever received have been factored into the Report. The audit methodology involved document analysis and responses to audit queries.

2.4 Acknowledgement

Audit acknowledges the cooperation and assistance extended by the State Government, DMA, KUWS&DB, KUIDFC, KIADB, KSDB, and all the test-checked ULBs in conducting the performance audit. Audit also acknowledges the contribution of Janaagraha Centre for Citizenship and Democracy for their inputs in the PA.

2.5 Organisation of audit findings

The audit observations relating to status of devolution of functions, funds and functionaries are presented in the following chapters.

Chapter III – Compliance to provisions of 74th CAA

Chapter IV – Empowerment of Urban local bodies and their functioning

Chapter V – Financial resources of Urban local bodies

Chapter VI – Human resources of Urban local bodies

Chapter VII - Conclusion

3.1 Comparison of State level legislations with 74th CAA

The 74th CAA introduced certain provisions relating to municipalities vide Articles 243Q to 243ZG. The State Government vide amendments to the KMC/KM Acts introduced provisions corresponding to the CAA provisions as indicated in **Table 3.1**.

Table 3.1: Comparison of State level legislations with the provisions of 74th CAA

Provision of Constitution of India	Requirement as per provision of Constitution of India	Provision of KMC/KM Act
Article 243Q	Constitution of Municipalities: It provides for constitution of three types of municipalities namely a Nagar Panchayat for transitional area, a Municipal Council for a smaller urban area and a Municipal Corporation for a larger urban area.	Section 3 of KMC and KM Acts
Article 243R	Composition of Municipalities: All the seats in a Municipality shall be filled by direct elections and by persons with special knowledge in municipal administration nominated by Government. The Legislature of a State may by law, provide for representation to the Municipality, Members of Parliament and Legislative Assembly whose constituencies lie within the municipal area and Members of the Council of States and State Legislative Council who are registered as electors within the city.	Section 7 of KMC Act and Section 11 of KM Act
Article 243S	Constitution and composition of Wards Committee: This provides for constitution of Wards Committees in all municipalities with a population of 3 lakh or more	Section 13H of KMC Act
Article 243T	Reservation of seats: The seats to be reserved for Scheduled Caste (SC)/Scheduled Tribe (ST), Women and Backward classes for direct election.	Section 7(2), (3), (4) of KMC Act and Section 11(2), (3), (4) of KM Act

Article 243U	<p>Duration of Municipalities: The municipality has a fixed tenure of 5 years from the date of its first meeting and re-election to be held within the six months of end of tenure.</p>	Section 8 of KMC Act & Section 18 of KM Act
Article 243V	<p>Disqualifications for membership: A Person shall be disqualified for a member of a Municipality-</p> <ul style="list-style-type: none"> • If he is so disqualified by or under any law for the time being in force for the purposes of elections of the Legislature of the State concerned. • If he is so disqualified by or under any law made by the Legislature of the State. 	Section 26 of KMC Act & Section 16 of KM Act
Article 243W	<p>Powers, authority and responsibilities of the Municipalities: All municipalities would be empowered with such powers as may be necessary to enable them to function as effective institutions of self-government. The State Government shall entrust with such powers and authority to enable them to carry out the responsibilities in relation to the 12th Schedule.</p>	Section 58 & 59 of KMC Act & Section 87 & 91 of KM Act. Section 11 of KMC Act & Section 63 of KM Act
Article 243X	<p>Power to impose taxes by, and funds of the Municipalities:</p> <ul style="list-style-type: none"> • Municipalities would be empowered to levy and collect the taxes, fees, duties etc. • Grant-in-aid would be given to the Municipalities from the State • Constitution of funds for crediting and withdrawal of moneys by the Municipality 	Chapter X of KMC Act and Chapter VI of KM Act
Article 243Y read with Article 243I	<p>Finance Commission: State Government shall constitute Finance Commission for</p> <ul style="list-style-type: none"> • Review the financial position of the Municipalities and taking such steps that help in boosting the financial condition of the Municipal bodies • Distributing between the State and the Municipalities of the net proceeds of the taxes, fees, tolls and 	Section 503C of KMC Act & Section 302B of KM Act read with Section 267 of KPR Act

	<p>duties that are charged by the State Government.</p> <ul style="list-style-type: none"> • Allotting the funds to the municipal bodies in the state from the consolidated fund of the State. 	
Article 243Z	<p>Audit of accounts of Municipalities: This provides provision for maintenance of accounts by the Municipalities and the auditing of such accounts.</p>	Section 150 of KMC Act Section 290 of KM Act
Article 243ZA read with Article 243K	<p>Elections to the Municipalities: The Superintendence, direction and control of all procedure of election of the Municipalities shall be vested in the State Election Commission (SEC)</p>	Section 308 of KPR Act, Section 55 of KMC Act and Section 38 of KM Act.
Article 243ZD	<p>Committee for District Planning:</p> <ul style="list-style-type: none"> • Constitution of District Planning Committee at district level. • Composition of District Planning Committee. • Preparation of draft development plan and forwarded to the Government. 	Section 310 of KPR Act, Section 503A of KMC Act and Section 302A of KM Act.
Article 243ZE	<p>Committee for Metropolitan Planning: Provision for constitution of Metropolitan Planning Committee (MPC) in every Metropolitan area with a population of 10 lakhs or more to prepare a draft development plan for the metropolitan area as a whole.</p>	Section 503B of KMC Act

Source: KM and KMC Acts

The above table shows that the statutes complied with the provisions of the 74th CAA. However, compliance to the constitutional provisions by law does not guarantee effective decentralisation on ground unless followed by effective implementation. Audit observed that the legal provisions were not backed by decisive actions resulting in a situation in which the spirit of the 74th CAA has not fructified. This was especially true in case of provisions pertaining to the devolution of functions and creation of appropriate institutional mechanisms for effective decentralisation, which are discussed in the subsequent chapter.

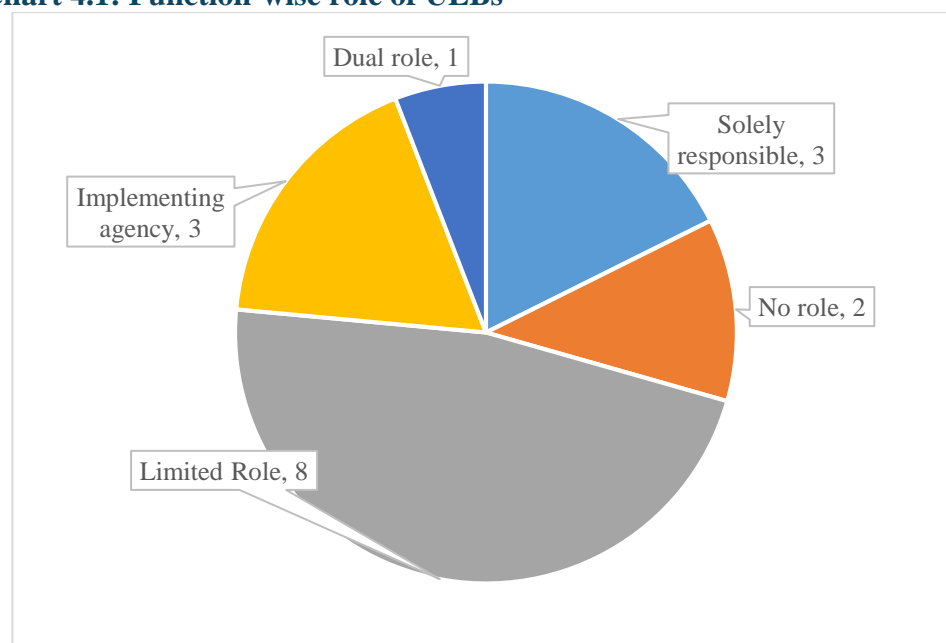
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Chapter IV

*Empowerment of Urban local bodies and their functioning***4.1 Actual status of devolution of functions**

The 74th CAA sought to empower ULBs to perform functions and implement schemes in relation to 18 subjects specified in the 12th Schedule. Each State was expected to enact a legislation to implement the amendment. The State Government through amendments to KM / KMC Acts transferred 17 out of 18 functions to ULBs. The only function not covered was Fire Services. Out of the 17 functions, 12 were obligatory and 5 were discretionary for CCs, whereas it was 11 and 6 respectively for other category of ULBs as indicated in **Table 4.1**.

Audit observed several overlaps in discharge of the functions between ULBs and parastatals / government departments. Out of 17 functions, ULBs were solely responsible for three functions; had no role in two functions; had limited role in eight functions; were mere implementing agencies in three functions; and in respect of one function, while they were responsible for implementation within their jurisdiction, they also functioned as an implementing agency. The function-wise role of ULBs is depicted in **Chart 4.1**.

Chart 4.1: Function-wise role of ULBs

The actual implementation of the devolved functions by the various authorities and the overlap in discharge of the functions is detailed in **Table 4.1**.

Table 4.1: Statement showing the actual status of implementation of functions

Sl. No.	Functions Obligatory(O) / Discretionary (D)	Activities	Actual status of implementation
Functions where ULB has full jurisdiction			
1	Burials and burial grounds; cremations, cremation grounds (O)	Construction and O&M of crematoriums and burial grounds and electric crematoriums	ULBs were wholly responsible for discharging this function
2	Cattle pounds; prevention of cruelty to animals (O)	Catching and keeping strays	ULBs were wholly responsible for discharging this function
		Sterilisation and anti-rabies	
		Ensuring animal safety	
3	Regulation of slaughter houses and tanneries (O)	Ensuring quality of animals and meat	ULBs were wholly responsible for discharging this function
		Disposal of waste	
		O & M of slaughter houses	
Functions with no role for ULBs			
4	Urban planning including town planning (O)	Master Planning / Development Plans / Zonal Plans	Master plans prepared by UDAs/TPAs. Members of ULBs and Executive heads are nominated to the Planning authority.
		Enforcing master planning regulations	Enforcement is by UDA/TPA.
		Enforcing building bye-laws and licenses	ULBs role is limited to issue and renewal of building licenses
		Group Housing, Development of Industrial areas	ULBs role is to identify beneficiaries for group housing.
5	Slum improvement and upgradation (D)	Identifying beneficiaries	ULBs have no role in Slum improvement and upgradation
		Affordable Housing	
		Upgradation	
ULBs as mere implementing agencies			
6	Planning for economic and social development (O)	Program implementation for economic activities	<p><u>ULBs</u> - Implementation of Welfare schemes in sectors such as Housing, Employment, Health, Education and Basic necessities by reserving 34.35% of both the SFC untied grants and own revenue of the ULBs. The funds are allocated at 24.10% for SC/ST, 7.25% for OEWS (Other Economically Weaker Sections) and 3% for differently abled persons in the ratio of 40:60 between individual welfare activities and community development. The State Government issues the guidelines for implementation of these schemes.</p> <p><u>Social Welfare Department</u> - Safeguarding welfare of SC/ST and other weaker sections of the population, implementation of various programmes and schemes for the upliftment of SC/ST for their socio-economic and educational advancement, implementation of Special Component Plan and Tribal Sub Plan schemes, various scholarships and maintenance of hostels.</p>
		Policies for social development	

7	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded (D)	Identifying beneficiaries	State departments such as Social welfare, Tribal welfare, Empowerment of Differently abled and senior citizens and parastatal such as Rajiv Gandhi Rural Housing Corporation were responsible for these functions. ULBs were only an implementing arm for central and state government schemes.
		Providing tools/benefits such as tricycles	
		Housing programs	
		Scholarships	
8	Urban poverty alleviation (D)	Identifying beneficiaries	<u>ULBs</u> – Welfare schemes through SFC and own funds <u>Department of Skill Development, Entrepreneurship and Livelihoods</u> - Central and State Government schemes
		Livelihood and employment	
		Street vendors	
Function with dual role			
9	Roads and bridges (O)	Construction and maintenance of roads	While ULBs played a significant role in the construction and maintenance of roads, bridges, drains, flyovers and footpaths within the jurisdiction of ULBs, they are required to implement projects under the State's Nagarothana scheme. ULBs lacked autonomy in execution of works under Nagarothana as the action plans approved under this scheme by the Council can be taken up only after the approval from District and State Committees. These works are monitored by the District Commissioner through District Urban Development Cell (DUDC).
		Construction and maintenance of bridges, drains, flyovers and footpaths	
Functions with minimal role and / or having overlapping jurisdictions with state departments and / or parastatals			
10	Regulation of land-use and construction of buildings (O)	Regulating land use	Regulation of land use was primarily vested with the Department of Revenue whereas construction of buildings was regulated by various bodies such as UDAs, BDA, Karnataka State Fire and Emergency Services and ULBs. The role of ULBs was limited to issue and renewal of building licenses and enforcement of building bye-laws.
		Approving building plans/high rises	
		Demolishing illegal buildings	
11	Water supply for domestic, industrial and commercial purposes (O)	Distribution of water	Parastatals were in charge of creation of assets. ULBs' role was restricted to operation and maintenance. KUWS&DB is involved in O&M for 10 ¹ ULBs, which was entrusted to it.
		Providing connections	
		Operation & Maintenance (O&M)	
		Collection of charges	
12	Public health, sanitation conservancy and solid waste management (O)	Maintaining hospitals, dispensaries	ULBs only had limited role in case of public health allied responsibilities, as Department of Health and Family Welfare played a significant role in maintaining hospitals and dispensaries. Only BBMP and HDMC had maternity homes. ULBs along with the state department undertook immunization / vaccination programs. ULBs were also
		Immunisation/Vaccination	
		Registration of births and deaths	
		Cleaning and disinfection of localities affected by infectious disease	

		Solid waste management	responsible for cleaning and disinfection of localities affected by infectious disease, solid waste management and control and supervision of public markets.
		Control and supervision of public markets	
13	Urban forestry, protection of the environment and promotion of ecological aspects (D)	Afforestation	Forest Department played a significant role in the discharge of this function. Only CCs undertook afforestation and awareness drives along with the Forest Department. Protection of the environment and promotion of ecological aspects was solely vested with the Forest Department
		Greenification	
		Awareness drives	
		Protection of the environment and promotion of ecological aspects	
		Maintenance of natural resources like water bodies etc.	
14	Provision of urban amenities and facilities such as parks, gardens, playgrounds (O) (D)	Creation of parks and gardens	This function was obligatory for CCs and discretionary for other ULBs. <u>ULBs</u> - O & M of parks, gardens, playgrounds, installation of play and gymnasium equipment in parks. <u>UDAs</u> - Reservation of not less than 15 <i>per cent</i> of the total area of the layout for public parks and play grounds and an additional area of not less than 10 <i>per cent</i> of the total area of the layout for civic amenities at the time of approval of residential layouts.
		Operation and Maintenance	
15	Promotion of cultural, educational and aesthetic aspects (D)	Schools and education	Schools and education were handled by Education Department. BBMP was the only ULB to run schools. ULBs along with the State Departments such as Kannada & Culture, Archeology and UDAs undertake activities allied with public space beautification, organizing fairs and festivals.
		Fairs and festivals	
		Cultural buildings / institutions	
		Heritage	
		Public space beautification	
16	Vital statistics including birth and death registration (O)	Coordinating with hospitals / crematoriums etc. for obtaining information	Both ULBs and the Department of Health and Family Welfare maintained database of births and deaths. ULBs register and issue certificates of birth and death.
		Maintaining and updating database	
17	Public amenities including street lighting, parking lots, bus stops and public conveniences (O)	Installation and maintenance of street lights	ULBs were in-charge of creation and maintenance of parking lots and public toilets and maintenance of street lighting. The State Road Transport Corporations share jurisdiction in respect of provision of bus shelters.
		Creation and maintenance of parking lots	
		Creation and maintenance of public toilets	
		Deciding and operating bus routes	
Function not devolved			
18	Fire Services	Establishing and maintaining fire brigades	This function was vested with Karnataka State Fire and Emergency Services Department.
		Providing fire NOC / approval certificate in respect of high rise buildings	

Source: KM and KMC Acts, respective Acts of parastatals

¹ CCs, Belagavi, Hubballi-Dharwad, Kalaburagi and Shivamogga; CMCs, Channapatna, Mandya, Ramanagara and Vijayapura; TMCs, Kushalanagara and Robertsonpet.

Recommendation 1: The State Government needs to take decisive action in order to translate the vision of achieving decentralisation into reality. Steps need to be taken to ensure that the ULBs enjoy an adequate degree of autonomy in respect of the functions assigned to them.

4.2 Institutional mechanisms for empowerment of urban local bodies

As already discussed above, the State Government transferred 17 functions to ULBs. The discharge of these functions can be effective only when appropriate institutions are established and adequately empowered. The 74th CAA provided for establishment of such institutional mechanisms as can be seen from **Table 3.1**. This section discusses the effectiveness of such institutional mechanism.

4.2.1 State Election Commission

The powers of the State Election Commission (SEC) include superintendence, direction and control of the preparation of electoral rolls for, and the conduct of, all elections to Panchayats and ULBs. However, the power of delimitation of wards, reservation of seats for the council and rotation policy of seats for the posts of Mayor/President, Deputy-Mayor/Vice-Presidents and wards were vested with the State Government. This was not in accordance with the recommendation of the 2nd Administrative Reforms Commission to entrust the task of delimitation and reservation of constituencies to SEC, which was accepted by the Government of India. Three States, Kerala, Maharashtra and West Bengal have empowered the SEC to delimit wards.

Further, the State delayed delimitation process, which in turn delayed council elections. This happened in 2009 and 2015 in the case of BBMP. Though the term of the current BBMP council would expire in September 2020, the State had not taken up the delimitation process as of January 2020. In response to a Public Interest Litigation filed by SEC, the High Court had cautioned (February 2020) the Government regarding imposition of penalty. Subsequent to this warning the State Government issued (March 2020) the preliminary notification and the final notification in June 2020.

Recommendation 2: In view of the fact that the delimitation has been delayed time and again by the State Government, the task of delimitation should be entrusted to the SEC in order to ensure timely elections.

