

**Municipalities of India –  
Understanding its Financial  
Management, Accounting, Fiscal  
Management, Auditing, and  
Compliances**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
New Delhi

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## **FOREWORD**

The 74th Constitutional Amendment Act of 1992 was a pivotal moment in India's journey toward decentralized governance, establishing Municipalities as institutions of local self-government in urban areas. As the backbone of urban governance, Municipalities are tasked with delivering essential services such as water supply, sewerage, and urban transport, which are critical for improving the quality of life, especially for the marginalized sections of society. With the rapid urbanisation of cities and the increasing pressure on municipal infrastructure, effective Public Financial Management (PFM) has become a vital factor for sustainable urban development. As cities continue to drive economic growth and societal progress, the role of Municipalities in ensuring effective governance, equitable service delivery, and long-term sustainability has become more crucial than ever. To navigate the complexities of urban governance, a robust framework in accounting, financial management, fiscal management, auditing, compliance, and reforms is essential.

I am happy that Committee on Public & Government Financial Management (CPGFM) of ICAI has developed Publication "Municipalities of India – Understanding its Accounting, Financial Management, Fiscal Management, Auditing, Compliances, and Reforms" to address several key dimensions that affect the functioning of municipalities: the nuances of accounting practices, the intricacies of financial and fiscal management, and the need for strong auditing frameworks. It also delves into the critical area of compliance, which has become a cornerstone of governance in an increasingly regulated environment. Furthermore, the publication explores the ongoing reforms aimed at improving the operational efficiency, financial transparency, and accountability of urban local bodies.

I congratulate CA. Kemisha Soni, Chairperson, Committee on Public & Government Financial Management (CPGFM), CA. Prasanna Kumar D, Vice-Chairperson, CPGFM, other members of the Committee and all those who have contributed for bringing out this publication.

I am confident that this publication would be immensely useful to all concerned.

**20<sup>th</sup> January 2025**  
**New Delhi**

**CA. Ranjeet Kumar Agarwal**  
**President, ICAI**



## PREFACE

Municipalities in India play a crucial role in driving local governance, delivering essential services, and fostering community development. As the backbone of urban administration, they are responsible for managing public resources, ensuring efficient service delivery, and adhering to a complex web of financial regulations. The increasing decentralization of power, coupled with the need for fiscal accountability and transparency, underscores the importance of understanding and strengthening the accounting, financial management, and auditing systems of municipalities. Ongoing reforms in municipal finance, particularly through the adoption of digital platforms and tools, are key to modernizing operations, improving service delivery, and enhancing responsiveness to citizen needs.

This publication namely, *Municipalities of India – Understanding its Accounting, Financial Management, Fiscal Management, Auditing, Compliances, and Reforms*, provides a comprehensive exploration of the accounting and financial management practices within urban local bodies (ULBs). It outlines the evolving landscape of Public Financial Management (PFM) in Municipalities, focusing on the essential pillars of budgeting, planning, procurement, and fiscal management that guide their functioning. The integration of efficient financial management systems, supported by technological advancements, plays a crucial role in addressing the needs of urban populations and ensuring transparency and accountability in governance. The publication also delves into the challenges of revenue generation, internal controls, external audits, and compliance requirements that Municipalities must navigate to maintain financial health. It further discusses the pressing need for reforms to enhance the capacity of ULBs in managing their finances and improving service delivery, while aligning with best practices in governance.

We wish to express our deep gratitude to CA. Ranjeet Kumar Agarwal, President, ICAI and CA. Charanjot Singh Nanda, Vice-President, ICAI, for their guidance and encouragement for

the Committee's initiatives. We also acknowledge the consistent support of all Committee members, whose dedication and collaboration have played a crucial role in advancing the Committee's work.

We wish to place on record appreciation for CA Sumitabha Ray, Resource Person, CPGFM, for carrying out the extensive research and writing down the research findings in user friendly manner in the form of a publication for all concerned. We also appreciate the CPGFM Secretariat for the efforts put in by them for bringing this publication.

We hope that this publication would be immensely helpful to all the concerned stakeholders.