4.2.1.1 Composition of Municipalities

Article 243R stipulates the composition of Municipalities. As per the KM and KMC Acts, the Corporations and Municipalities consist of elected Corporators/councilors, nominated Corporators/councilors, Member of Legislative Assembly, Member of Legislative Council, Member of Lok Sabha, Member of Rajya Sabha representing the constituencies which comprise wholly

or partly the Municipal area. The nominated members do not have voting power. The Mayor/President is elected from amongst the Councilors and is assisted by the Standing Committees. The CCs have four Standing Committees⁴ and other Municipalities have only one Standing Committee. The Commissioner/Chief Officer is the executive head of ULB.

4.2.1.2 Reservation of seats

Article 243T stipulated reservation of seats for SC/ST, Women and Backward classes for direct election. The KMC and KM Acts also provide for allotment of reserved seats to different constituencies as per the rotation policy adopted by the Government. As regards reservation for women, not more than 50 per cent of the seats reserved for each category of persons belonging to SC/ST and backward classes and those of the non-reserved seats to be filled by direct election in a corporation shall be reserved for women.

Audit observed that seats reserved for SC, ST, OBC and Women were as per prescribed norms and the State Government rotates the seats of Corporators / Councillors as per reservation policy for each election.

4.2.1.3 Status of elections and formation of councils

The election shall be conducted by SEC as stipulated in KMC (Election and Miscellaneous Provisions) Rules, 1977 and KM (Election of Councilors) Rules, 1977. Elections to ULBs shall be completed before the expiry of their duration. In case of dissolution, election shall be held within six months from that date. Further, Article 243 U(3)(a) of Constitution of India and provisions of the KMC and KM Acts, stipulate a fixed tenure of five years for the Corporators/Councilors of ULBs from the date of first meeting. The status of elections and formation of councils in the ULBs of the State is depicted in **Table 4.2.**

Table 4.2: Status of elections and formation of councils in ULBs

Total No. of ULBs			280
No. of NACs			4
Newly formed ULBs (TPs)			3
Elections held during 2015-16 to 2017-18 and councils formed			58
Elections due during 2019-20 but not held due to court cases regarding reservation policy in respect of wards			23
Elections held during August 2018 - January 2020			192
Elections held and Councils formed		5	
Elections held but Councils not formed due to court cases in respect of the procedures adopted by the Government for rotation in reservation for the offices of Mayor / Dy. Mayor and President / Vice-President	187		

Source: Information furnished by SEC/DMA

⁴ Taxation, finance and appeals; public health, education and social justice; town planning and improvement; and accounts

It can be seen from the above that there were no Councils in 210 (187 + 23) ULBs. In the absence of an elected council, the involvement of elected representatives in decision making and implementation which is an essential element of democracy is missing. Further, a ULB without a council cannot be held accountable by citizens. Audit noticed that the State Government appointed Administrators⁵ for these 210 ULBs. Though the Acts provided for constitution of an advisory committee⁶ through notification to assist the Administrator, this was not done in any of the ULBs. This affected the discharge of functions in matters of policy involving public interest such as identification of eligible beneficiaries for welfare schemes, prioritisation of development works *etc.*

4.2.2 Mayor/President

The Mayor/President is the first citizen of the city. The Mayor is elected from amongst the elected members of the Council, is empowered to preside over every meeting of the Municipality, enjoys the power of inspection, may give direction to the Commissioner/Chief Officer (Executive head) with regard to implementation of any resolution of the Corporation/Council and may call for any record of the Municipality from the Executive head. The Government shall appoint Commissioner/Chief Officer and Council Secretary, in consultation with the Mayor/President.

The Model Municipal Law 2003 circulated by the Ministry of Urban Development, Government of India prescribes that the term of office of the Mayor/President shall be coterminous with the duration of the Municipality. The office of the Mayor/President in the Municipality shall be reserved for the Scheduled Castes, the Scheduled Tribes, and Women to such extent, and in such manner, as may be prescribed.

In Karnataka, the term of office of Mayor and Deputy Mayor in the case of CCs is one year from the date of election while the term of the President and Vice President in the case of other ULBs is for a period of thirty months from the date of their election. The offices of Mayor and Deputy Mayor/President and Vice-President were reserved and rotated among different categories such as SC, ST, Backward Class, Women and General. Hence, a period of one year for a Mayor would be too little for carrying out effective reforms and there exists the possibility of change in priorities consequent on change in leadership. Most of the time, the Mayor may not even get to see the projects announced by him/her reaching their conclusion. Hence a longer term is essential.

A comparison of the tenure and powers of the Mayor in different cities across the country revealed the following:

⁵ Sections 99 and 100 of KMC Act and sections 315 and 316 of KM Act.

⁶ As per Section 99(6) of KMC Act, an advisory committee shall consist of not less than fifteen and not more than twenty-five persons who shall be qualified to become councilors under this Act. The provisions of KM Act do not specify any such condition.

Tenure of Mayor	At least 16 cities ⁷ in the country have a mayoral tenure of five years' coterminous with the Council.
Mode of election	6 ⁸ out of the above 16 cities have direct elections for Mayor.
Role of Mayor	The Mayor of Kolkata is the Executive Head. All projects have to be approved by the Mayor. The Mayor is also the exclusive sanctioning authority; has the authority to sign and approve bills; and can direct or authorise execution of services. Apart from Kolkata, the Mayors of Kochi and Jaipur also approve all the projects and have the authority to sign and approve bills.
Powers over staff	The Mayor of Kochi has the power to suspend any officer other than the secretary and other government officers in the gazetted rank, after receiving ratification from the Council.

Mayoral powers vary across cities as these provisions are left to State's discretion. In comparison with the above examples, Mayors of cities in Karnataka, seem to be on a weaker footing.

4.2.3 Wards Committee

The Constitution provides for Wards Committees in all Municipalities with a population of three lakh or more. As per section 13H of KMC Act, Wards Committee shall be constituted by all the Corporations. The term of these bodies will be co-terminus with the council. The Wards committees were to act as a bridge between the municipal government and citizens and function as institutions of neighbourhood governance and increase proximity between elected representatives and citizens and provide a space for citizen participation in local level planning. They were to perform duties such as preparation and submission of ward development schemes for allotment of funds, ensure proper utilisation of allotted funds, and maintenance of public utilities and safeguarding the assets of the corporation.

Audit observed that the Ward Committees were not constituted in any of the CCs except BBMP. This defeated the objective of facilitating community participation in local governance. The absence of community participation would adversely impact prioritisation of development works, non-monitoring of execution of works, utilisation and maintenance of assets created *etc.*

Recommendation 3: Ward Committees should be constituted as per the KMC Act and should be nurtured and encouraged to function effectively so that the priorities of citizens are factored into the decisions of the ULB.

⁷ Bhopal, Bhubaneswar, Chennai, Dehradun, Guwahati, Hyderabad, Jaipur, Kanpur, Kolkata, Lucknow, Ludhiana, Patna, Raipur, Ranchi, Thiruvananthapuram and Visakhapatnam.

⁸ Bhopal, Dehradun, Kanpur, Lucknow, Raipur and Ranchi.

4.2.4 District Planning Committee

Article 243ZD provides for the constitution of a District Planning Committee (DPC) for consolidation of plans prepared by the panchayats and the municipalities. The DPC was to prepare a comprehensive District Development Plan (DDP) with regard to matters of common interest between the panchayats and the municipalities including spatial planning; sharing of water and other physical and natural resources; integrated development of infrastructure and environment conservation and extent and type of available resources, whether financial or otherwise. The DDP was to be forwarded to the State Government through the Decentralised Planning and Development Committee (DPDC)⁹ for integration into the State plan. Further, in accordance to the circular issued (April 2001) by the State Government, the DPC was to conduct meetings regularly. Funds for the DPCs were to be mobilised through annual contribution from the rural and urban local bodies.

The DPCs were constituted in all districts except Bagalkote and the DPDC was yet to be constituted. Audit observed that though DPCs were constituted, meetings were not held regularly and consolidated DDP for the district as a whole was not prepared in any of the 26 districts in which the 44 test-checked ULBs were located. None of the test-checked ULBs had prepared their development plans. Except TMC, Kundapura, none of the other test-checked ULBs had contributed funds to DPC. Non-preparation of comprehensive DDP by DPC taking into consideration the local needs and matters of common interest such as drinking water, roads and sewerage system, solid waste management *etc.*, affected the effective implementation of devolved functions by ULBs.

4.2.5 Metropolitan Planning Committee

Article 243ZE mandates that there shall be constituted in every Metropolitan area¹⁰, a Metropolitan Planning Committee (MPC) to prepare a draft development plan for the Metropolitan Region as a whole. Section 503B of the KMC Act, 1976 provides for constitution of MPC to prepare a draft development plan for Bengaluru Metropolitan Area. The Bengaluru Metropolitan Planning Committee Rules, 2013 were framed under Section 503 A and B of the KMC Act, 1976 and notified on 4 January 2014.

Audit observed that though MPC was constituted during 2014, it was not functioning as envisaged. Since its constitution, the MPC met only thrice (June 2016, December 2016 and January 2018) despite the stipulation that it 'shall meet at least once in three months'. Further, no significant issues regarding

⁹ As per Section 310 B of the Karnataka Gram Swaraj and Panchayat Raj Act, the Karnataka Decentralised Planning and Development Committee has to be constituted to review the development plan and annual economic plan of local bodies. The Chief Minister is the Chairman and Ministers of Rural Development and Panchayat Raj, Urban Development, Finance Department and Planning are the members.

¹⁰ A metropolitan area is defined as an area having a population of one million.

comprehensive development of metropolitan area and matters of common interest between the local authorities, including coordinated spatial planning of the area, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation, were discussed. Consequently, a comprehensive development plan for Bengaluru Metropolitan area was not prepared so far.

Recommendation 4: The full potential of the DPC and MPC mechanism should be tapped by ensuring that they meet regularly to result in optimal decision making.

4.2.6 State Finance Commission

Article 243-I of the Constitution of India makes it mandatory for the State Government to constitute a Finance Commission within one year of the commencement of the CAA and thereafter on expiry of every five years. The mandate of the State Finance Commission (SFC) is to review the financial position of the local bodies and to make recommendations to the Governor for devolution of funds. State Government through amendments in KM and KMC Acts provided for constitution of SFC.

4.2.6.1 Delay in constitution of the State Finance Commission and implementation of recommendations

As per the constitutional provisions and the Acts, implementation of the recommendations of the 6th SFC was due from 2019-20. However, as on date, recommendations of the 4th SFC were being implemented with effect from 2018-19 to 2022-23 with a delay of nine years. This was on account of delays in constitution of SFC/implementation of SFC recommendations as detailed in **Table 4.3**.

Table 4.3: Statement showing the delay in constitution of SFC and implementation of recommendations

SFC	To be constituted as per constitution	To be constituted with reference to previous SFCs	Actually constituted	Delay in days	Date of submission	Date of acceptance	Delay in days	Period covered
First	By 31 May 1994	Not applicable	10.06.1994	10	05.08.1996	31.03.1997	238	1997-98 to 2001-02
Second	1999-2000	June 1999	25.10.2000	474	23.12.2002	29.06.2006	1,284	2006-07 to 2010-11
Third	2004-05	October 2005	28.08.2006	327	December 2009	31.10.2011	669	2011-12 to 2015-16
Fourth	2009-10	August 2011	21.12.2015	1,600	May 2018	07.12.2018	190	2018-19 to 2022-23

Source: SFC Reports and information furnished by UDD

The delay in constitution of SFCs and implementation of the SFC recommendations resulted in devolution of funds to the ULBs on the basis of recommendations of the earlier SFCs (2002-03, 2003-04, 2004-05 and 2005-06 – 1st SFC; 2016-17 and 2017-18 – 3rd SFC) affecting the financial position of the ULBs adversely. The impact thereof is discussed in **paragraph 5.1.1.1**. In

comparison, while Bihar and Tamil Nadu have constituted 6th SFC, Himachal Pradesh, Madhya Pradesh, Maharashtra, Punjab, Rajasthan and Uttar Pradesh have constituted 5th SFC and in Delhi and Kerala, SFCs have submitted the 5th report.

4.2.6.2 Response of the State Government to SFC recommendations

The State Government may accept the recommendations of the SFC in totality or with certain modifications. Audit observed that the State Government accepted few of the recommendations with modifications, and action was yet to be initiated on other recommendations. The SFC-wise important recommendations and their modifications with reference to transfer of funds are given in **Table 4.4**.

Table 4.4: SFC-wise important recommendations and their modifications

SFC	Recommendations	Modifications
First	Devolution of 5.4 per cent of the Non-Loan Gross Own Revenue Receipts (NLGORR) of the State Government to ULBs.	5.4 per cent of Non Loan Gross Own Revenue Receipts (NLGORR) to be passed on in a phased manner i.e. 3.6 per cent to 5.40 per cent over a period five years.
Second	Devolution of 8 per cent of the Non-Loan Gross Own Revenue Receipts (NLGORR) of the State Government to ULBs.	8 per cent of NLNORR to be passed on in a phased manner i.e. 6 per cent to 8 per cent over a period five years with increase of 0.5 per cent each year.
Third	Devolution of 10 per cent of the Net Own Revenue Receipts (NORR) of the State Government to ULBs.	10 per cent of NLNORR to be passed on in a phased manner i.e. 8.5 per cent to 10 per cent over a period five years with increase of 0.5 per cent each year.
Fourth	Devolution of 12 per cent of NLNORR of the State to be devolved to ULBs apart from BBMP.	12 per cent of NLNORR to be passed on in a phased manner i.e. 10.5 per cent to 12 per cent over a period five years with increase of 0.5 per cent each year.

Source: SFC Reports and Government orders

Besides recommendations relating to devolution, the SFCs have recommended several institutional measures that would strengthen ULBs in the long term. An illustrative list of recommendations where action was yet to be initiated are indicated below:

- Regular revision of rules pertaining to the power of expenditure of municipalities commensurate with their functional needs;
- Evolving a human resources management policy and this should include regular recruitment and training of personnel;
- Integration of urban civil service agencies with elected ULBs;
- The existing urban development authorities including BDA should be brought under the respective elected municipal bodies. Slum improvement should also be brought under these bodies;
- Town planning units, where existing, may be transferred to municipalities. Even functions like urban forestry should be entrusted to elected municipal bodies;

- All decisions relating to service conditions of municipal employees must be taken by the respective ULB;
- The practice of appointing unqualified persons as Chief Officers of TPs and TMCs should stop;
- Tapping of parking fees as a source of revenue;
- Full cost recovery for water supply and
- Constitution of an Institute to train city managers/urban specialities in management of cities in cooperation with IIMB, IISc, IIT and other leading institutions with core competence.

Implementation of the above recommendations would have contributed significantly to the realisation of the objectives of the 74th CAA. Non-implementation was a setback to the process of achieving genuine decentralisation.

The detailed list of recommendations and their compliance by the State Government is given in **Appendix 4.1**.

Recommendation 5: Delays in constitution and implementation of recommendations of the SFCs should be avoided. Further the recommendations of SFC relating to devolution as well as institutional matters should be implemented in toto to the extent possible, taking into account the final purpose of creating genuine institutions of local governance.

4.2.7 Property Tax Board

The 13th Finance Commission mandated constitution of a Property Tax Board (Board) on the lines of West Bengal Valuation Board, which was constituted in the year 1980. The Board was to assist all municipalities and municipal corporations in the State to put in place an independent and transparent procedure for assessing property tax. Sections 102A to 102Y under Chapter IX-A of the KMC Act, inserted vide amendment of March 2012, provide for establishment of the Karnataka Property Tax Board.

Audit observed that though the notification was issued (March 2013) for formation of the Property Tax Board, the members have not been appointed till date. Consequently, ULBs lacked technical guidance for assessment and revision of property tax. It was thus evident that the amendment to the KMC Act was only a cosmetic exercise to fulfil the conditions for obtaining performance grant as per the 13th CFC award. *Reference is invited to Para 6.1.26 of Report no.5 of year 2017, which discusses about the constitution of Property Tax Board in detail.*

Recommendation 6: The Property Tax Board needs to be made functional in order to provide technical expertise to ULBs.

4.3 Powers of the State Government over ULBs

Audit observed that the State Government had overriding powers over ULBs, which was against the spirit of the constitutional amendment. A few provisions are indicated in **Table 4.5**.

Table 4.5: Statement showing the overriding powers of State Government over ULBs

Sl.no.	Subject	Provision
1	Power to frame Rules	The State Government may by notification in the Gazette, frame rules for the KMC/KM Acts after approval of the State Legislature (Section 421 of KMC Act and Section 323 of KM Act).
2	Power to cancel and suspend a resolution or decision taken by ULBs	The State Government may cancel a resolution or decision taken by ULBs, if the State Government is of the opinion that it is not legally passed or in excess of the power conferred by KMC and KM Acts, any other law or likely to endanger human life, health, public safety or communal harmony or in violation of directions issued by Government (Section 98 of KMC Act and Section 306 of KM Act).
3	Power to dissolve ULBs	The State Government shall, by notification in the Gazette, dissolve the ULBs, if ULBs fail to perform or default in the performance of any of the duties imposed on them, after giving reasonable opportunity. The order of dissolution of ULBs shall be laid before both the Houses of State Legislature with a statement of reasons therefor. The State Government may appoint Administrators during the period of dissolution of ULBs. (Sections 99 and 100 of KMC Act and Sections 315 and 316 of KM Act).
4	Sanction of bye-laws by Government	Section 423 of KMC Act and Section 324(1) of KM Act empowers the ULBs to make bye-laws. However, the bye-laws made by ULBs are not valid unless and until sanctioned by the Government (Section 425 of KMC Act and Section 324(5) of KM Act).
5	Sanction to deposit and invest surplus funds	Section 166, 167 of KMC Act and Section 85 of KM Act allow municipal council to deposit and invest surplus funds but only after prior sanction from the Government.
6	Sanction to borrow money	Section 154 of KMC Act and Section 86 of KM Act allow municipal council and municipal corporations to borrow money, but only after prior sanction from the Government.
7	Lease/sale of property	Section 176 of KMC Act and 72 of KM Act allow the municipal councils and municipal corporations to lease or sell movable and immovable property belonging to them, but with certain restrictions and prior sanction of the Government.

Source: KM and KMC Acts

4.3.1 District Urban Development Cell

District Urban Development Cells (DUDC) under the control of Deputy Commissioner (DC) were formed (June 2003) to develop, formulate and implement Central and State Government schemes in the Municipality areas in co-ordination with ULBs.

The Project Director, DUDC was the main link between the ULBs and the district level government. The ULBs were preparing action plans for development works to be taken up under various funds including municipal funds. These action plans were placed before the respective Councils for approval. Subsequently, they were forwarded to the DCs for further approval. On approval from the DCs, ULBs invited tenders for execution of works. The system of seeking approval by DUDC after approval by the Council is against the intention of the 74th CAA to provide autonomy to ULBs in the democratic framework of the country.

4.4 Parastatals, their functions and impact on Urban local bodies

The objective of the 74th CAA was to entrust delivery of major civic functions to ULBs. However, functions such as urban/town planning, regulation of land use, water supply & sanitation and slum development continue to be delivered by parastatals as already indicated in **Table 4.1**. These parastatals were controlled by the Government and have their own governing bodies which do not include elected representatives of ULBs. They were directly accountable to the State Government rather than ULBs. Since most of the parastatals were established before the constitutional amendment through notifications and governed by the respective Acts, the Government should have amended these Acts to comply with the constitutional amendment, thereby making them accountable to ULBs. The system of assignment of functions to parastatals undermines the *raison d'être* of decentralisation *viz.*, accountability to the people.

The role of parastatals and their impact on the devolved functions in the test-checked ULBs is discussed in the subsequent paragraphs.

4.4.1 Urban Development Authorities - Urban planning and regulation of land use

(i) The functions of Urban planning and regulation of land use were discharged by the Urban Development Authorities (UDAs) and Town Planning Authorities (TPAs). The State Government established 31 UDAs for the planned development of major and important urban areas in the State (under the Karnataka Urban Development Authorities Act, 1987) and 52 TPAs under Section 4-C of the Karnataka Town and Country Planning (KTCP) Act, 1961 for the preparation of Master Plan for ULBs other than those covered under UDAs. TPAs were also responsible for zoning of land use for residential, commercial, industrial, agricultural, recreational, educational and other purposes together with zoning regulations.

In order to comply with the State level mandatory reforms under JnNURM, which stipulated implementation of decentralisation measures as envisaged in the 74th CAA, the following were to be complied with.

- a) the State should ensure meaningful association and engagement of ULBs in planning the function of parastatal agencies as well as the delivery of services to citizens and
- b) assigning or associating elected ULBs with ‘city planning function’.

Audit observed that the State Government issued (December 2009) orders for devolution of planning functions to ULBs wherein it was stated that UDAs/TPAs would continue to prepare master plans and the plans so prepared shall be sent to the respective ULBs both at the draft stage and final stage for vetting and comments. This was in itself not completely consistent with the spirit of devolution. However, even this procedure was not being followed. The UDAs/TPAs were submitting plans directly to Government without the comments of ULBs.

Further, Section 503-A of KMC Act and 302-A of KM Act stipulated preparation of development plan by CCs and Municipalities every year and submission thereof to the DPC constituted under Section 310 of the Karnataka Gram Swaraj and Panchayat Raj Act, 1993. As per Section 505 of KMC Act, the Corporation shall exercise such power or perform such functions or discharge such duties with regard to such land use or development plan with the concurrence of the Planning Authority. Thus, the matters relating to land use were mainly vested with UDA/TPA. Only the building licenses were issued by the CCs/Municipalities in respect of areas coming under the master plan approved by the TPAs, whereas in the case of UDAs, building licenses were also issued by the UDA, wherever layouts were not handed over to ULBs.

Audit also observed the following in the test-checked ULBs:

- UDAs and TPAs prepared the master plan and development plans in 7 and 37 ULBs respectively. No mechanism/protocols were established to ensure that these authorities report to the Councils.
- The Standing Committee on Town planning and reforms in CCs and the General Standing Committee in other ULBs merely review the issue of building licences but do not deliberate on planning related aspects.
- The amount collected towards sanction of layout plans and development charges by UDAs/TPAs was not remitted to ULBs. While the TPAs remitted the amount collected to Government, the UDAs retained the amounts. This deprived the ULBs for additional revenue. The State Government may consider sharing of revenue by the UDAs/TPAs with ULBs just as Jaipur Development Authority pays 15 *per cent* of the share of land sale revenues generated to Jaipur Municipal Corporation.
- Layouts under the control of these authorities were transferred to ULBs for maintenance after development. Only the roads and parks were handed over while Civic Amenity sites were retained by UDAs/TPAs.

Thus, the ULBs either had no role / or had limited role in discharging urban planning and regulation of land use functions. Hence, the transfer of these functions were only in letter and not in spirit. The 1st SFC had in fact recommended that the existing urban development authorities including BDA should be brought under the respective elected municipal bodies.

(ii) Karnataka Industrial Area Development Board (KIADB) was established in the year 1966 and was responsible for promoting rapid and orderly establishment and development of industries and for providing industrial infrastructural facilities and other amenities in Industrial areas in the State of Karnataka. KIADB notified its own zonal regulations, prepared bye-laws for construction of buildings in industrial areas and collects fees for approval of building plans *etc.* KIADB had established 153 industrial areas consisting of 18,865 units in the State as at the end of March 2018.

In compliance to the 74th CAA, the State Government through amendment to the KM Act introduced (August 2003) Chapter VIA having Sections 364A to 364Q with regard to development of Industrial Townships. In accordance with Section 364A, the Governor may by notification specify such area to be an Industrial Township and as per Section 364B, for every industrial township there shall be an Industrial Township Authority (ITA). Section 364J stipulates the ITA shall levy property tax on all buildings and lands situated with the township for which the provisions of sections 94 to 115 of KM Act shall *mutatis-mutandis* apply. Further, 30 percent of the property tax collected by ITA shall be remitted to local authority from which the area of Industrial township was carved out.

The State Government announced (October 2014) the Karnataka Industrial Policy 2014-19. As per para 5.1.7.1 of the Policy, it was proposed to declare large industrial areas and estates in Peenya, Mysuru, Bommasandra, Belagavi and Hubballi as Industrial Township Areas under Section 364A of the KM Act and establish authorities in respective townships as per Section 364B (2) and as per para 5.1.7.2, it was proposed to bring in amendments to the KM Act to delegate appropriate powers to KIADB to approve the building construction plan of the industrial units in the notified industrial areas/estates/townships. Further, as per paragraph 5.1.7.4, till the townships are declared, KIADB shall collect property tax, cess *etc.*, from all industries and pay it to the concerned local authorities with nominal service charge.

Audit observed that no industrial townships were declared so far though they were functional and KIADB was not remitting property tax to the respective ULBs. It is clear from the above that the powers of ULBs with regard to approval of building construction plans was being discharged by KIADB for industrial units without necessary statutory amendments. The non-remittance of property tax by KIADB deprived the ULBs of their rightful revenue. KIADB had property tax dues of ₹22.91 crore (including penalty) to be paid to HDMC as at the end of March 2020, as per the information furnished by the CC¹¹.

¹¹ Information from other test-checked ULBs is awaited.

4.4.2 Karnataka Slum Development Board - Slum improvement and upgradation

Slum improvement and upgradation was being carried out by Karnataka Slum Development Board (KSDB). The KSDB was constituted in 1975 under the provisions of the Karnataka Slum Areas (Improvement and Clearance) Act 1973. KSDB was responsible for development of notified slums, after which they were to be handed over to the ULBs for further upkeep and maintenance. The 1st SFC recommended bringing Slum improvement under the control of ULBs but this has not been complied with.

Consequent to the 74th CAA, the amended KM and KMC Acts stipulated that this function would be a discretionary function of ULBs. Hence, none of the test-checked ULBs undertook this function. However, they were providing services such as water supply, maintaining street lights and collecting garbage in non-notified slums till they were declared by KSDB as notified slums as part of their regular functions. The amendment of the Acts was, thus, merely a formality to comply with the constitutional amendment.

4.4.3 Karnataka Urban Water Supply and Drainage Board (KUWS&DB)– water supply and Under Ground Drainage works (UGD)

Water supply for domestic, commercial and industrial purposes was an obligatory function of ULBs. The Standing Committee on Town Planning and Improvement in CCs and General Standing Committee in other ULBs review this function.

The Government of Karnataka brought out an Urban Drinking Water and Sanitation policy (UDWSP), 2002. The main objectives of the policy were to ensure demand based universal coverage of water supply, commercial and economical sustainability of the operations and a minimum level of service to all citizens. The ULBs were responsible for water supply and sewerage services from water catchments to waste water treatment.

The State Government entrusted the work of bulk water supply and its maintenance to KUWS&DB (Board) (under the KUWS&DB Act, 1973). Accordingly, the KMC and KM Acts were also amended. The Board was responsible for capacity creation and augmentation of Water Supply Schemes (WSS) and Under Ground Drainage (UGD) schemes in all ULBs except Bruhat Bengaluru Mahanagara Palike. Since inception, the Board had commissioned 567 WSS and 88 UGD projects across the State incurring an expenditure of ₹8,357.17 crore up to the end of March 2019.

The Board prepares a feasibility report for every project taken up and forwards it to the local authorities concerned for examination. The local authorities pass a resolution, if the project is found financially viable. The Board borrows funds from financial institutions on government guarantee for execution of capital works along with ULB's contribution. The repayment of loan was being done through SFC funds at the time of allocation of SFC funds each year. The Board had received ₹2,858.42 crore during the period 2014-19 and had spent ₹2,528.03 crore. As of March 2019, an amount of ₹1,160.31 crore was outstanding as loan in the books of the Board.

The Board may take up O&M of the WSS and UGD projects on the directions of the Government. Currently the Board was entrusted with O&M of 10 WSS.

4.4.4 Karnataka Urban Infrastructure Development and Finance Corporation – Water supply, UGD and other infrastructure projects

The situation in ULBs was characterised by a mismatch between responsibilities and financing of services, weak capacity *etc.*, all of which led to growing gap between demand and supply of civic services. This situation had not encouraged investments and ULBs were not in a position to realise their economic potential. Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC), which was incorporated as a public limited company under the Companies Act, 1956 on 2 Nov 1993, undertook various projects with support from external sources such as Asian Development Bank (ADB), World Bank *etc.*, centrally sponsored schemes and State Government schemes for providing capacity building and investment support to ULBs. The repayments were made out of the funds released by the government out of the SFC grants.

ULBs approach KUIDFC with a loan/grant proposal to support its potential investment and capacity building program. Within this context ULBs enter into an agreement specifying the terms and conditions of loan and grant, with KUIDFC and ULB both being party to loan agreement. All the projects are monitored by Empowered Committee headed by Additional Chief Secretary to Government; Principal Secretaries of Urban Development, Planning and Finance departments; Director, Town Planning; Director, Municipal Administration; Chairman, BWSSB; Commissioner, BBMP; and Managing Director, KUIDFC, who is the Member Secretary.

The Project Monitoring Unit (PMU) at KUIDFC hand holds the Project Implementation Units functioning at project headquarters. Project Management Consultants (PMCs) are appointed for monitoring and quality assurance. PMCs and ULBs were jointly responsible for preparation of DPRs, checking measurement and passing of bills. The project assets upon completion were to be handed over to respective ULBs. KUIDFC had spent ₹2,573.27 crore out of available fund of ₹4,215.23 crore during the period 2014-2019 under various projects.

The composition of staff of KUIDFC contains both Board and project employees. Though KUIDFC was carrying out various infrastructure projects, the working strength was less than 50 *per cent*, both under the project and within the Board.

It is clear from the above two paragraphs that ULBs are wholly dependent on the above institutions for creation of necessary infrastructure despite the fact that Water supply and UGD were the primary functions of ULBs. Though ULBs were party to the loans raised by KUWS&DB/KUIDFC for asset creation within the jurisdiction of ULBs, neither the loans raised nor the assets created by the institutions were reflected in the books of accounts of ULBs.

The need to create another parastatal organisation despite the existence of KUWS&DB was not clear. All the ULBs, except 10 (as indicated in Table 4.1), were responsible for operation and maintenance of the assets created by the above institutions. The role of ULBs in discharging this function was, thus, restricted to operation and maintenance.

Recommendation 7: There is a need to fully involve the democratically elected ULBs in the Planning, Regulation, Slum development and Water supply and sanitation functions.

Sustainable financing is paramount to ensure discharge of any function. The devolved functions can be carried out effectively by ULBs only when they are supported with sufficient financial resources. Such financial resources could take the form of predictable fiscal transfers or access to own revenue streams that are buoyant and commensurate with the expenditure obligations, accompanied by appropriate expenditure powers. Predictable fiscal transfers to ULBs need to be ensured through a robust State Finance Commission mechanism and compliance with State and Central Finance Commission recommendations. Access to own sources of revenue would include both the power to levy and collect from specific revenue streams. Expenditure powers refer to reasonable delegation limits that allow the ULB to utilise their financial resources.

5.1 Sources of revenue

The details of revenues of ULBs in the State during the period 2014-15 to 2018-19 is indicated in **Table 5.1**.

Table 5.1: Details of revenues of ULBs during the period 2014-15 to 2018-19

(₹ in crore)

Year	Grants	Own Revenue	Assigned Revenue	Total Revenue	Percentage of own revenue to total revenue
2014-15	1,640.80	1,022.82	1.30	2,664.92	38
2015-16	2,644.17	1,191.04	1.42	3,836.63	31
2016-17	2,302.67	1,352.53	9.85	3,665.05	37
2017-18	2,493.07	1,517.60	18.56	4,029.23	38
2018-19	2,300.01	1,586.38	23.19	3,909.58	41
Total	11,380.72	6,670.37	54.32	18,105.41	37

Source: Information furnished by DMA for 271 ULBs

5.1.1 Fiscal transfers to urban local bodies

Funds were devolved to ULBs through transfer by the Central and State Government in the form of grants. As can be seen from the above table, the fiscal transfers from Government formed the major portion of the revenue (averaging 63 *per cent*) of ULBs in the State during the period 2014-15 to 2018-19. Audit further observed that 51 (2015-16) to 81 (2018-19) *per cent* of the grants released were in the form of tied grants for payment of salaries and power sector payments and the untied grants ranged between 19 to 49 *per cent*.

There were, however, certain shortcomings under fiscal transfers as discussed below.

5.1.1.1 State Finance Commission grants

The major share of financial resources of ULBs comprised grants recommended by SFC. Timely constitution of SFC and acceptance of its recommendations have a bearing on the assured transfer of funds to ULBs.

❖ Loss of grants

As already discussed in *paragraph 4.2.6.1*, there was considerable delay both in constitution of SFCs and implementation of SFC recommendations. The loss to ULBs due to delayed constitution and submission of report of 4th SFC alone for the period 2016-17 to 2018-19 is given in **Table 5.2**.

Table 5.2: Loss to ULBs for the period 2016-17 to 2018-19 due to delay in constitution of 4th SFC

(₹ in crore)			
Particulars	2016-17	2017-18	2018-19
Non-Loan Net Own Revenue Receipts (NLNORR) of the State	88,750	93,607	1,03,602.58
Allocation as per the recommendations of SFC (10.5-12 per cent of NLNORR)	9,318.75 (10.5)	10,296.77 (11)	11,914.30 (11.5)
Allocation as decided by the State Government (10-10.5 per cent of NLNORR)	8,875.07 (10)	9,360.7 (10)	10,878.27 (10.50)
Loss of grants	443.68	936.07	1,036.03

Source: Information furnished by State Government and Finance Accounts

❖ Short release of funds under SFC

The details of funds due as per the orders of the State Government and actually released to ULBs during the period 2014-15 to 2018-19 is given in **Table 5.3**.

Table 5.3: Details of grants due and released under SFC during 2014-15 to 2018-19

(₹ in crore)						
Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Non-Loan Net Own Revenue Receipts (NLNORR) of the State	74,870.00	80,905.22	88,750.66	93,607.00	1,03,602.58	
Allocation as decided by the State Government (10-10.5 per cent of NLNORR)	7,487	8,090	8,875.07	9,360.70	10,878.27	44,691.04

Funds actually released to ULBs	2,990.77	3,306.81	3,304.30	3,762.74	3,754.40	17,119.02
Amount released to parastatal agencies	514.98	1,677.34	2,421.36	3,759.78	3,634.19	12,007.65
Short release	3,981.25	3,105.85	3,149.41	1,838.18	3,489.68	15,564.37

Source: Finance Accounts and figures furnished by Government.

Audit observed that

- The funds released to ULBs was short of the mandated devolution by an extent of 20 per cent (2017-18) to 53 per cent (2014-15).
- The 3rd and 4th SFC recommended that debt servicing should be adjusted against individual ULBs allocation. However, the State Government adopted the practice of distributing the debt servicing obligation to all ULBs whether they have availed the loan or not. The State Government deducted ₹12,007.65 crore for the period 2014-15 to 2018-19 from the total amount payable to all ULBs in order to service the borrowings by KUWS&DB and KUIDFC on behalf of ULBs. This resulted in short release of funds to ULBs that had not availed any loan thereby depriving them of their complete share of SFC grant.

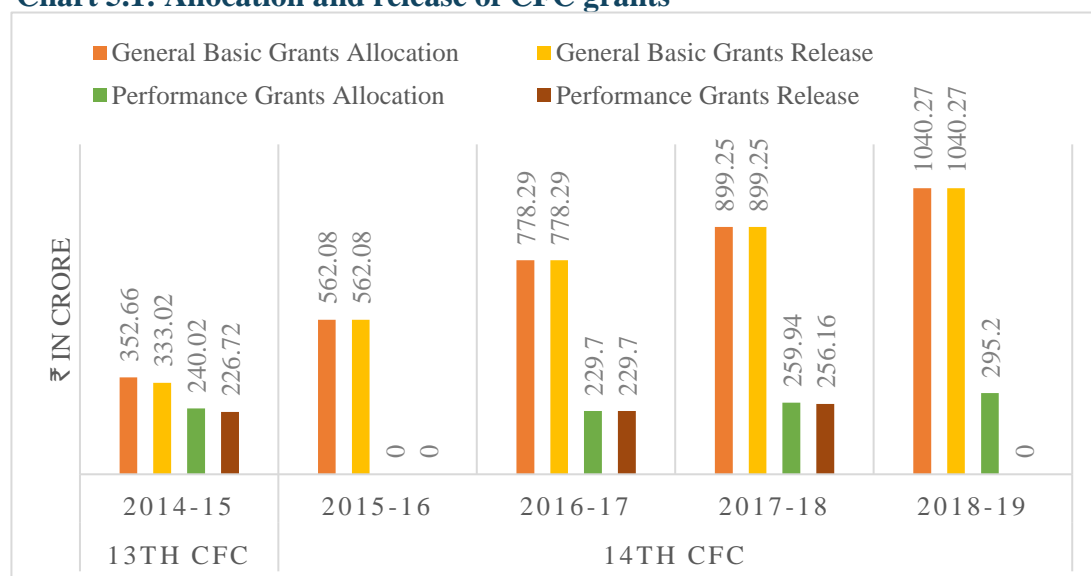
The State Government stated (November 2019) that there were no short releases to ULBs, as the releases to state owned projects, state share against the GoI releases, externally aided projects, parastatal agencies and CFC grants were also to be considered as share of ULBs for computing the percentage of NLNORR. Accordingly, the State Government had released 11.64 per cent, 14.15 per cent, 15.12 per cent and 12.86 per cent during the years 2014-15, 2015-16, 2016-17 and 2017-18 respectively.