**CA. Kemisha Soni**  
**Chairperson**

**CA. Prasanna Kumar D**  
**Vice-Chairperson**

**Committee on Public & Government Financial  
Management**

New Delhi  
7<sup>th</sup> January 2025

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## **Executive Summary**

This publication titled as *Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances* initiated by the Committee on Public & Government Financial Management (CPGFM) of the Institute of Chartered Accountants of India (ICAI) is a compilation of various experiences gained while working with urban local bodies of India. This publication recognizes that the urban local bodies (ULBs) are the principal catalysts for guiding urbanization. Urbanization in India is just evolving, and its full potential will begin to unfold in another decade or so. The efficiency with which the ULBs will undertake and carry out their functions particularly in respect of their responsibilities towards delivering services and governing their jurisdictions will determine whether India can accomplish its macroeconomic growth and poverty reduction goals and objectives. This fact has been especially noted and recognized in the preparation of this report. Fiscal empowerment of ULBs when seen from this perspective is no larger a matter of choice, it is a necessity.

The Government of India (GOI) enacted The Seventy-Fourth Constitutional Amendment Act, 1992 and had envisaged creation of local self-governments for urban area population and accordingly the Municipalities were accorded constitutional status for governance. The States were required to entrust Municipalities with powers, functions, and responsibilities to enable them to function as institutions of local self-government and carry out the responsibilities conferred upon them including 18 subjects listed in Twelfth Schedule of the Constitution.

Urbanization and pace of urbanization has increased tremendously during the last few decades. Cities are growing very fast, in terms of population as well as size, spreading beyond municipal jurisdiction. More and more towns are now getting converted into cities. More than half of World's population lives in cities. Urbanization trend is seen all over the world but is becoming most dominant in Asia. In India, the problem of urbanization is aggravated by the concentration of economic opportunity in few cities. This creates the problem of extreme concentration and thus the creation of very large cities. By 2025, 22% of the urban population will be living in 9 cities. Such large concentrations create pressure on facilities such as transportation, housing, and other products required by the population. As such, there is a need for good planning and policy framework for the cities to grow sustainably.

The public financial management (PFM) framework at Union and State emanates from the Indian Constitution and is guided by Central policies and processes. India has a federal, three-tier structure of Government comprising: the Union level; State level; and Local bodies. While State Governments have their own Finance Acts that regulate PFM practices, some areas of PFM at the state level are necessarily guided by initiatives taken at the Union level, notably with regard to the chart of accounts, which follows a uniform classification system across the Union and States, and accounting and financial reporting, since responsibility at the state level is vested in the Accountant General and the basis of accounting and financial reporting is guided by the Constitution and Comptroller and Auditor General and the Controller General of Accounts. The Fiscal Responsibility and Budget Management Acts (FRBM) at Union and State level provide a rules-based framework for fiscal consolidation and management. The objective of the FRBM is to ensure a sustainable fiscal policy, prudent debt management through limits on the Government borrowing, limits on debt and deficits, greater transparency in fiscal operation, and conduct fiscal policy in a medium-term framework. The General Financial Rules (GFR) guide the financial, internal control and procurement framework in GOI.

Realizing the full potential of these reforms and achieving the states' own priorities will require competent and efficient PFM systems in the States, coupled with enhanced transparency and accountability. Individual states will need to manage a complex set of three PFM objectives involving trade-off and sequencing. The first is to improve the quality and sustainability of fiscal deficits, contingent liabilities, and fiscal risks; the second is to increase public investment; and the third is to focus on the outcomes of government expenditure rather than on merely outlays. Consequently, these are expected to impose significant pressure on existing systems of planning, revenue administration, and management of expenditure and reporting on the use of public funds in the states. PFM reforms in municipalities or urban local bodies (ULBs) as the third tier of the federal three-tier structure of India's governance mechanism is a must.

A strong PFM system in local bodies is thus a key to achieving development objectives and an efficient service delivery mechanism in municipalities or ULBs. The PFM framework brings out the linkages between legislative, budgeting, implementation, reporting and oversight process in the ULBs. Improved functioning in these areas would lead to increased accountability

and enhanced levels of service delivery. The recent impetus for reforms brings out the acceptance, need and requirement to put PFM at the centre stage of improved governance and service delivery. ULBs as the providers of urban services face the challenge of meeting these demands through better management of resources and identifying new and innovative sources of funding. It also requires ULBs to shift their dependence for funds from the traditional central / state government grants to the citizens (for taxes), external financiers (for borrowings) and development agencies (for soft loans).