The reply of the Government was not tenable as SFC grants was a package of devolution recommended as share of NLNORR and does not include amounts released for implementation of state/central schemes and CFC grants. The 2nd, 3rd and 4th SFCs had also recommended that CFC grants should not be considered as devolution as it was not part of NLNORR.

5.1.1.2 Central Finance Commission grants

Article 280(3) (C) of the Constitution mandates the Central Finance Commission (CFC) to recommend measures to augment the consolidated Fund of a State to supplement the resource of Municipalities based on the recommendations of the respective SFCs. The 13th Finance Commission and 14th Finance Commission recommended basic grant and performance grant to ULBs as a percentage of divisible pool account.

Chart 5.1 depicts the allocation and release of CFC grants during the period 2014-15 to 2018-19.

Chart 5.1: Allocation and release of CFC grants

Source: Information furnished by DMA/UDD

It can be seen from the above that there was short release of ₹19.64 crore and ₹13.30 crore of basic grants and performance grants respectively under 13th Finance Commission during 2014-15, the reasons for which was not furnished by the State Government. The 14th Finance Commission (FFC) recommended a total allocation of ₹4,685.51 crore under basic grants for the period 2015-20 and ₹1,171.38 crore under performance grants for the period 2016-20. The State received the complete allocation of basic grants of ₹3,279.89 crore for the period 2015-16 to 2018-19. However, there was short receipt of performance grant of ₹3.78 crore for the year 2017-18 and the entire allocation of ₹295.20 crore for the year 2018-19 was yet to be received. The reason for non-receipt was not furnished.

5.1.1.3 Assigned Revenue

As per Section 140 of KMC Act, 1976, the duty on transfer of immovable property shall be levied in the form of a surcharge at the rate of two per cent of the duty imposed by the Karnataka Stamp Act, 1957, on instruments of sale, gift, mortgage, exchange and lease in perpetuity of immovable property situated within the limits of a larger urban area. The entire amount collected in respect of the lands and other properties situated in the urban areas shall be passed on to ULBs in the State, in proportion to the population of ULBs by the Inspector General of Registration and Commissioner of Stamps (IGR) after deducting 10 per cent towards collection charges.

Audit observed that transfer of duty was delayed for the period 2014-15 to 2017-18 and the duty for the year 2018-19 was yet to be transferred as indicated in **Table 5.4**.

Table 5.4: Statement showing the transfer of duty to ULBs¹³

Year	Date of transfer	Amount (₹ in crore)
2014-15	21.12.2017 & 10.12.2018	11.54
2015-16	12.12.2017 & 26.12.2017	14.19
2016-17	15.02.2019	12.52
2017-18	15.02.2019	14.65
2018-19	Yet to be transferred	

Source: Information furnished by Inspector General of Registration and Commissioner of Stamps

5.1.2 Own revenue of urban local bodies

ULBs do not have a large independent tax domain. The property tax on land and buildings is the mainstay of ULB's own revenue. The own non-tax revenue of ULBs comprises water charges, rent from commercial establishments, trade licences, fee for sanction of plans/mutations, *etc.* The State laws revealed that while the authority to collect certain taxes like property tax, advertisement tax vested with ULBs, powers pertaining to the rates and revision thereof (advertisement tax), procedure of collection (property tax), method of assessment, exemptions, concessions (property tax, advertisement tax) *etc.*, were vested with the State Government. The ULBs, thus, lacked complete autonomy in generating own revenue. The share of own revenue to total revenue of ULBs for the period 2014-15 to 2018-19 was only 37 per cent (**Table 5.1**). The constraints / deficiencies in realisation of own revenue in the test-checked ULBs are discussed below:

5.1.2.1 Property tax

The ULBs were empowered to levy property tax every year on all buildings or vacant lands or both situated within their jurisdiction under section 103/108A of the KMC Act and Section 94 read with Section 108 of the KM Act. Self-assessment scheme was introduced by the Government from 2001-02 for assessment and collection of property tax by owners of the properties. The DMA developed an online property tax calculator through which property owners could assess and pay their taxes.

Audit noticed certain lacunae in the online calculator as below, which constrained augmentation of property tax by ULBs.

- absence of provision for collection of service charges from exempted properties;
- absence of provision for calculation of property tax on advertisement structures erected on buildings; and
- calculation of tax on vacant land at uniform rates irrespective of whether the land was self-occupied or rented and used for commercial purposes (for *e.g.*, vacant land was used for developing nurseries) *etc.*

Further, a compliance audit on the 'Collection of property tax in ULBs' for the period from 2013-14 to 2015-16 was conducted in 24 ULBs between April to

¹³ This is excluding BBMP.

August 2016. The findings were included in *Paragraph 6.1 of the Report of the Comptroller and Auditor General of India (C&AG) on Local Bodies for the year ended March 2016 (Report No.5 of the year 2017)*.

The observations noticed during the current audit, which were similar to the observations pointed out in the above report are as below:

- Survey of properties was not conducted by any of the test-checked ULBs. The Municipal Reforms Cell of DMA had created a database for all ULBs based on the GIS survey undertaken by DMA. This survey data was not put to use by any of the test-checked ULBs for the period test-checked.
- Instead of adopting the current guidance value, 42 ULBs adopted guidance value of 2005-06, CC, Mangaluru adopted 2007-08 value and HDMC adopted 2009-10 value.
- Property tax on telecommunication towers was not collected.
- Service charges from exempted properties was not collected except in test-checked CCs and CMCs, Bhadravathi and Bidar.
- Property tax on advertisement structures was not collected except in CC, Mangaluru.
- Arrears in collection of property tax and improper maintenance of Demand, Collection and Balance (DCB) statements were noticed in all the test-checked ULBs. The accumulated arrears of property tax in 271 ULBs, as per the information furnished by DMA, as at the end of March 2019 was ₹503.09 crores.

5.1.2.2 Advertisement tax

Section 103 of KMC Act and Section 94 of KM Act provides for levy of tax on advertisement by ULBs. Further, in accordance with Section 134 of KMC Act, the rates of tax¹⁴ to be levied shall be subject to the maxima and minima laid down by the Government in this behalf. Section 324 (1)(l) of KM Act stipulates preparation of bye-laws for regulation of advertisements and their display. However, as per Section 324 (5), the bye-laws prepared if any, would not have effect until it is approved by the State Government. The above provisions restrict the autonomy of ULBs in levy of advertisement tax.

Audit observed that three¹⁵ out of 44 test-checked ULBs had not collected advertisement tax during the period 2014-15 to 2018-19. TMC, Aland had collected advertisement tax only during 2018-19. However, none of the test-checked ULBs except TMC, Manvi had conducted any survey for levy of advertisement tax so far. In the absence of survey, potential earning of revenue could not be quantified.

¹⁴ Schedule VIII of KMC Act specifies the maximum amount of tax to be levied for various types of advertisements.

¹⁵ CMC, Shahabad; TMC, Srinivasapura; and TP, Kamalapura

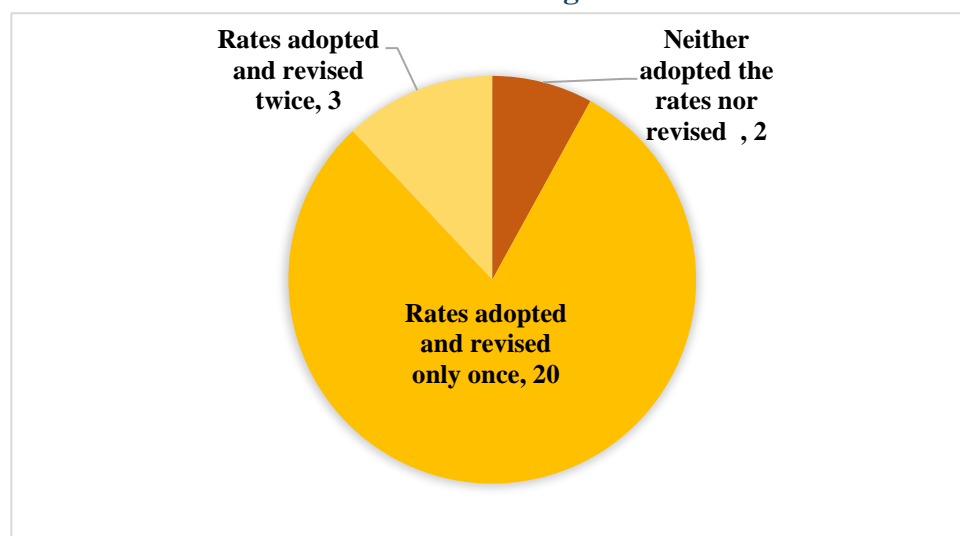
The 4th SFC report states that there was neither a clear database of the actual number of hoardings put up in the cities nor a proper record of demand collection and balance. Consequently, the revenue that could be realised from advertisement tax was not estimated so far

5.1.2.3 Water charges

As per Section 144 of the KMC Act and Section 139 of KM Act, the CCs/Municipalities may fix water rates not exceeding the rates specified in the rules in force under Section 421 of KMC Act and Section 323 of KM Act. Sections 421 and 323 provide for the Government to make rules by notification for carrying out all or any of the purposes of these Acts. This restricted the autonomy of ULBs. The State Government issued (July 2011) instructions stipulating the rates of water charges to be collected. The rates were to be revised once in three years to compensate for the rise in cost of Operation and Maintenance (O&M). Accordingly, revisions were due in 2014-15 and 2017-18.

The status of revision of rates of water charges by the test-checked ULBs is depicted in **Chart 5.2**.

Chart 5.2: Status of revision of water charges in test-checked ULBs



While only three ULBs had revised the rates both during 2014-15 and 2017-18, Hubballi-Dharwad Municipal Corporation (HDMC) and CMC, Bidar had neither adopted the rates nor revised the water charges since 2011. Further, the revisions carried out were not commensurate with the O&M expenses. Comparison of the O&M expenses with the collection of water charges in 42¹⁶ test-checked ULBs showed that the average collection was only 52 per cent of the O&M expenses during the period 2014-15 to 2018-19 as indicated in **Table 5.5**.

¹⁶ CMCs, Bidar and Channapatna had not furnished the details.

Table 5.5: Details of water charges demanded and collected by test-checked ULBs

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Balance	98.75	120.38	139.40	152.02	176.40
Demand	97.18	109.09	116.84	119.62	132.59
Total Demand	195.93	229.47	256.24	271.64	308.98
Total Collection	75.55	90.07	104.22	95.24	99.83
Closing Balance	120.38	139.40	152.02	176.40	209.15
O& M Cost	125.87	168.49	245.99	188.35	188.59
Collection against O&M Cost in per cent	60	53	42	51	53

Source: Information furnished by 42 ULBs.

Moreover, the arrears of water charges to be collected increased from ₹98.75 crore in 2013-14 to ₹209.15 crore in 2018-19 indicating the ineffectiveness of the ULBs in augmenting their own revenue.

5.1.2.4 Solid Waste management cess

Section 103B (2) of KMC Act, 1976 provides for levy of solid waste management (SWM) cess for the purpose of collection, transportation and disposal of solid waste. There was no such provision under the KM Act, 1964. However, as per Chart of Accounts under the Karnataka Municipal Accounting Manual (KMAM), the Government as a matter of policy, and with a view to keep the town in a better hygienic/sanitary condition *i.e.*, to maintain 'litter free zones', may direct the municipalities to levy and collect a cess, in the nature of revenue income, for this purpose. Accordingly, DMA had issued (September 2009) instructions directing all ULBs to collect SWM cess. To facilitate collection of SWM cess with greater efficiency, the DMA directed ULBs to collect the cess along with property tax through the property tax returns.

This direction was, however, flawed as SWM cess cannot be collected from properties exempt from payment of property tax such as places of public worship, educational institutions, Government buildings *etc.*, and was not recoverable from defaulters in payment of property tax.

5.1.2.5 Rent from commercial establishments

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 showed that rent amounting to ₹21.39 crore was in arrears as at the end of March 2019 in 43¹⁷ test-checked ULBs. The correctness of the demand raised and amount collected could not be ensured in the absence of proper DCB registers.

Audit observed that there was no standard protocol for entering into agreements with the tenants stipulating the terms and conditions including revision of rent. Agreements were not renewed in 5,544 out of 10,311 cases in 22 out of 44 test-checked ULBs. This could be attributed to the huge vacancy of 51 *per cent* in

¹⁷ TMC, Harappanahalli did not furnish the information

the cadres of Revenue Officers, Assistant Revenue Officers and Revenue Inspectors in the test-checked ULBs.

5.1.2.6 Trade licence

Section 369 of the KMC Act and Section 256 (a)-Part I of Schedule XIII of KM Act specify that trade license fee should be obtained by ULBs from all business establishments who intend to carry out any trade in the municipal areas. While the KMC Act bestows the powers on CCs, the provisions of KM Act require other categories of ULBs to prepare bye-laws, which are to be approved by the Government.

Scrutiny of the records showed that arrears in collection of trade licence fees of ₹12.01 crore as at the end of March 2019 in 42¹⁸ test-checked ULBs. This indicated that business establishments continued to function without valid licences. No mechanism existed for monitoring the renewal of trade licences and there was 40 *per cent* vacancy in the cadre of Senior/Junior Health Inspectors who were responsible for carrying out this activity. Failure to renew trade licences resulted in an approximate loss of revenue of ₹3.85 crore¹⁹ to the test-checked ULBs.

5.1.2.7 Tapping of various sources of revenue by ULBs

The 4th SFC had identified 5 sources of tax revenue and 30 sources of non-tax revenue such as building plan/licence approval fees, trade licence, rent from shops/markets/commercial establishments, water charges, parking fee, UGD charges, cable laying charges *etc.*, that could be levied by ULBs to augment their own resources. Audit observed that the ULBs were tapping 30 of these 35 identified sources. The details of the five sources that were not tapped is indicated in **Table 5.6**.

Table 5.6: Statement showing the revenue sources not tapped by ULBs

Sl. no.	Source	Statutory provision exists or not
1	Levy of tax on animals and dogs	Yes
2	Other fees and tolls	Yes
3	Cable laying charges	Can be levied subject to preparation of byelaws by ULBs and approval from Government
4	Greenery charges	No
5	Dog fee	No

Source: KM and KMC Acts

As cable laying charges and greenery charges could be a good source of revenue, the ULBs should ensure that these charges are levied.

¹⁸ CMCs, Bidar and Kollegal did not furnish the information.

¹⁹ In the absence of trade-wise details, the least of the rates was considered in respect of ULBs where resolutions were passed. In ULBs where there were no resolutions, the rate of similar ULBs was adopted.

The details of revenue sources, status of levy and statutory provisions are indicated in **Appendix 5.1**.

Recommendation 8: Limitations on the ability of the ULBs to raise revenues through sources such as property tax, advertisement tax, solid waste management cess etc., need to be removed urgently.

5.2 Estimation of requirement of funds / expenditure

In accordance with the provisions²⁰ of KM Act, 1964 and KMC Act, 1976, the Commissioner/Chief Officer of each ULB prepares the budget estimates indicating the receipt of funds from various sources and allocates the resources to various activities undertaken by it and presents it to the Governing Council for approval. After the approval by the Governing Council, ULBs forward the budget to the DMA and the Government.

This shows that the KM Act, 1964 and the KMC Act, 1976 are not in consonance with the provisions of the 74th CAA, as the Constitution provisions are silent about the approval of the budget while both the Acts specifically mention role of the State Government in sanctioning / modifying the budget. However, it was observed that in practice, the Governing Council forwards the budget to DMA and the State Government for information.

5.2.1 Unrealistic budget exercise

Expenditure estimation depends on services to be provided by the local government and the costs associated with the provision of these services. It should include both the capital and O&M expenditure that the local body will have to incur to achieve appropriate service levels.

(i) During the early 1960s, the Zakaria Committee formulated minimum standards of services for different levels of ULBs and estimated the annual recurring requirements for each municipal service to be provided by the ULBs. The Committee also felt that it was possible to maintain the various services if adequate taxes and charges were levied for services provided.

Since the delivery of municipal services comes with a cost, it was necessary to scientifically estimate the cost of each municipal service to assess the requirement and source of funds for efficient delivery. This was pointed out by the 3rd SFC too. Such an exercise was not undertaken either by ULBs or the State Government. Thus, the budget exercise by ULBs was not based on a scientific assessment of the cost that would be incurred in delivery of various municipal services as discussed below.

(ii) The budget was prepared on the basis of expected allocation of funds by the Government. This method of budget preparation suffered from a basic flaw as the stipulated date for approval of the budget for ULBs was 15th January of the preceding financial year whereas the State budget was usually placed before

²⁰ Section 287 of KM Act, 1964 and Section 167 to 170 of KMC Act, 1976.

the Legislature in the month of March. The ULBs allocated resources for various activities, which would be based on the expected receipt of funds and not on the actual receipt of funds. Any shortfall in receipt of funds would impact the execution/implementation of the activities planned.

Illustrative examples of preparation of unrealistic budget in each category of ULBs is shown in **Table 5.7**.

Table 5.7: Statement showing variation in budget in each category of ULB

(₹ in lakh)

Name of the ULB	Year	Receipts			Expenditure		
		Budget	Actuals	Percentage of actuals to budget	Budget	Actuals	Percentage of actuals to budget
CC, Davanagere	2014-15	57,703.78	17,450.73	30	57,821.59	17,758.88	31
	2015-16	65,033.58	19,950.16	31	64,936.77	17,246.72	27
	2016-17	77,767.01	25,328.99	33	78,175.13	23,057.35	29
	2017-18	86,393.97	24,824.81	29	86,680.87	25,840.45	30
	2018-19	30,510.95	23,294.36	76	35,055.00	23,906.63	68
CMC, Doddaballapura	2014-15	8,884.64	2,063.53	23	9,971.05	1,796.23	18
	2015-16	3,349.38	3,104.63	93	4,198.27	2,359.01	56
	2016-17	3,430.47	2,473.50	72	4,922.64	2,167.31	44
	2017-18	3,765.21	2,385.09	63	5,353.88	2,683.85	50
	2018-19	3,944.29	3,070.68	78	5,326.74	3,465.39	65
TMC, Laxmeshwar	2014-15	1,933.78	863.94	45	2,026.00	592.30	29
	2015-16	1,579.21	950.85	60	2,095.65	1,070.77	51
	2016-17	1,147.79	1,123.41	98	1,790.18	1,101.54	62
	2017-18	2,191.24	1,266.26	58	2,286.93	1,353.04	59
	2018-19	2,291.99	895.28	39	2,537.60	797.66	31
TP, Thirthahalli	2014-15	574.35	554.74	97	1,108.08	437.83	40
	2015-16	806.77	548.29	68	1,093.04	404.53	37
	2016-17	794.14	673.68	85	1,410.24	488.65	35
	2017-18	1,058.50	730.26	69	1,891.20	964.03	51
	2018-19	926.83	689.83	74	2,083.45	498.90	24

Source: Annual accounts of ULBs

The variation in actual receipts *vis-à-vis* the budget during the period 2014-15 to 2018-19 ranged between 29 to 76 *per cent* in CC, Davanagere; 23 to 93 *per cent* in CMC, Doddaballapura; 39 to 98 *per cent* in TMC, Laxmeshwar and 68 to 97 *per cent* in TP, Thirthahalli. The receipts were overestimated in all the years except during one year where the actual receipts were in excess of 90 *per cent*. On the other hand, the expenditure was overestimated by 71 *per cent* on an average in CC, Davanagere during 2014-15 to 2017-18; by 50 *per cent* in CMC, Doddaballapura during 2015-16 to 2017-18 and by 46 and 37 *per cent* in TMC, Laxmeshwar and TP, Thirthahalli during 2014-15 to 2018-19 respectively. Audit noticed that execution of basic infrastructure works such as roads, pavements and footpath and road side drains were affected.

Recommendation 9: Special efforts need to be made to motivate the ULBs to prepare their budgets in a scientific manner taking into account requirements of capital expenditure as well as a realistic projection of funds expected to be mobilised.

5.3 Expenditure of urban local bodies

The expenditure of ULBs can be categorised into five major categories such as programme expenses, operations and maintenance, general expenses, human resource expenses and interest and finance charges. The details of expenditure incurred by ULBs in the State for the period 2014-15 to 2018-19 is exhibited in **Table 5.8**.

Table 5.8: Details of expenditure incurred by ULBs in the State

Year	(₹ in crore)					
	Human Resources Expenses	General Expenses	Operation and Maintenance	Interest and Finance Charges	Programme Expenses, Grants etc.	Total expenditure
2014-15	623.30	91.81	1,006.15	49.46	77.18	1,847.91
2015-16	649.90	102.71	1,355.85	23.71	69.51	2,201.68
2016-17	703.26	122.98	1,511.75	58.68	81.43	2,478.10
2017-18	766.27	161.48	1,894.55	68.08	166.49	3,056.88
2018-19	900.67	172.32	1,714.13	24.52	136.07	2,947.72
Total	3,643.40	651.32	7,482.43	224.45	530.68	12,532.28

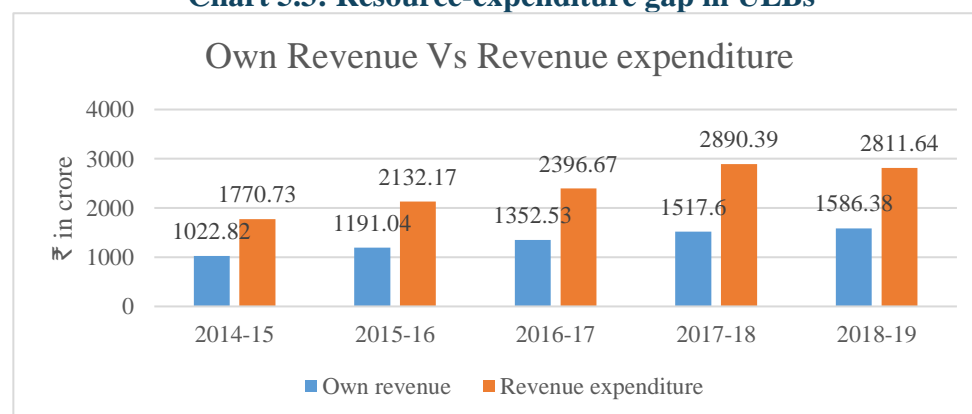
Source: Information furnished by DMA for 271 ULBs

The operation and maintenance (O&M) expenses constituted about 60 per cent of the total expenditure followed by human resource expenses at 29 per cent. The capital expenditure *i.e.*, programme expenses and expenses out of grants incurred by ULBs was a mere four²¹ per cent of the total expenditure.

5.3.1 Resource-expenditure gap

The ULBs were able to generate own resources only to the extent of 56 per cent of the revenue expenditure during the period 2014-15 to 2018-19. A comparison of the own revenue to revenue expenditure showed large gaps as depicted in **Chart 5.3**, which needs to be addressed by ULBs.

Chart 5.3: Resource-expenditure gap in ULBs



²¹ This does not include the expenditure incurred by parastatals.

5.3.1.1 Analysis of financial data of urban local bodies

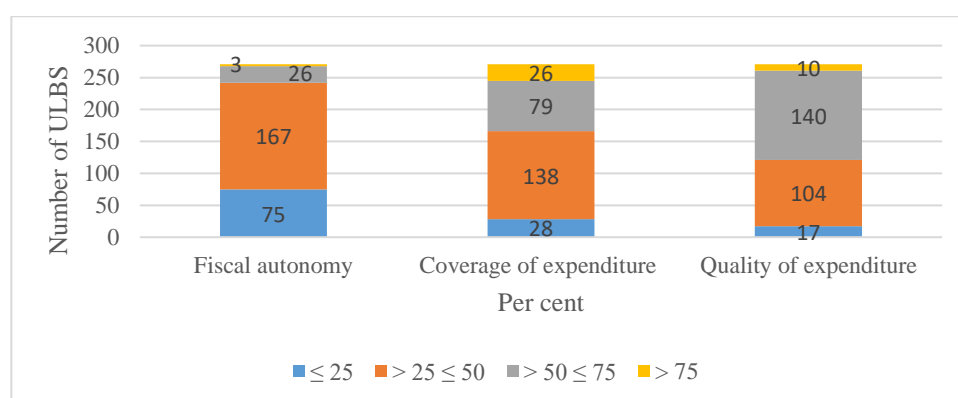
The Municipal Reforms Cell of DMA furnished ULB-wise details of revenue and expenditure for the period 2014-15 to 2018-19 for 271 ULBs. This data was analysed to study the fiscal autonomy in the ULBs. The following four ratios were considered to establish the fiscal autonomy in ULBs.

1. **Local fiscal autonomy:** This is the share of own revenue to the total revenue of the ULB.
2. **Local dependency on fiscal transfer:** This is the share of Central Finance Commission (CFC) and State Finance Commission (SFC) grants to the total fiscal revenue of the ULBs.
3. **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.
4. **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.

Local fiscal autonomy and local dependency on fiscal transfer are inversely proportional to each other. Higher the fiscal autonomy lesser is the dependency on fiscal transfer.

The ratio-wise performance of ULBs for the year 2018-19 is depicted in **Chart 5.4**.

Chart 5.4: Ratio-wise performance of ULBs for 2018-19



- ✓ 75 ULBs were dependent on fiscal transfers in excess of 75 per cent of their total revenue and in three ULBs, the ratio of own revenue to total revenue was higher than 75 per cent. Among the test-checked ULBs, CC, Mangaluru, where the share of own revenue was 66 per cent of the total revenue was less dependent on fiscal transfers.
- ✓ In 26 ULBs, the coverage of revenue expenditure from own revenue sources was in excess of 75 per cent, of which 11 ULBs had coverage equal to or in excess of 100 per cent. In 28 ULBs, the coverage was less than or equal to 25 per cent. Among the test-checked ULBs, while TMC, Kundapura had coverage of 102 per cent, CC, Mangaluru; CMC,

Ranebennur and TP, Thirthahalli had coverage above 80 per cent and in TP, Kamalapura, the coverage was only 22 per cent.

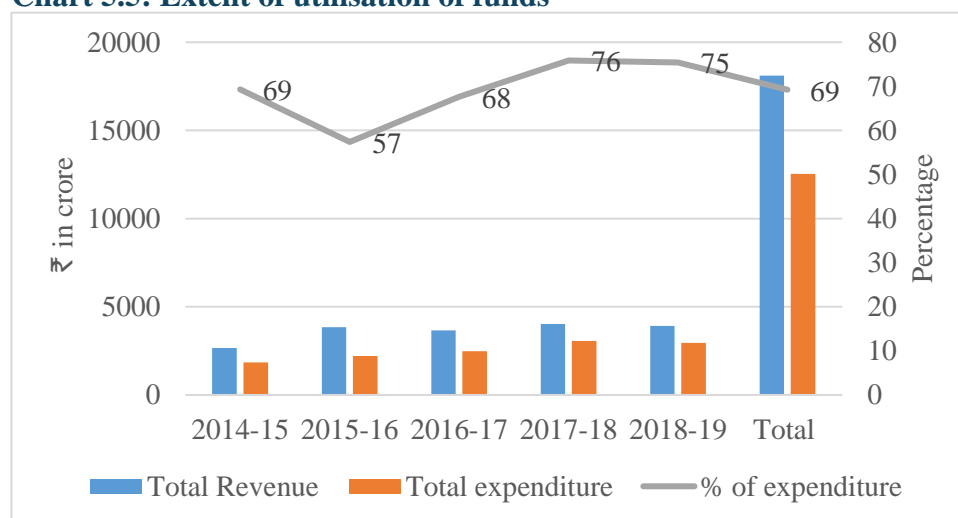
- ✓ The quality of expenditure was high (excess of 75 per cent) in 10 ULBs and low (less than or equal to 25 per cent) in 17 ULBs. Among the test-checked ULBs, it was 78 per cent in CC, Mangaluru and it was 26 per cent in CMC, Shahabad and TMC, Wadi.

Thus, it can be seen that CC, Mangaluru was performing better overall among the test-checked ULBs. The other ULBs can explore the possibility of taking cues and learning from CC, Mangaluru to improve their performance.

5.3.2 Extent of utilisation of funds

A comparison of the total expenditure with total revenue for the period 2014-15 to 2018-19 showed that ULBs were able to utilise on an average about 69 per cent of the available funds each year as depicted in **Chart 5.5**.

Chart 5.5: Extent of utilisation of funds



The constraints in utilisation of funds could include the following:

- ✓ While the CFC guidelines specified the areas for utilisation of funds, the guidelines of the State Government governing the allocation and utilisation of CFC grants specified the minimum and maximum percentage of grants to be allocated and utilised for various activities such as water supply (min of 15 per cent and max of 30 per cent), UGD (min 10 per cent and max 20 per cent), roads (min 10 per cent and max 15 per cent) etc. This restricted the autonomy of the ULBs in utilising the funds as per their needs.
- ✓ The restrictions/limitations on financial and administrative powers of ULBs as discussed subsequently in **Paragraph 5.4**.
- ✓ The huge number of vacancies in various cadres, as detailed in the **Paragraph 6.2.1**.
- ✓

5.4 Financial powers of urban local bodies

Fiscal autonomy can be complete only when supported by decentralisation of financial and administrative powers. The decentralisation provides for

- ✓ creating an efficient and reliable administration;
- ✓ intensify and improve local governance;
- ✓ enhances 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.*

5.4.1 Powers relating to works

The State Government revised (November 2016) 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 5.9**.

Table 5.9: Statement showing the administrative approval powers for ULBs

Category of ULB	(₹ in lakh)					
	Commissioner /Chief Officer	Standing Committee	Council	DC	DMA	Government
CC	≤50	>50 ≤ 100	>100 ≤ 200	>200 ≤ 500	≥500 ≤ 1,000	≥1,000
CMC	≤15	>15 ≤ 30	>30 ≤ 100	>100 ≤ 500		
TMC	≤5	>5 ≤ 15	>15 ≤ 30	>30 ≤ 500		
TP	≤2	>2 ≤ 10	>10 ≤ 15	>15 ≤ 500		

Source: Government order dated 11 November 2016

Further, the authorities indicated in the above table had the powers to approve tenders as per their administrative powers for tenders involving tender premium less than or equal to 5 *per cent*. For tender premium greater than 5 *per cent* but less than or equal to 10 *per cent*, the powers were vested with DMA and for tenders up to 1,000 lakhs and beyond 10 *per cent*, the powers were vested with the Government.

As regards the powers for according technical sanction to estimates, the Engineers of CCs, CMCs, TMCs and TPs had powers up to 500 lakh, 50 lakh, 5 lakh and 5 lakh respectively.

In comparison, municipal bodies of Andhra Pradesh, Bihar, Gujarat, Kerala, Maharashtra, Rajasthan *etc.*, were vested with complete administrative powers.

5.4.2 Powers relating to other expenditure

The State Government amended (February 2004) the Karnataka Municipalities (Powers of Expenditure) Rules, 1986 wherein expenditure powers were specified for town and city municipalities. Review of the expenditure powers showed that the municipalities did not have any power to purchase furniture,

vehicles such as cars, vans, jeeps, road rollers, tractors or other vehicles or mechanical equipment. These powers were vested with the Deputy Commissioner and DMA. The municipalities had full powers only for legal charges. Expenditure limits were prescribed for various items, a few of which are indicated in **Table 5.10**. These limitations have not been revised for more than 16 years and are too low considering inflation.

Table 5.10: Statement showing the expenditure limits for ULBs

Sl. no.	Item of expenditure	Town municipality	City municipality
1	National celebrations like Independence day, Republic day <i>etc.</i>	5,000 in each case	15,000 in each case
2	Tea and light refreshment charges at Council and Committee meetings	18,000 per annum	36,000 per annum
3	Major overhauls and repairs of vehicle and other machinery	10,000 in each case	50,000 in each case
4	Purchase of stationery	50,000 per annum	1,00,000 per annum
5	Prevention and suppression of epidemics	50,000 per annum	1,50,000 per annum
6	Alleviate distress caused by accidental fire or floods <i>etc.</i>	5,000 in each case	20,000 in each case

Source: Gazette notification dated 3 February 2004

The restrictions/limitations on the financial powers of ULBs as discussed in the above two paragraphs negate the movement towards greater decentralisation.

Recommendation 10: Delegation of powers relating to works and other expenditure needs to be revised in order to ensure efficiency.

6.1 Limited powers over manpower

Adequate and qualified manpower is a *sine qua non* for the empowerment of ULBs. The broad framework of functions carried out by ULBs is depicted in **Table 6.1**.

Table 6.1: Broad framework of functions carried out by ULBs

Sl. No.	Wing/sections	Functions
1.	Administration	General administration, including meetings of council and committees
2.	Revenue	Assessment and collection of various taxes, rent, advertisements and other property related activities
3.	Accounts	Preparation and maintenance of accounts, preparation of budget etc.
4.	Public health	Sanitation, street sweeping, solid waste management and other public health related activities
5.	Engineering	Construction / O & M of roads, drains, buildings, parks, play grounds, water supply and street lighting etc.
6.	Town Planning	Town planning activities such as issue of building licences, etc.
7.	Welfare	Implementation of schemes relating to Social and economic development.

The assessment of manpower should be based on the functions undertaken by ULBs with a view that majority of the functions which are service oriented have to be discharged within a reasonable time period. This assessment could be done best by ULBs themselves considering various criteria such as the extent of geographical area to be covered, the extent and type of population, the number of properties existing *etc.* Audit observed that ULBs neither had the powers to assess the staff requirement nor to recruit the required staff. These powers are vested with the State Government. The State Government assessed the requirement of staff based on population alone, as discussed subsequently, and without seeking the actual requirement from ULBs.

Further, Section 91A of KMC Act and Section 320 of KM Act allows the State Government to transfer any officer or servant of a corporation/municipal council to service another corporation/municipal council or local authority or any Government department. The State Government shall lend the services of Government officers and employees to ULBs as may be necessary for the implementation of any schemes, project or plan assigned to ULBs. An appeal against any order of ULB imposing penalty or any officer or employee rests with the State Government.

Devolution of functionalities was, thus, rendered ineffective which in turn hampered the collection of own revenue, utilisation of devolved funds and carrying out the functions to the extent of which they were devolved as discussed earlier.

6.1.1 Recruitment of staff

In accordance with the Acts governing ULBs, the State Government regulates the classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of staff and officers of ULBs. The Karnataka Municipalities (Recruitment of Officers and Employees) Rules, 2010 and the Karnataka Municipal Corporations (Common Recruitment of Officers and Employees) Rules, 2010, list out the Appointing Authorities for various categories of posts as indicated in **Table 6.2**.