With this gradual increase in external stakeholders, ULBs cannot continue to function as closed dominions with their set systems. ULBs now need to demonstrate an efficient system of public financial management, an ability to provide cost effective services and an environment of accountability and transparency to their stakeholders. It is in this context that improved public financial management (PFM) has become crucial not only for better governance but also for improved service delivery.

With this context in the backdrop, this publication *Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances* to understand some of the important PFM pillars, their evolution, and the present status of the pillars vis-à-vis the municipal governance in India. The publication attempted to explore the following important PFM pillars through the following chapters:

- **Chapter 1: History of Local Governance in India**, discussing the evolution of urban local bodies in the Indian Subcontinent prior to Indian Independence and then progress of the institutionalization of urban local bodies as seen in the present-day India.
- **Chapter 2: Constitution (Seventy-fourth Amendment) Act, 1992 and Other Constitutional Provisions** discusses the impact of the constitutional amendments on municipal governance in India.
- **Chapter 3: Legislative Framework of Municipalities of India** discusses how a strong and comprehensive legislative framework of municipalities as enacted by each State Government and Union Territory of India is existing leading to improved PFM.

- **Chapter 4: Financial Management through Planning, Budgeting, and Procurement** discusses how the policy direction and budget planning and preparation is realistic, comprehensive, orderly and participatory within overall government policy. Also, discussion was relevant to understand how an efficient system and management of procurement in place to ensure increased competition, value-for-money and transparency.
- **Chapter 5: Municipal Accounting and MIS** discusses how an accounting system and management information system are complete, accurate, timely and meaningful – the changes that happened in the municipal accounting over the years.
- **Chapter 6: Fiscal Management** discusses how the financial resources of ULBs are scarce, and unable to meet the expenditure requirements, and therefore the dependence on other two upper tiers of government are substantial. The revenue resource base of ULBs typically consists of their own sources, state revenue, government grant, loans from state governments, and market borrowings. The urban local bodies are sometimes not even aware of the opportunities and avenues of generating revenues through taxes and non-tax charges.
- **Chapter 7: Auditing in ULBs of India** discusses the structure and effective policies, systems and procedures for audit that are in practice in ULBs of India.
- **Chapter 8: General Compliances of Union and State Taxes by ULBs of India** where the discussion focussed on how ULBs must undergo various compliances and the most important are those with tax authorities – both direct and indirect taxes.

*“India lives in village. The village should grow to make India  
global power in the world as it is a leader in spiritual sphere”*

---- Mahatma Gandhi

## Chapter 1:

# History of Local Governance in India

## 1. Background

Local Government (LG) means the management of local affairs by the representatives of the locality itself. It deals and plays an important role in solving the local problems chiefly of local citizen within the LG jurisdiction and provides basic civic services. In a democracy, it provides the foundation on which the democratic structure of a country stands.

People of this globalized world believe that the presence of LG is inevitable to establish democracy at the grassroot level and to ensure proper participation of people in the formulation, planning and implementation of development process. The importance of local government institution is immense because of its contribution to ensuring a **decentralized** form of **governance** (refer to **Box 1**).

The expression '**local government**' is defined, without taking into consideration its financial and legal status and representative character, as '*a public organization authorized to decide and administer a limited range of public policies within a*

Governance is defined as the manner in which power is exercised in the management of a country's economic and social resources for development. [World Bank, *The World Bank's Experience*, Washington DC, 1994. This reference is contained in Kamal Siddiqui, *Local Governance in Bangladesh: Leading Issues and Major Challenges* (Dhaka: University Press Limited, 2000)]

Decentralization ensures better results in development programmes and projects, increases people's participation, ensures efficient delivery of services, helps mobilise local resources, engenders lower-level democracy, enhances coordination, promotes equity, increases the flow of information bottom up, enhances the responsiveness of the central government to citizen demands and interest, maintains political stability, and provides education and training in political leadership.

### **Box 1**

*relatively small territory which is a subdivision of a regional or national local government*<sup>1</sup>.