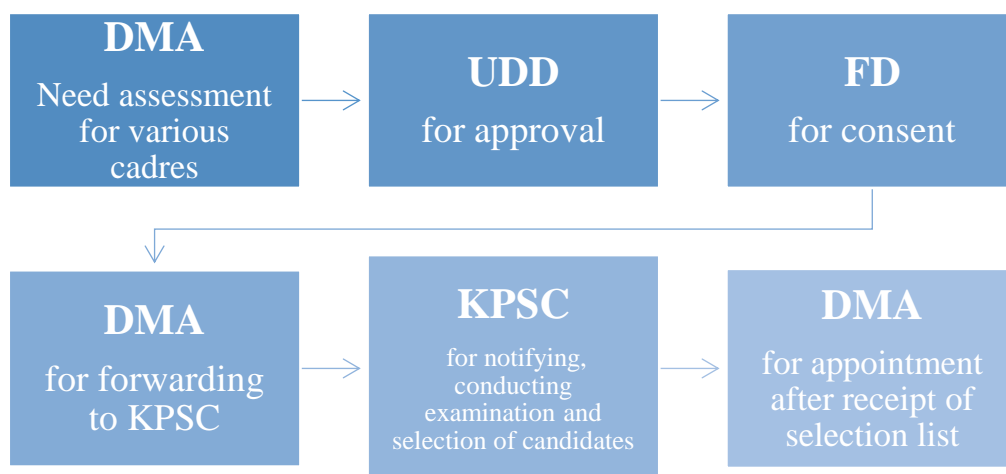
Table 6.2: Statement showing the appointing authorities for recruitment

Category of post	Authority
Group A	State Government
Group B and C	Director of Municipal Administration (DMA) or Officer empowered by Government
Group D	Deputy Commissioner (DC) for City Municipal Councils (CMCs), Town Municipal Councils (TMCs) and Town Panchayats (TPs) and Municipal Commissioner for City Corporations (CCs)

Source: Information furnished by DMA

The recruitment to Group A, B and C posts was done through the Karnataka Public Service Commission (KPSC). The various stages of recruitment through KPSC are depicted in **Chart 6.1**.

Chart 6.1: Flow chart of recruitment process through KPSC



Analysis of the information furnished by DMA for the period 2014-15 to 2018-19 showed the following:

- The total time taken commencing from forwarding the proposals to KPSC till final appointment of persons ranged between 744 to 1,603 days for various cadres.
- There were delays ranging from 3 to 425 days in sending the proposals to KPSC by DMA after receipt of consent from UDD.
- KPSC had taken a total time ranging from 400 to 1,215 days for completion of the entire process starting from notifying to selection of candidates and
- DMA had delayed in appointing the staff after receipt of the selection list from KPSC by 162 to 608 days.

6.1.2 Powers over staff

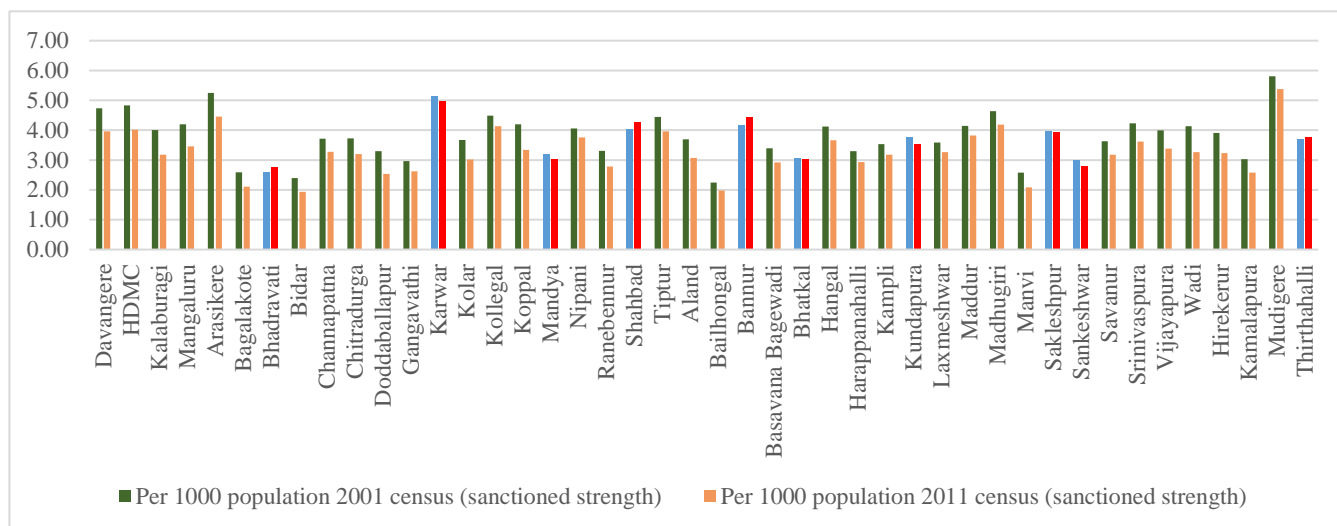
The powers to promote officials, initiate disciplinary action, impose penalties *etc.*, in respect of the officials of ULBs, other than on deputation, have also not been delegated to ULBs. The 4th SFC recommended that ULBs should have discretionary powers to recruit the human resources required for functioning. Action was yet to be initiated in this regard. The 2nd ARC also opined that city government should have the power to appoint all officials including the Commissioner and to hold them to account.

6.1.3 Improper assessment of requirement of staff

The State Government notified the Cadre and Recruitment Rules (C&R Rules) for Municipalities and Corporations during January 2011 and April 2011 respectively. The basis for determining the sanctioned strength for each ULB was not furnished to audit. However, a review of the C&R Rules *prima facie* showed that population of ULBs alone was considered as criteria for determining the sanctioned strength and other criteria such as the extent of geographical area to be covered, the extent and type of population, the number of properties existing *etc.* was not considered. The urban population of Karnataka, which was 23.58 million as per 2011 census was projected at 29.62 million as of 2019.

Analysis showed that the sanctioned strength was not commensurate with the population and required revision except in 10 (indicated in blue and red) out of the 44 test-checked ULBs where the number of employees per 1,000 population was more or less the same²² as per census 2001 and census 2011 as indicated in **Chart 6.2**.

²² Difference of less than 0.25 between the ratios for 2001 and 2011 was considered as acceptable by audit.

Chart 6.2: Employees per 1,000 population as per census 2001 and 2011 in 44 test-checked ULBs

The sanctioned strength varied from 2.24 to 5.80 employees per 1,000 population (2001) to 1.94 to 5.38 employees per 1,000 population (2011). The details are given in **Appendix 6.1**.

Further, the C&R Rules were deficient since they failed to specify function-wise requirement of staff. Function-wise staff assessment, if carried out, would bring in more transparency in terms of specifying the roles and responsibilities for each position, requirement of skills and qualification for each role *etc.* This would also prevent any overlap of functions between two persons/posts. To cite an example, there was no sanctioned post of Environment Engineer in TPs and the existing Health Inspector was in-charge of solid waste management.

6.2 Sufficiency and functioning of staff

6.2.1 Insufficient staff in Urban local bodies

The discharge of functions would be ineffective with a huge vacancy position. Scrutiny of staff position of ULBs in the State revealed vacancies ranging from 20 per cent (Group D) to 55 per cent (Group C) among the various categories as shown in **Table 6.3**.

Table 6.3: Statement showing the staff position in ULBs

Category	Sanctioned strength	Working strength				Vacancy	Percent age of vacancy
		Appointment	Deputation	Outsource / daily wage / others	Total		
Group A	670	206	160	10	376	294	44
Group B	1,088	750	66	7	823	265	24
Group C	17,149	5,414	1,027	1,312	7,753	9,396	55
Group D	37,586	12,735	77	17,249	30,061	7,525	20
Total	56,493	19,105	1,330	18,578	39,013	17,480	31

Source: Information furnished by DMA

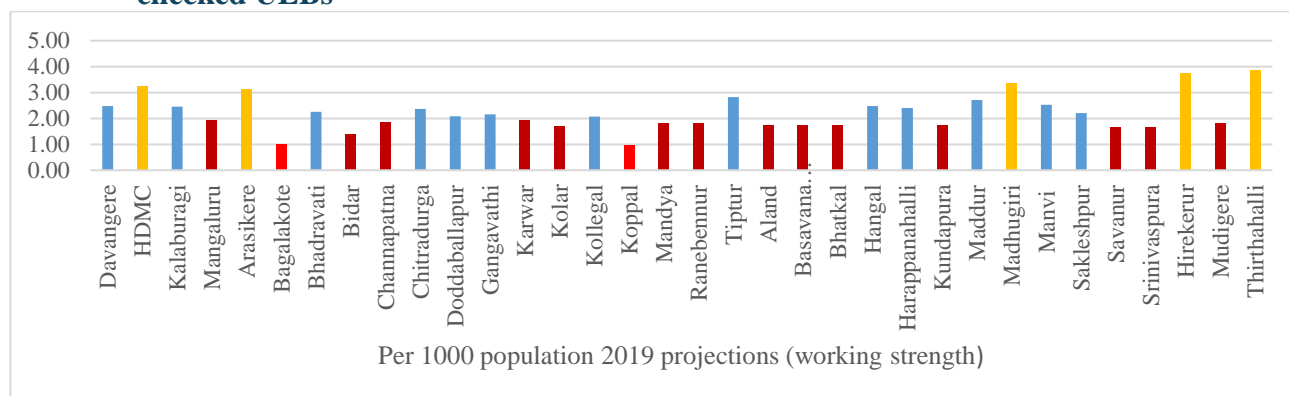
Cadre-wise analysis revealed the following:

- The vacancy was high in crucial posts of Group A in CCs with 92 *per cent* of Technical Assistants (Environment), 80 *per cent* of Deputy Commissioner (Administration), 30 *per cent* of Chief Audit Officer and 50 *per cent* of Accounts Officer posts being vacant. This hampered the efficient discharge of the devolved functions such as Solid waste management, regulation of slaughter houses etc., besides resulting in absence of internal audit and adequate supervision.
- The vacancies in technical posts such as Senior/Junior Health Inspectors and Assistant/Junior Engineers which ranged between 22 *per cent* to 50 *per cent* affected the delivery of public health services and development works besides resulting in poor utilisation of funds. The vacancies were more in CCs.
- Audit also observed that vacancies to the extent of 65 *per cent* in the cadres of Assistant Revenue Officer/Revenue Inspector affected the collection of revenue/arrears resulting in lesser realisation of own revenue as discussed in **paragraph 5.1.2**.
- Vacancies of 72 *per cent* of Accountant posts in CCs affected proper accounting and maintenance of basic records. In contrast, there was excess working strength of 44 *per cent* of Accountants in other ULBs. This was due to deputation of Accountants in excess of the sanctioned strength. Though, no provision for deputation to the post of Accountant as per the C&R Rules, there were as many as 201 Accountants who were on deputation in the ULBs.
- As against the 234 sanctioned posts of Gardener in 40 test-checked ULBs, only 128 (55 *per cent*) were working. In respect of other 4 ULBs, which were TPs, there was no sanctioned post of gardeners though parks existed in these TPs. This affected the regular maintenance of parks.

The 3rd SFC had identified that day to day development works were affected by vacancies and recommended filling up all vacant posts. Though the status of manpower was furnished to the DMA by ULBs at regular intervals, no action was taken to fill the vacancies.

Analysis of the working strength in the 34²³ test-checked ULBs, in terms of the number of employees per 1,000 population as per 2019 projected population, showed that it ranged between 0.98 and 3.85 as indicated in **Chart 6.3**.

²³ As projected population was not available for 10 ULBs, the same was not considered for analysis.

Chart 6.3: Working strength of ULBs in terms of employees per 1,000 population in test-checked ULBs

While CMCs, Bagalkote and Koppal (indicated in red colour) had less than one employee for every 1,000 people, 14 ULBs (dark red colour) had between 1 and 2 employees, 13 ULBs (blue colour) had between 2 and 3 employees and 5 ULBs (gold colour) had more than 3 employees. Evidently, the ULBs lacked adequate manpower to carry out efficient delivery of service.

Recommendation 11: Adequate powers over manpower resources should be delegated to ULBs in matters such as assessment and recruitment of required staff to ensure availability and qualified manpower for discharging functions.

6.2.2 Functioning of the Municipal Commissioner/Chief Officer

The Commissioner and Chief Officers of ULBs were Government servants. The Municipal Commissioner/Chief Officer was the executive head of the Municipality. As per Section 327(1) of KM Act, a Chief Officer had to be appointed by the DMA from among the cadre of Chief Officers of the Karnataka Municipal Administrative Service (KMAS). Further, as per Section 365(1) of the KM Act, State Government was not to post non-KMAS officers to posts specified for KMAS officers and such appointment was held arbitrary and illegal. The 4th SFC also opined that a municipal commissioner/chief officer of ULB should be from the ranks of the trained KMAS cadre and recommended that immediate steps should be initiated in this matter.

Review of the postings of the Municipal Commissioners and Chief Officers in all ULBs other than CCs showed that as many as 181 out of 275 persons who were not from KMAS were discharging the functions of the Municipal Commissioner/Chief Officer as at the end of March 2019 in contravention of Section 365(1) of the KM Act. Audit observed that of the 181 persons, 15 were Group B Officers (Environment Engineers, Revenue Officers) and 166 were Group C officials (Community Affairs Officers, Managers, Sr. Health Inspectors, First Division Assistants etc.). Discharging the duties of the Municipal Commissioner/Chief Officer by personnel who are neither from KMAS nor of a sufficient senior rank could jeopardise the efficacy of service delivery by ULBs adversely and is violative of the provisions of Section 365(1) of the KM Act.

6.2.3 Postings of KMAS officers

As per the information furnished by DMA, there were 175 KMAS officers as at the end of March 2020, who were to be posted exclusively as Commissioners/Chief Officers. Audit, however, noticed that 30 *per cent* of these officers were working either in parastatals or were on deputation to various departments. Audit also noticed that few of the officers were discharging duties of Revenue Officers, Managers, Sr. Health Inspectors in ULBs. The details of posting of these officers are detailed in **Table 6.4**.

Table 6.4: Details of posting of KMAS Officers

Sl. no.	Postings	Number of officers	Details
1	Working in ULBs	79	As Chief Officers/Commissioners
2		04	As Council/Committee Secretaries
3		21	As Revenue Officers/Managers/Sr. Health Inspectors
4	Working at other places	34	In Government departments/parastatals of UDD viz., DMA, UDAs, KUIDFC, BMRDA <i>etc.</i>
5		04	Deputation to State Pollution Board, Collegiate Education, Member of Legislative Assembly and <i>Nijaguna Ambigara Chowdaiah Nigama</i>
6		05	In BBMP
7	Others	23	Training
8		02	Suspension
9		03	Awaiting posting

Source: Information furnished by DMA

The discharge of duties of Revenue Officers, Managers, Sr. Health Inspectors by KMAS Officers and that of Chief Officer/Commissioner by non-KMAS officers such as Revenue Officers, Managers, Sr. Health Inspectors *etc.*, as stated in the above paragraph besides contravening the provisions of C&R Rules, creates an ironical situation where the KMAS officers, who are recruited to function as the executive head of ULBs report to non-KMAS officers. Further, deputing KMAS officers to other departments defeats the very objective of the having separate Municipal Administrative Service.

Recommendation 12: Personnel from KMAS should be deployed in ULBs to the maximum extent possible. In particular, it needs to be ensured that ULBs are headed by persons of sufficient seniority and calibre.

6.2.4 Filling up of posts on deputation

The C&R Rules prescribed filling up of posts under various cadres through modes such as direct recruitment, deputation, promotion *etc.* The deputation mode was prescribed only for certain posts. Audit observed that posts under Group C such as Junior Health Inspector, Community Organiser, First Division Assistant, Second Division Assistant *etc.*, were filled up through deputation both in CCs and other ULBs, though there was no provision under the C&R

Rules for deputation to these posts. Further analysis of the sanctioned strength revealed that 140 (40 *per cent*) out of 346 posts of Group A in CCs such as Deputy Commissioner, Executive Engineer, Chief Accounts Officer, Assistant Executive Engineer, Statistical Officer, Health Officer, Council Secretary *etc.*, were earmarked for recruitment either through deputation or outsourcing.

The provision to fill up large number of posts through deputation especially in the cadre of Group A and filling up of Group C posts through deputation despite the provisions of C&R Rules impacts effective functioning of ULBs. This also impacts the accountability of such personnel to the Governing Council and Commissioner/Chief Officer of ULBs as ULBs have no control over them either to initiate disciplinary action or to repatriate them to the parent department. The State Government may consider creating exclusive sub municipal services such as municipal health service, urban engineering service *etc.*, or contemporary contractual posts such as financial expert, resource mobilisation expert, IEC/Documentation expert, Event management expert, social development expert *etc.*, which is a best practice being adopted in Madhya Pradesh.

6.3 Capacity Building

Capacity building is important for strengthening the capabilities of personnel and for equipping them with advanced skills to deliver better services. The training activities for municipal employees were carried out by State Institute of Urban Development (SIUD) located at Mysuru. The SIUD is responsible for designing and organising programmes for all cadres of ULBs and also for the elected representatives. The Governing body of SIUD approves the annual training action plan for urban functionaries of ULBs. The DMA nominates trainees from various ULBs for the training. Audit observed that SIUD/DMA did not consult ULBs for analysing their training needs.

During the period 2014-15 to 2018-19, the SIUD had spent ₹13.04 crores towards training of Elected Representatives, Project Directors of DUDC, Municipal Commissioners, Chief Officers and other staff of ULBs. Check of the training slots provided and those actually attended by officers/staff of ULBs showed that the utilisation of training slots in 128 out of 194 courses was less than 75 *per cent*. These 194 courses have been grouped into 15 categories and the category-wise details are given in **Appendix 6.2**. The SIUD had also conducted 125 training programmes for elected representatives during the above period. We noticed that percentage of slots filled up ranged between 33 to 55 *per cent*. Poor utilisation of training facilities resulted in non-acquisition of enhanced skills by personnel and poor participation of elected representatives is a cause for concern.

6.3.1 Absence of evaluation

Training is a continuous process and should be continuously reviewed. This could be done through evaluation. Evaluation is necessary to ascertain whether the desired expectations were met or not and to revise and redefine the course to make it more effective. Audit observed that no mechanism existed to evaluate the impact of the training imparted to the staff of ULBs on the

discharge of functions. In the absence of evaluation, audit could not ascertain whether the training imparted helped the participants in improving their skills and whether the course design needed revision. Evidently, training was a routine exercise. Audit also observed that a database of trained personnel was not maintained by the department.

6.4 Performance management

Performance management is an essential tool of management and plays an important role in developing the competence of employees involved in service delivery. It involves classification of duties, defining performance standards, deployment of right personnel at right place and the capacity of staff to achieve their targets.

Audit observed that the C&R Rules made it mandatory for all employees to pass Kannada language examination, unless exempted, and service examinations of which Municipal and local boards examination, General Law I & II and accounts examination was compulsory for all cadres. The accounts examination was classified into Accounts Lower and Accounts Higher. While it was sufficient for cadres such as Second Division Assistant and Horticulture Assistant to pass Accounts Lower, it was mandatory for Office Manager, Accounts Superintendent, AEE, JE, Environment Engineer, FDA, Work Inspector, Health Inspector, Revenue Inspectors *etc.*, to pass Accounts Higher. The direct recruits appointed after publishing the C&R Rules were required to undergo a basic level computer course as prescribed by DMA and pass the test.

Moreover, if any employee does not pass the service examination prescribed for a post, he/she would not be eligible for promotion. Further, for earning annual increment and for confirmation against the substantive vacancy held, the official was required to pass the service examinations specified for the cadre to which he/she was appointed.

While the above requirements would definitely help in continuous professional development, it would be desirable to identify a set of performance indicators and performance metrics as indicated below, which can improve the efficiency of

- Revenue collection – setting of monthly targets, incentivisation for target achievements *etc.*, thereby minimising the demand and collection ratio.
- Fund management – activity/function-wise and need based allocation of funds, periodic review of utilisation of funds *etc.*
- Asset management - identification of created assets, creation of database for recording such assets (stock registers), periodic valuation and their protection.

The State Government/ULBs may consider introducing such performance indicators.

7

Chapter VII

Conclusion

The 74th Amendment introduced Part IX A (the Municipalities) containing Articles 243P to 243ZG in the Constitution. This amendment which came into effect on 1 June 1993 authorised State Legislatures to enact laws to endow local bodies with powers and authority as may be necessary to enable them to function as institutions of self-government and make provisions for devolution of powers and responsibilities (Article 243W). The 12th Schedule lists out the 18 functions to be carried out by ULBs.

Audit Objective

1

Whether provisions of 74th CAA have been adequately covered in State legislations?

Each State had to enact a legislation to implement the 74th CAA. The ULBs in the State were governed by the KM Act, 1964 and the KMC Act, 1976. The State Government carried out necessary amendments to these Acts to comply with the provisions of 74th CAA. These amendments were, however, not supported by firm action thus, defeating the spirit of the constitutional amendment specifically with reference to devolution of functions and creation of appropriate institutional mechanisms.

Audit Objective

2

Whether ULBs were empowered by the State Government to discharge their functions effectively through the creation of appropriately designed institutions/institutional mechanisms and the functioning thereof?

Transfer of functions - The State Government transferred 17 out of the 18 functions. Fire Services was not transferred. Of the 17

functions, 12 were obligatory and 5 were discretionary for CCs and it was 11 and 6 respectively for CMCs/TMCs/TPs. Further, ULBs were solely responsible for only three functions. They had no role in two functions and had limited role in eight functions. While the ULBs were mere implementing agencies for three functions, they functioned as implementing agency under Roads and Bridges besides being responsible for implementation of this function within their jurisdiction. The discharge of devolved functions was thus, highly restricted.

Formation of Councils - Out of 273 ULBs, elections were not held, though due, in 23 ULBs as there were court cases relating to reservation policy of the Government in respect of wards. In 187 of the balance 250 ULBs where elections were held, councils were not formed owing to court cases regarding rotation in reservations for the offices of the Mayor/Dy. Mayor and President / Vice President. Hence, Administrators were appointed to these 210 ULBs. This rendered the democratic process meaningless.

Mayoral tenure - In the State, the term of office of Mayor and Deputy Mayor in the case of CCs was one year from the date of election while the term of the President and Vice President in the case of other ULBs was for a period of thirty months from the date of their election. The tenures were not coterminous with the duration of the Municipality. The term of Mayor was too little for bringing in stability and to provide a long term vision. The Mayors of cities in Karnataka are on a weak footing.

Committees – Ward Committees were not constituted in any of the CCs except BBMP. Hence, there was no community participation in local governance. Though District Planning Committees were constituted in 29 out of 30 districts, meetings were not held regularly resulting in non-preparation of the consolidated District Development Plan involving matters of common interest between the panchayats and the municipalities. Metropolitan Planning Committee, though constituted for Bengaluru area, did not prepare a comprehensive development plan.

State Finance Commission - There were delays in constitution of SFCs ranging from 10 days to 1,606 days (1st to 4th SFC). Hence, 4th SFC was in place instead of 6th SFC due. Acceptance and implementation of the SFC recommendations were also delayed by 238 days to 1,284 days. The State Government had not implemented many of the recommendations of SFC and undertook modifications of recommendations relating to fiscal devolution. This was a setback to the process of strengthening ULBs.

District Urban Development Cell – The action plans of ULBs for development works to be taken up under municipal funds were being approved by DUDC after approval by the Council. This system undermined the autonomy of ULBs.

Impact of parastatals on ULBs – The functions of urban/town planning, regulation of land use, water supply & sanitation and slum development were delivered by parastatals in the State. These parastatals had their own governing bodies which did not include elected representative of ULBs. The State did not amend the statutes so as to make the parastatals accountable to ULBs. This arrangement infringed on the ability of ULBs to discharge their mandated functions and undermined the objective of accountability to the people.

Audit Objective

3

Whether ULBs have access and powers to raise financial resources commensurate with their functions?

The 74th CAA provided for fiscal transfers from the Central and State Governments besides empowering them to raise their own revenue. The fiscal transfers constituted about 63 *per cent* of the revenue of ULBs during the period 2014-15 to 2018-19. However, there was shortfall in release of the committed funds by the State Government. As against ₹44,691 crore to be released to ULBs as per SFC recommendations, only ₹17,119 crore was released during the period 2014-15 to 2018-19. Grant of ₹12,007.65 crore released to parastatals to service borrowings on behalf of ULBs was deducted from the releases to all ULBs resulting in short release of funds to ULBs that had not availed any loan. The assigned revenue in the form of duty on transfer of immovable property was released belatedly each year during the period 2014-18 and it was yet to be released for the year 2018-19.

The share of own revenue to total revenue of ULBs for the period 2014-15 to 2018-19 was only 37 *per cent*. The ULBs lacked autonomy in generating their own revenue. While the authority to collect certain taxes like property tax, advertisement tax vested with ULBs, powers pertaining to the rates and revision thereof

(advertisement tax), procedure of collection (property tax), method of assessment, exemptions, concessions (property tax, advertisement tax) *etc.*, vested with the State Government. The intervention of the State Government constrained the ULBs. Besides, omissions such as absence of reliable and complete database of properties, deficiencies in maintenance of demand, collection and balance registers, non-revision of rates periodically though empowered *etc.*, hampered the revenue generation of ULBs.

Budget preparation exercise was flawed and unrealistic. Scientific estimation of cost of each municipal service was not carried out, leading to huge variations between estimates and actuals. ULBs were able to generate own resources to the extent of only 56 *per cent* of revenue expenditure and had utilised on an average about 69 *per cent* of the available funds. The expenditure constraints included limited financial and administrative powers to ULBs, rigid guidelines for allocation and utilisation CFC grants by the State Government and huge number of vacancies.

Audit Objective

4

Whether ULBs have powers to mobilise and incentivise human resources commensurate with their functions?

ULBs were not vested with the powers to assess staff requirement and recruit staff. These were vested with the State Government. Population alone was considered for assessment of requirement. Further, the State had the powers to regulate classification, method of recruitment, conditions of service, pay and allowances, initiate disciplinary action on staff of ULBs, transfer staff across ULBs or to other Government departments.

The C&R Rules framed by State Government failed to specify function wise requirement of staff. As a result, there was no transparency in terms of specifying the roles and responsibilities for each position, requirement of skills and qualification for each role *etc.*

The ULBs lacked adequate manpower as there were huge vacancies across all cadres affecting efficient delivery of services. Though the State Government was aware of the status of manpower, it had not

taken action to fill up the vacancies. Further, as many as 181 persons who were not from KMAS were discharging the duties of Municipal Commissioner/Chief Officer in violation of the statutory provisions. On the contrary, 21 KMAS officers were discharging duties as Revenue Officers/Managers/Sr. Health Inspectors. This impacts the efficacy of service delivery by ULBs. Capacity building exercise was also deficient.



Bengaluru
The

(E. P. Nivedita)
Principal Accountant General (Audit-I)
Karnataka

Countersigned



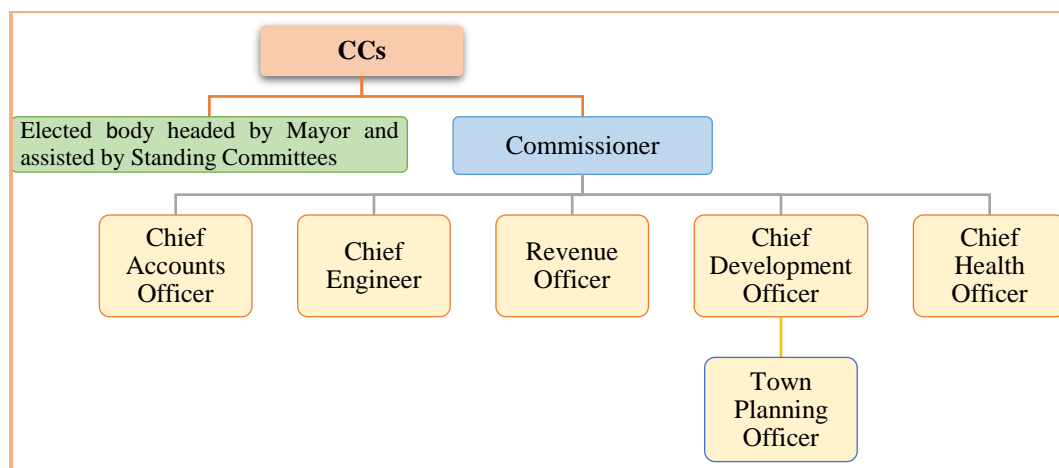
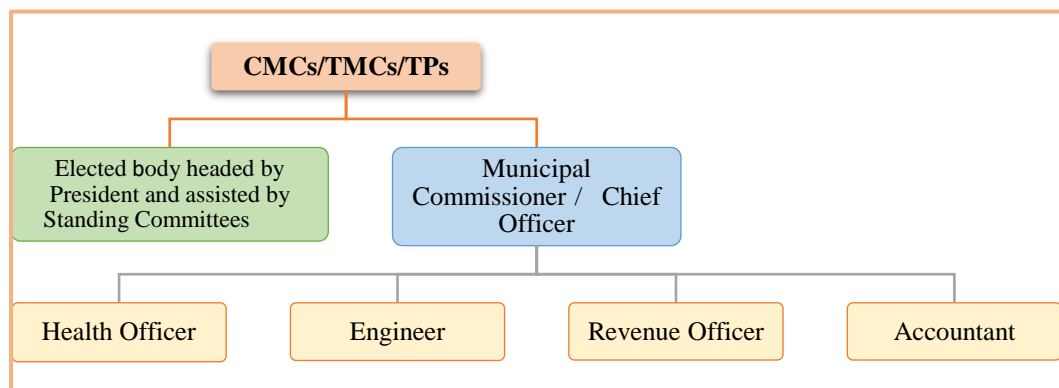
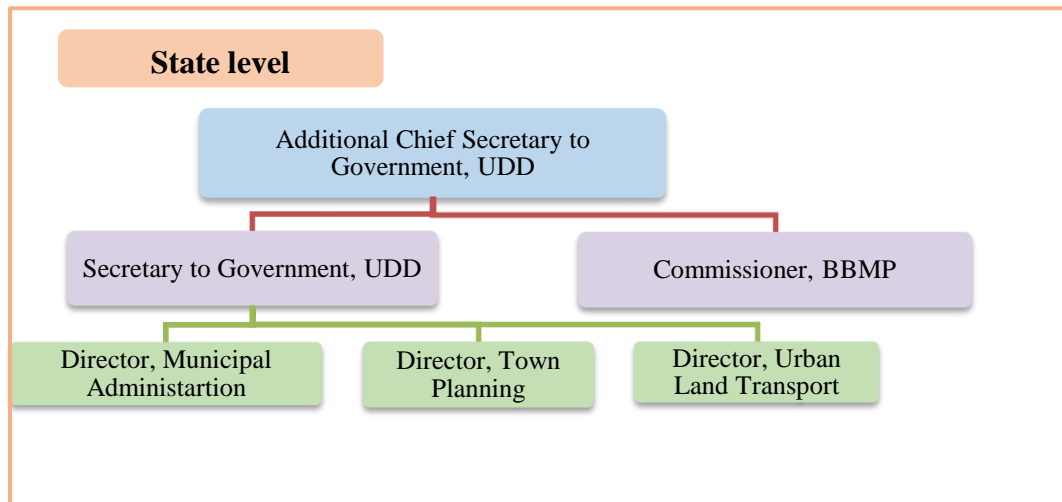
New Delhi
The

(Rajiv Mehrishi)
Comptroller and Auditor General of India

Appendix 1.1

(Reference: Paragraph 1.4, Page 2)

Organisation structure with respect to functioning of ULBs in the State



Appendix 1.2
(Reference: Paragraph 1.4, Page 2)
List of parastatals and their functions

Sl. No.	Parastatal	Functions
1	Karnataka Urban Water Supply and Drainage Board	Formed in August 1974. Responsible for providing water supply and drainage facilities to all urban areas in the State other than Bengaluru city. It is also responsible for operation and maintenance, wherever entrusted with.
2	Karnataka Urban Infrastructure Development and Finance Corporation	Established in November 1993. Responsible to prepare, formulate and implement projects, schemes and programmes relating to infrastructure development in the urban areas of the state and provide technical and financial consultancy.
3	Karnataka Slum Development Board	Constituted in July 1975. Responsible for slum improvement / clearance / rehabilitation of slum dwellers in the State.
4	Bengaluru Water Supply and Sewerage Board	Formed in September 1964. Responsible for water supply and sewage disposal within the jurisdiction of Bruhat Bengaluru Mahanagara Palike area.
5	Bengaluru Development Authority	Set up in 1976. Responsible for preparation of Comprehensive Development Plan for Bengaluru metropolitan region and development of infrastructure, provision of development-related sites and services, the housing needs of underprivileged citizens in Bengaluru.
6	Bengaluru Metropolitan Region Development Authority	Formed in 2007. Responsible for planning, coordinating and supervising the proper and orderly development of the areas within the Bangalore Metropolitan Region (BMR) which comprises Bangalore Urban district, Bangalore Rural district and Ramanagara District.
7	State Road Transportation Corporations (KSRTC, NWKRTC, NEKRTC, BMTC)	State Road Corporation was established in August 1961 and was later split (February 1997) into four separate corporations. These corporations are responsible for providing quality transport service to the travelling public in the State and cities.
8	Urban Development Authorities	The Urban Development Authorities established in all district headquarters, under Karnataka Urban Development Authorities Act 1987, are responsible for planning and promoting and securing the development of the urban area and for these purposes the Authorities shall have the power to acquire, hold, manage and dispose of moveable and immovable property, whether within or outside the urban area under its jurisdiction, to carryout buildings, engineering and other operations and generally to do all things necessary or expedient for the purpose of such development and for purposes incidental thereto.
9	Town Planning Authorities	The Town Planning Authorities established under Karnataka Town and Country Planning Act, 1961 are responsible for preparation of master plans for urban and rural settlements, approval for formation of layouts, providing technical assistance to various government departments/local bodies for orderly development of cities and towns <i>etc.</i>
10	Karnataka Industrial Area Development Board	Established in the year 1966. Responsible for promoting rapid and orderly establishment and development of industries and for providing industrial infrastructural facilities and other amenities in Industrial areas in Karnataka.

Source: Information furnished by parastatals

Appendix 2.1
(Reference: Paragraph 2.3, Page 4)

List of selected ULBs

Sl. No	Division	District	Units Selected for Sample			
			City Corporation	City Municipal Council	Town Municipal Council	Town Panchayat
1	Belagavi	Bagalkote		Bagalkote		
2		Belagavi		Nippani	Sankeshwara, Bailhongal	
3		Dharwad	Hubballi-Dharwad			
4		Gadag			Lakshmeshwar	
5		Haveri		Ranebennur	Hangal, Savanur	Hirekerur
6		Uttara Kannada		Karwar	Bhatkal	
7		Vijayapura			Basavana Bagevadi	
8	Bengaluru	Bengaluru Rural		Doddaballapura	Vijayapura	
9		Bengaluru Urban				
10		Chikkaballapura				
11		Chitradurga		Chitradurga		
12		Davanagere	Davanagere		Harappanahalli	
13		Kolar		Kolar	Srinivasapura	
14		Ramanagara		Channapatna		
15		Shivamogga		Bhadravathi		Thirthahalli
16		Tumakuru		Tiptur	Madhugiri	
17	Kalaburagi	Ballari			Kampli	Kamalapura
18		Bidar		Bidar		
19		Kalaburagi	Kalaburagi	Shahabad	Aland, Wadi	
20		Koppal		Gangavathi Koppal		
21		Raichur			Manvi	
22		Yadgir				
23	Mysuru	Chamarajanagara		Kollegal		
24		Chikkamagaluru				Mudigere
25		Dakshina Kannada	Mangalore			
26		Hassan		Arasikere	Sakleshpur	
27		Kodagu				
28		Mandya		Mandya	Maddur,	
29		Mysuru			Bannur	
30		Udupi			Kundapura	

Appendix 4.1*(Reference: Paragraph 4.2.6.2, Page 20)***Non-implementation of SFC recommendations**

Sl. No.	Recommendations	Action taken by Government
4th SFC		
1	The Rules pertaining to the power of expenditure of the Municipalities need to be revised regularly to commensurate with their functional needs	Delegation of powers with respect to functions not revised
2	The Rules relating to penalties, fines and charges provided under the Municipal Acts for control of nuisances and for regulatory and enforcement functions are very minimal and not revised for decades.	Rules relating to Penalties, fines and charges not revised
3	An institute should be set up to train city managers/urban specialists in management of cities in cooperation with IIMB, IISC, IIT and other leading institutions with core competence.	Yet to be constituted
4	State Municipal Advisory Committee may be set up to advise the state/department concerned on critical issues of municipal affairs.	State Municipal Advisory Committee not constituted
5	It is recommended that the office of the DUDC should be encouraged to act as PPP advisory to the ULBs in the districts or in other words to start with bigger bodies	Government yet to issue orders in this regard
3rd SFC		
6	The system of Ombudsman may be introduced in Karnataka having jurisdiction over the Panchayat Raj Institutions and Urban Local Bodies.	Not appointed. Lokayukta acts as Ombudsman in Karnataka
7	Alternate sources of energy may be used for street lights (solar energy, wind power)	Action yet to be taken by ULBs
8	The Government should give additional grants to provide underground drainage to all the urban areas	Separate fund not given by UGD
2nd SFC		
9	The State Government should give the interest part of the loan instalments due as subsidy. This should be outside the devolution recommended for Urban Local Bodies. The subsidy towards interest should be given only to those Institutions who make regular repayment of loan instalments.	Loan repayment included as part of devolution.
10	The Government should evolve a human resources management policy and this should include regular recruitment and training of personnel. Unqualified and lower cadre officials are placed in charge of posts of Chief Officers of Town Municipal Councils and Town Panchayats. These persons should be replaced by qualified persons.	No HRM policy prescribed.