The United Nations defines local self-government as ‘a political sub-division of a nation or state which is constituted by law and has substantial control of local affairs, including the power to impose taxes or exact labour for prescribed purposes. The governing body of such an entity is elected or otherwise locally selected.’<sup>2</sup>

The Indian political governance system follows a ‘federal structure’. Federalism is a system of government in which powers have been divided between the centre and its constituent parts such as states or provinces. It is an institutional mechanism to accommodate two sets of politics, one at the central or national level and the second at the regional or provincial level. In the case of India, the power to raise money as well as the power to spend is distributed across the Union Government, State Governments and Local Governments. These three levels of Government have the power to raise resources through various taxes and non-tax sources and spend these resources on different functions as provided in the Constitution (*refer to Schedule Seventh, Eleventh, and Twelfth to the Constitution*). India’s need for a federal structure arose due to the vastness and diversity of the country.

At the **local government level**, India is governed by two different sets of institutions, namely, the Panchayati Raj Institutions (PRIs) for local affairs of rural or village administration and the Municipalities (also called as urban local bodies (ULBs) for managing the local administration of urban areas. PRIs for the rural population in India, comprises a three-tier hierarchical structure from the village to the district – district (zilla) level, block (tehsil or taluka) level, and village (gram) level. It is formed on democratic principles and organically linked. The ULBs cover urban population and are of mainly six non-hierarchical types, namely, a) Municipal Corporation; b) Municipalities; c) Notified Area Committee (or Nagar Panchayats); d) Town Area Committee; e) Improvement Trust; and f) The Cantonment Board. Since LG is a state subject (*entry 5 of List II - State List under Seventh Schedule*

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<sup>1</sup> Duane Lockard, “Local Government” in Encyclopaedia of Social Sciences 451 (New York, 1968). Also referenced in LOCAL GOVERNMENT SYSTEM IN BANGLADESH: AN ASSESSMENT by Md. Jahid Hossain Bhuiyan.

<sup>2</sup> This reference is contained in Kamal Siddiqui, Local Governance in Bangladesh: Leading Issues and Major Challenges (Dhaka: University Press Limited, 2000)

*read with Article 246 of the Constitution of India*), local bodies (except Cantonment Boards) are created by the respective state governments and union territories and hence, their pattern, varies from state to state. Cantonment Boards are established under the Central Act, called The Cantonments Act, 2006 (that repealed The Cantonment Act, 1924).

In India, an understanding of the effectiveness of LG vis-à-vis its financial, fiscal, and governance arrangements and practices is complicated due to divergent institutional features of rural and urban local government systems. The first chapter of this publication, hence, focusses on the history of local government in India to underpin the understanding about local government system with emphasis on municipal governance in India.

The history of LG system in India is very long and intricate. It passed through various phases of rule and gradually chiselled into a system, an institution *per se* over the years. The more concrete shape to the LG system happened when Mahatma Gandhi gave the call for *Gram Swaraj*. Gandhiji believed in a proper institutional framework and self-reliance. Gandhiji believed that *panchayats* should be the basic unit of democratic decentralization and higher placed democratic units should cooperate with them. Gandhiji promoted Panchayat Raj as the foundation of India's political system and advocated a decentralised form of government where each village would be responsible for its own affairs. The term for such a vision was *Gram Swaraj* or "village self-government". He preferred the term '*Swaraj*' to describe what he called true democracy. As the term "*Gram Swaraj*" was coined by Gandhiji, but it was later developed by Vinoba Bhave, which promoted the transformation of every village into a self-efficient autonomous entity where all the systems and facilities for a dignified living are available. *Swaraj* signifies self-rule with a continuous effort towards independence and self-reliance.

## **2. Early History**

Till the sixth century, local government was the form of basic government in the Indian Subcontinent as there were no centralized rule and all administrations were decentralized set-ups. The existence of local government in the Indian sub-continent can be found since the existence of the villages themselves, as villages were the earliest human habitats. Villages have always been the basic units of administration in the Indian Subcontinent since ancient times. Each village had their own importance and hence, had

separate administrative set-ups as mode of communications with the superior authorities (where any centralized set-ups existed) were slow. The earliest evidence of local management of civic administration in India can be traced to Indus Valley civilization (around 2300 BCE) which was essentially an urban civilization. Historian Gordon Childe said “*well planned streets and a magnificent system of drains, regularly cleared out; reflect the vigilance of some regular municipal government*” during the Indus Valley Civilization.