1 st SFC		
11	Creation of Common Valuation Authority for both urban and rural areas.	Not created
12	KUWS&DB should be entrusted with only construction and bulk supply of water, and Urban Local Bodies should be in charge of distribution and collection of water rates.	KUWSDB is in-charge of O&M in some ULBs
13	Drinking water supply for both rural and urban areas, other than for Bangalore, may be entrusted to one department at the state level. The KUWS&DB may be charged with the responsibility of execution of integrated water supply programme	There are two separate agencies for Urban and Rural areas. KRW&SA and KUWS&DB
14	Integration of urban civic service agencies with elected Urban Local Bodies	Not done
15	The Government may enact one common legislation relating to CCs, and Municipalities with the provisions of the 74th amendment of the constitution. This may be entitled "Karnataka Urban Local Bodies Act".	Common Act for CC and Municipalities not enacted.
16	Cesses like library cess, beggary cess, education cess, health cess and water cess etc., should be abolished.	Not abolished
17	Parking fees for motor vehicles should be charged in all commercial areas, as it is likely to bring in considerable revenue in big cities and towns. Further, Urban Local Bodies should provide 'towing services' for stranded vehicles, and charge for the same.	Action not taken either by Government or by ULBs impose such fees.
18	Full cost for water charges should be levied for the services rendered to the urban dwellers.	Full O&M cost not recovered
19	The existing urban development authorities including BDA should be brought under the respective elected municipal bodies. 'Slum improvement' should also be brought under these bodies	Government has not amended respective Acts to bring them under ULBs,
20	Town planning units, wherever existing, may be transferred to municipalities. Even functions like urban forestry should be entrusted to elected municipal bodies.	TPAs not transferred to ULBs
21	The Commission recommends abolition of the Directorate of Municipal Administration.	DMA not abolished
22	All decisions relating to service conditions of municipal employees may be taken by the respective Urban Local Bodies.	ULBs doesn't have any role relating to service matters of ULB staff.

Source: SFC reports and information furnished by UDD/DMA

Appendix 5.1

(Reference: Paragraph 5.1.2.7, Page 38)

Statement showing the details of revenue sources identified by 4th SFC,
status of levy and statutory provisions

Sl. No	Revenue sources	Status of levy	Provisions as per Act & Rules		
			KMC Act	KM Act	GoK Order & Circular Reference
Tax Revenue					
1	Property Tax	Levied	Sec-103 b (i)	Sec- 94-1 b (i)	
2	Advertisement Tax	Levied	Sec-103 b (vi)	Sec-94-1 b (xiii)	
3	Tax on non-motorised Vehicles	Levied (only by CCs)	Sec-103 b (v) Omitted during 2003		
4	Boats	Levied (applicable to only Coastal areas)	Schedule V		
5	Animals and Dogs	Not Levied	Schedule V		
Non-Tax Revenue					
1	Birth and Death Certificate Fees	Levied			Karnataka Registration of Birth & Death Rule 1999 (Ann-II) & DMA:MRC:CR-10:2007-08 Dt. 06.08.2010
2	Market Fees	Levied	Public Markets : Sec-369 Private Markets: Sec 372 (2)	Sec 244 (1)	
3	Shandi fees	Levied		Sec-137	
4	Bus Stand Fee	Levied	Sec-348	Sec-138	
5	Building Plan / License approval fee	Levied			Para No. 3.10.2 of Karnataka Municipalities Model Building By-laws-2017
6	Trade License.	Levied	Sec-2(19) & 369	Sec-256 (a) & Part I of Sch. XIII	
7	Khata / Mutation fee	Levied			As per circular dt. 30.01.2006 DMA:SAS/35/2005-06
8	Rental for Shops /Markets, Commercial complexes	Levied			GO no UDD 509 GEL 2104 dated 19.1.2015

9	Parking Fee.	Levied	Sec-348		
10	Road Cutting Fee.	Levied			As per council decision
11	Town Hall Fee	Levied wherever Town halls exists			As per council decision
12	Ground Rent	Levied			As per council decision
13	Greenery charges	Not Levied			As per council decision
14	Development charges	Levied by UDAs/TPAs			Rule 37 of the Karnataka Town Planning Authority Rule 1965
15	Water Charges.	Levied	Sec-144	Sec 139	GO UDD/07/UWS 2011 Dt. 20.07.2011
16	Betterment Fee	Levied		Sec 161	As per KTCP Act
17	Slum Dev. Fee	Levied			As per KTCP Act
18	SWM Cess.	Levied	Sec-103 B		
19	UGD Charges	Levied			GO UDD/07/UWS 2011 Dt. 20.07.2011
20	Auction Fee	Occasional			As per council decision & competitive bidding
21	UGD connection fee	Levied			
22	Water connection fee	Levied			GO UDD/07/UWS 2011 Dt. 20.07.2011
23	Mobile Tower	Levied			Gazette notification dated 24.2.2016
24	Cable Laying charges	Not Levied			As per council decision
25	Other Fees & Tolls (Boat Ferry, Slaughter House fee, Cow shed)	Not Levied	Section 364, 348	Section 324, 244, 71	
26	Crematoria & Burial	Levied	Sec- 393 (1)		
27	Copy Extract	Levied			As per council decision
28	Tender Forms	Levied			As per KTCP Act
29	Dog Fee	Not Levied			As per council decision
30	Penalties	Levied	Schedule-XI & XII	Sec-107, 187B, 275, 370	

Source: KM and KMC Acts; Government orders and information furnished by ULBs

Appendix 6.1

(Reference: Paragraph 6.1.3, Page 48)

Statement showing the number of employees per 1,000 population in test-checked ULBs

Sl No	Category	Name of the ULB	Population as per 2001 census	Population as per 2011 census	*Projected population for the year 2019	Sanctioned strength	Working staff (As per OVP)	Per 1,000 population 2001 census (sanctioned strength)	Per 1,000 population 2011 census (sanctioned strength)	Per 1,000 population 2019 projections (working strength)
1	CC	Davanagere	3,64,523	4,34,971	4,89,603	1,725	1,210	4.73	3.97	2.47
2	CC	HDMC	7,86,195	9,43,788	10,85,060	3,794	3,521	4.83	4.02	3.24
3	CC	Kalaburagi	4,30,265	5,43,147	6,29,850	1,725	1,544	4.01	3.18	2.45
4	CC	Mangaluru	4,11,327	4,99,487	6,19,941	1,725	1,208	4.19	3.45	1.95
5	CMC	Arasikere	45,166	53,216	63,075	237	198	5.25	4.45	3.14
6	CMC	Bagalkote	90,988	1,11,933	1,34,085	236	133	2.59	2.11	0.99
7	CMC	Bhadravathi	1,60,662	1,51,102	1,61,751	418	364	2.60	2.77	2.25
8	CMC	Bidar	1,74,257	2,16,020	2,51,684	418	353	2.40	1.94	1.40
9	CMC	Channapatna	63,577	71,942	85,613	236	158	3.71	3.28	1.85
10	CMC	Chitradurga	1,25,170	1,45,853	1,74,999	467	413	3.73	3.20	2.36
11	CMC	Doddaballapura	71,606	93,105	1,30,820	236	273	3.30	2.53	2.09
12	CMC	Gangavathi	1,01,392	1,14,642	1,30,522	300	282	2.96	2.62	2.16
13	CMC	Karwar	75,038	77,139	86,549	385	168	5.13	4.99	1.94
14	CMC	Kolar	1,13,907	1,38,462	1,59,749	418	273	3.67	3.02	1.71
15	CMC	Kollegal	52,607	57,149	78,277	236	162	4.49	4.13	2.07
16	CMC	Koppal	56,160	70,698	90,609	236	89	4.20	3.34	0.98
17	CMC	Mandya	1,31,179	1,37,358	1,47,867	418	271	3.19	3.04	1.83
18	CMC	Nipani	58,081	62,865	NA	236	176	4.06	3.75	
19	CMC	Ranebennur	89,618	1,06,406	1,37,646	296	249	3.30	2.78	1.81
20	CMC	Shahbad	50,562	47,582	NA	204	75	4.03	4.29	
21	CMC	Tiptur	53,104	59,543	68,326	236	192	4.44	3.96	2.81
22	TMC	Aland	35,245	42,371	49,261	130	85	3.69	3.07	1.73
23	TMC	Bailhongal	43,225	49,182	NA	97	57	2.24	1.97	
24	TMC	Bannur	23,239	21,896	NA	97	58	4.17	4.43	
25	TMC	Basavana Bagewadi	28,560	33,198	40,087	97	70	3.40	2.92	1.75
26	TMC	Bhatkal	31,774	32,000	52,856	97	92	3.05	3.03	1.74

27	TMC	Hanagal	25,009	28,159	33,126	103	82	4.12	3.66	2.48
28	TMC	Harappanahalli	41,907	47,039	52,810	138	127	3.29	2.93	2.40
29	TMC	Kampli	35,380	39,307	NA	125	92	3.53	3.18	
30	TMC	Kundapura	28,591	30,444	59,846	108	103	3.78	3.55	1.72
31	TMC	Laxmeshwar	33,417	36,754	NA	120	84	3.59	3.26	
32	TMC	Maddur	26,521	28,754	37,904	110	103	4.15	3.83	2.72
33	TMC	Madhugiri	26,304	29,159	33,486	122	112	4.64	4.18	3.34
34	TMC	Manvi	37,613	46,465	51,476	97	130	2.58	2.09	2.53
35	TMC	Sakleshpur	23,176	23,352	27,699	92	61	3.97	3.94	2.20
36	TMC	Sankeshwar	32,511	34,637	NA	97	88	2.98	2.80	
37	TMC	Savanur	35,563	40,567	46,024	129	76	3.63	3.18	1.65
38	TMC	Srinivasapura	22,959	26,793	31,003	97	71	4.22	3.62	2.29
39	TMC	Vijayapura	29,540	34,866	NA	118	88	3.99	3.38	
40	TMC	Wadi	30,012	37,988	NA	124	89	4.13	3.26	
41	TP	Hirekerur	15,872	19,191	22,064	62	83	3.91	3.23	3.76
42	TP	Kamalapura	21,830	25,552	NA	66	58	3.02	2.58	
43	TP	Mudigere	8,963	9,667	12,636	52	23	5.80	5.38	1.82
44	TP	Thirthahalli	14,808	14,528	15,598	55	60	3.71	3.79	3.85

* As per Directorate of Economics and Statistics

Source: Information furnished by ULBs

Appendix 6.2

(Reference: Paragraph 6.3, Page 52)

Statement showing the details of training programmes conducted by SIUD, Mysuru

Year	Sl. no	Function Name	No. of Programmes conducted	Nominated	Attended	Percentage Attended
2014-15	1	Legal & Urban Governance	3	421	275	65
	2	Engineering	15	502	313	62
	3	SWM & Environment	32	1,616	1,324	82
	4	Water & waste water management/SLB	9	499	298	60
	5	Finance Accounts & Administration	7	195	147	75
	6	Welfare Programmes	6	315	233	74
	7	Department of Town and Country Planning (DTCP)	4	167	96	57
	8	Sponsored Programmes	3	80	75	94
	9	Training of Trainers	1	39	30	77
2015-16	10	Legal & Urban Governance	12	525	258	49
	11	Engineering	12	418	238	57
	12	SWM & Environment	18	1,420	842	59
	13	Water & waste water management	7	332	131	39
	14	Finance Accounts & Administration	1	50	30	60
	15	Welfare Programmes	12	733	569	78
	16	DTCP	5	174	89	51
	17	Sponsored Programmes	8	367	186	51
2016-17	18	Legal & Urban Governance	2	259	34	13
	19	Engineering	6	417	216	52
	20	SWM & Environment	2	182	85	47
	21	Foundation Course for FDA & Env. Engineer	4	179	170	95
	22	Finance Accounts & Administration	7	230	215	93
	23	Welfare Programmes	34	2,398	2,332	97
	24	Orientation Programme on AMRUT for all cadres	28	1,001	668	67
	25	Sponsored Programmes	8	510	289	57
	26	Training of Trainers	2	99	69	70
	27	Integrated Capacity Building Training for all Group-A,B,C cadres	26	924	624	68
2017-18	28	Legal & Urban Governance	10	417	297	71
	29	Engineering	1	40	35	88
	30	SWM & Environment	9	803	464	58
	31	Pradhan Mantri Awas Yojana	3	100	69	69
	32	Finance Accounts & Administration	9	306	245	80
	33	Welfare Programmes	17	2,975	2,876	97
	34	DTCP	4	159	144	91
	35	Orientation for all missions	1	40	14	35
	36	Training of Trainers	18	793	542	68
	2018-19	37	Legal & Urban Governance	9	490	254
38		Engineering	5	235	164	70
39		SWM & Environment	11	425	261	61
40		Water & waste water management	5	207	113	55
41		Finance Accounts & Administration	4	170	103	61
42		Welfare Programmes	24	636	547	86
43		DTCP	6	240	136	57
44		Integrated Capacity Building Training for all missions	37	1,148	875	76
45		Foundation Course for Junior Engineer, Jr Health Inspector, FDA, Bill collector	4	194	168	87
			Grand Total	451	23,430	17,143

Source: Information furnished by SIUD, Mysuru

Glossary

ADB	Asian Development Bank
AMRUT	Atal Mission for Rejuvenation and Urban Transformation
AEE	Assistant Executive Engineer
BBMP	Bruhat Bengaluru Mahanagara Palike
BDA	Bengaluru Development Authority
BMR	Bangalore Metropolitan Region
BMRDA	Bengaluru Metropolitan Region Development Authority
BMTC	Bangalore Metropolitan Transport Corporation
BWSSB	Bengaluru Water Supply and Sewerage Board
C&AG	Comptroller and Auditor General of India
C&R Rules	Cadre and Recruitment Rules
CAA	Constitutional Amendment Act
CC	City Corporation
CFC	Central Finance Commission
CMC	City Municipal Council
DC	Deputy Commissioner
DCB	Demand, Collection and Balance
DDP	District Development Plan
DMA	Directorate of Municipal Administration
DPC	District Planning Committee
DPDC	Decentralised Planning and Development Committee
DPR	Detailed Project Report
DUDC	District Urban Development Cell
ESCOMs	Electricity Supply Companies
FAR	Floor Area Ratio
FDA	First Division Assistant
FFC	14 th Finance Commission
GO	Government Order
GOK	Government of Karnataka
HDMC	Hubballi-Dharwad Municipal Corporation
HRM	Human Resource Management
IGR	Inspector General of Registration and Commissioner of Stamps
IIMB	Indian Institute of Management Bangalore
IISc	Indian Institute of Science
IIT	Indian Institute of Technology
ITA	Industrial Township Authority

JE	Junior Engineer
JnNURM	Jawaharlal Nehru National Urban Renewal Mission
KIADB	Karnataka Industrial Area Development Board
KM Act	Karnataka Municipalities Act
KMAM	Karnataka Municipal Accounting Manual
KMAS	Karnataka Municipal Administrative Service
KMC Act	Karnataka Municipal Corporations Act
KPR Act	Karnataka Gram Swaraj and Panchayat Raj Act
KPSC	Karnataka Public Service Commission
KRW&SA	Karnataka Rural Water Supply & Sanitation Agency
KSDB	Karnataka Slum Development Board
KSFES	Karnataka State Fire and Emergency Services
KSRTC	Karnataka State Road Transport Corporation
KTCP	Karnataka Town and Country Planning
KTPP	Karnataka Transparency in Public Procurement
KUIDFC	Karnataka Urban Infrastructure Development Finance Corporation
KUWS&DB	Karnataka Urban Water Supply and Drainage Board
MPC	Metropolitan Planning Committee
MRC	Municipal Reform Cell
NAC	Notified Area Committee
NEKRTC	North Eastern Karnataka Road Transport Corporation
NLGORR	Non-Loan Gross Own Revenue Receipts
NLNORR	Non-Loan Net Own Revenue Receipts
NORR	Net Own Revenue Receipts
NWKRTC	North Western Karnataka Road Transport Corporation
OEWS	Other Economically Backward Sections
O&M	Operation and maintenance
OBC	Other Backward Class
PA	Performance Audit
PMC	Project Management Consultants
PMU	Project Monitoring Unit
SC	Scheduled Caste
SEC	State Election Commission
SFC	State Finance Commission
SIUD	State Institute of Urban Development
SLB	Service Level Benchmark
ST	Scheduled Tribe
SWM	Solid Waste Management
TMC	Town Municipal Council
TP	Town Panchayat

TPA	Town Planning Authorities
UDA	Urban Development Authorities
UDD	Urban Development Department
UDWSP	Urban Drinking Water and Sanitation policy
UGD	Under Ground Drainage
ULB	Urban Local Body
WSS	Water supply Scheme



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