The reference to the forms of village self-government can be found in the *Rig Veda*, the oldest Hindu religious writing, dating from approximately 1200 BCE. The village was the basic unit of administration in the Vedic period. The most remarkable feature of the early Vedic period concerning local administration consisted in the institution of popular assemblies of which two namely ‘*Sabha*’, and the ‘*Samiti*’ deserve special mention. The *Samiti* was the assembly of villagers that in some cases enjoyed the right of electing a leader or king while the *Sabha* exercised some judicial functions about settling disputes between villagers. Both the *Samiti* and *Sabha* enjoyed the rights to debate. The office of the village head man (*Gramani*) indicates the emergence of the village as a unit of administration.

In the course of time, village administration took the form of *panchayats* that looked into the affairs of the village. They had the powers to enforce law and order. Customs and religion elevated them to the sacred position of authority.<sup>3</sup> The word *panchayat* is derived from the word *pancha panchasvanusthitah*, has references to the existence of *Grama Sanghas* or village communities. The word ‘*panchayat*’ means an assembly (*ayat*) for five (*panch*) people who rule (*raj*).

The *Rig Veda*, *Manusmriti*, *Dharmashastras*, *Upanishads*, and *Jatakas* refer extensively to local administration, i.e. the *panchayat* system of administration. In the *Manusmriti* and *Shantiparva* of Mahabharata, there are many references to the existence of *Grama Sanghas* or village councils. The earliest reference to *panchayat* (referring to an institution of the five or *pancha panchasvanusthitah*) is found in the *Shantiparva* of Mahabharata, *pancha* and *panchavanustitah* are semantically close to the term *panchayat*.<sup>4</sup>

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<sup>3</sup> Evolution of Local Self-government in India by Silvasahu

<sup>4</sup> Singh Raj, *Panchayat Raj Manual: A Socio-Historical Cum Legal Perspective*, Anmol Publications, New Delhi, 1996.

A description of these village councils is also found in *Arthashastra* of Kautilya who lived in 400 BCE. *Arthashastra* gives a comprehensive account of the system of village administration prevailing in his time. During this period, the village administration was carried under the supervision and control of *Adyaksha* or headman. There were other officials such as *Samkhyaka* (accountant), *Anikitsaka* (veterinary doctor), *Jamghkarmika* (village couriers), *Chikitsaka* (physician or doctor). The village headman was responsible for ensuring the collection of state dues and controlling the activities of the offenders. In the Valmiki *Ramayana*, there are references to the *Ganapada* (village federation) which was perhaps a kind of federation of village republics.<sup>5</sup>

During the Mauryan period (321 BCE. to 185 BCE), the villages continued to be the basic unit of administration. Villagers used to organize works of public utility and recreation, settle disputes, and act as trustees for the property of minors. However, the concept of holding regular councils was yet to evolve. The village councils appeared to have evolved as regular bodies during the Gupta period (mid-3rd century CE to mid-6th century CE). They were known as Panchamandalas in central India and Gramajanapadas in Bihar.<sup>6</sup> These bodies negotiated with the government for concessions and settlement of disputes. The inscription of Chola dynasty (latter half of the 9th century CE till the beginning of the 13th century CE) shows the construction and functions of the village assembly and their executive committees. The village administrations were performed by the elected representatives forming village council.

During the medieval and the Mughal periods (1526 CE – 1857 CE), village bodies were the pivot of administration. However, Mughal governance was highly centralised. Villages were referred to only for purposes of collection of revenue, never that much for administrative purposes. While the emperor had ultimate control, his team of *jagirdars*, *zamindars*, who formed the aristocracy of the Mughals interacted with the peasantry, but mostly for purposes to collect revenues (land revenue and agricultural rent). This complicated agrarian relations in the villages. Nevertheless, during the Mughal period, particularly in the regime of Sher Shah, the villages were governed by their

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<sup>5</sup> Ghosh Rathna, Pramanik Alok Kumar, Panchayat System in India. Historical, Constitutional and Financial Analysis, Kanishka Publication, New Delhi, 1999.

<sup>6</sup> Altekar A.S., State and Government in Ancient India, Motilal Banarasi Das Publications, New Delhi, 1997.

own panchayats. Each panchayat comprised of village elders who looked after the interest of the people and administered justice and imposed punishment on defaulters. The headman of the village, a semi government official, acted as a coordinator between the village panchayat and the higher administrative hierarchy. The Mughal emperor Akbar accepted this system and made it an indispensable part of civil administration. In this period, each village had its own panchayat of elders. It was autonomous in its own sphere and exercised powers of local taxation, administrative control, justice and punishment.<sup>7</sup>

As the Mughals introduced elaborate administrative machinery with a hierarchy of officials, particularly in the field of revenue, more town-based institutions started evolving during the Mughal period as well. The administration of the town was vested in an officer called *Kotwal*. He exercised supreme authority in all magisterial, police and fiscal matters besides performing a variety of municipal functions. The Mughal dynasty's local administrative system lasted over centuries. It was with the collapse of the Mughal stronghold, then the Dutch, Portuguese, and British established their hegemony in India. The British or the Colonial period witnessed rapid urbanization and creation of urban settlements and urban administrative set-ups alongside of village administration. However, more importance was given to urban or town administration by the European rulers than to development of the village administration for various reasons like language barriers, religious, cultural, and caste systems prevalent in villages, and because of the level of possible economic opportunities at the villages that was primarily agrarian vis-à-vis the trading objectives of the European rulers (mostly using the river and sea ports or harbours) and their city-based standards of privileged living.

### **3. Middle History**

The pre-European, Mughal system of administration had a highly bureaucratized hierarchy of officials. The European Rulers, especially the British made full use of the Mughal dynasty's centralized system and mechanics of administration while bringing about necessary changes as per their own requirements. Administrative and political reform during the rule of the Europeans was largely guided by commercial considerations. Expanding commerce and private property needed rule of law and an official machinery

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<sup>7</sup> Ghosh Rathna, Pramanik Alok Kumar, 1999.

to enforce the contractual obligations. Therefore, political and administrative reforms were carried out from time to time, including establishment of local self-governing institutions largely on lines of European theory and practice.

Although the evolution of local government in the Indian Subcontinent can be traced back to ancient times, but institutions created on more democratic lines, created under some legislative framework with clear lines of authority and responsibility owes its existence to the British rule in the Indian Subcontinent (*that included the present territories of Pakistan, Bangladesh, and a part of Burma*), especially its present structure and style of functioning. “Local self-government in India, in the sense of a representative organisation, responsible to a body of electors, enjoying wide powers of administration and taxation, and functioning both as a school for training in responsibility and as a vital link in the chain of organisms that make up the government of the country, is a British creation. The ancient village communities were constituted on a narrow basis of hereditary privilege or caste, closely restricted in the scope of their duties, were neither conscious instruments of political education nor important parts of the administrative system”. (Government of India, Vol V, p. 1056).

Municipal governance or governance of the towns/cities in India in its current form has existed since the year 1664. In 1664, Fort Kochi Municipality was established by Dutch (the Dutch period was between 1663–1773), making it the first municipality in Indian subcontinent, which got dissolved when Dutch authority got weaker in the 18th century.<sup>8</sup>

A beginning in the direction of local government was first made by the British in 1687, with the setting up of a Municipal Corporation, a local governing body in the then Madras (*now known as Chennai*), having the authority to levy specified taxes. Set up on the British model of town council, this body was empowered to levy taxes for building guild halls and schools. As time passed, similar bodies were set up in other major towns and this model became prevalent, helping the British widen their taxation power. This model continued to comprise nominated members with no elected members

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<sup>8</sup> Fort Kochi municipality reestablished in 1866. Fort Kochi was made a municipality on 1 November 1866, along with Kannur, Thalassery, Kozhikode, and Palakkad, according to the Madras Act 10 of 1865 (Amendment of the Improvements in Towns act 1850).

(George Mathew, 2000). It was replaced by a Mayor's Court in 1726. The Mayor's Court was more a judicial body rather than an administrative one. The local body in India acquired a statutory base in 1793, when municipal administration was established in the three presidency towns of Madras, Calcutta (*now known as Kolkata*), and Bombay (*now known as Mumbai*) by the Charter Act of 1793. In the early part of the nineteenth century almost all towns in India had experienced some form of municipal governance. The municipal administration was further extended to the district towns in Bengal in 1842 with the passage of the Bengal Act.

Lord Mayo, the then Viceroy of India (1869 to 1872) passed the Lord Mayo's Resolution of 1870 that gave a fresh impetus to the growth of local government. It advocated decentralisation and ensured strengthening of the municipal institutions and involving more and more Indians in these bodies. Until now, the local government administration had remained almost wholly non-Indian and, therefore, from the Indians' point of view, was to a great extent neither 'local' nor 'self-government'. It served the British interests rather than promoted self-governing bodies. The Revolt of 1857 (The Sepoy Mutiny) that had put the imperial finances under considerable strain and it was found necessary to finance local service out of local taxation. Therefore, it was out of fiscal compulsion that Lord Mayo's resolution on decentralization came to be adopted. (George Mathew, 2000)

The Bengal Chowkidar Act of 1870 also marked the beginning of the revival of the traditional village panchayat system in Bengal. The Bengal Chowkidar Act empowered district magistrates to set up panchayats of nominated members in the villages to collect taxes to pay the chowkidars or watchmen engaged by them.

Lord Ripon, who succeeded Lord Mayo as the Governor-General of India, resolved in 1882 to make local government self-governing. Lord Ripon's Resolution of 1882 strongly advocated the cause of decentralisation of administration through the establishment of local self-governing institutions. The British administrators were not prepared to accept the Ripon thesis as they questioned the competence of Indians to manage local administration and feared a general weakening of field administration under a local self-government regime. The Resolution of 1882 was hailed as the *Magna Carta* of local government and Lord Ripon, came to be then known as the *Father of*

*Local Self Government in India.* The Lord Ripon resolution laid down the structure of democratic forms of municipal governance in India.

Another significant development in local government was the Royal Commission on Decentralisation 1907. The Royal Commission on Decentralization elaborated further the principles of Ripon resolution. The Decentralization Commission, which reported in 1909 made the far-reaching suggestions to remove some of the defects in the working of the Local Boards. It recommended that the village should be regarded as the basic unit of local self-government institutions, and every village should have a panchayat. Municipalities should be constituted in urban areas. In order to increase devolution of power and gradual democratisation of the local bodies, the Commission had recommended: (a) the chairman should be elected non-officially, (b) majority of the members should be elected non-officially, (c) municipalities should be given more powers of taxation and control over their budgets, and (d) large municipalities should be endowed with greater power and required to appoint qualified health officers along with the executive officers. In 1915 a Government Resolution endorsed the Commission proposals. But the provincial governments took no actions in the matter and the recommendations remained more on paper.

Montagu-Chelmsford Reforms were passed in the year 1917. This reform transferred the subject of local government to the domain of provinces. The reform also recommended that as far as possible there should be a complete popular control in local bodies and the largest possible independence for them, of outside control. Following the Montagu-Chelmsford Reforms Declaration regarding the introduction of responsible government in the local bodies, a Resolution was adopted by the Government of India in 1918 under the scheme of provincial dyarchy.

The Government of India Act, 1919 introduced 'Dyarchy' in the provinces, and Local Self-Government became a transferred subject under the charge of a popular Minister of the provincial legislature. The Act increased the taxation powers of the local bodies, lowered the franchise, reduced the nominated element and extended the communal electorate to many municipalities. After the Act of 1919, panchayats became legal entities, losing their traditional prerogative powers. The Act of 1919, thus, inaugurated an era of new interest and activity in the field of local government. This period witnessed a series of amending Acts on local government in every province.

Hence, some progress was made and Municipal and Local Boards Acts, laws were passed in almost all the provinces to introduce panchayats in villages and town administrations (Henry, 1970).

Subsequently, several Acts were passed like the Bengal Village Self-Government Act of 1919, Madras, Bombay and United Provinces Village Panchayats Acts of 1920, Bihar and Orissa Village Administration Act, Assam Rural Self-Government Act of 1926, Punjab Village Panchayats Act of 1935 etc. to look after the village affairs and certain matters relating to their development. By 1925, eight provinces had passed village panchayat acts. However, these panchayats covered only a limited number of villages with limited functions.<sup>9</sup> But this reform could not get much result as far as democratization of panchayats was concerned and lead to a lot of organizational and fiscal constraints.

The Government of India Act of 1935 was considered as another important stage in the evolution of local government administration in British India. With popularly elected government in the provinces, almost all provincial administrations felt duty bound to enact legislations for further democratization of local self-government institutions, including village panchayats.

The Act of 1935, for the first time introduced a federal form of Government conferred 'Provincial Autonomy' on the provinces and envisaged self-government for the country as a whole. With the growing strength of the national movement and the achievement of provincial autonomy, the local government in India was no more a mere experimental station of self-government. Rather it became the constituent part of self-government for the country as a whole. By now the local government had acquired a new and stable base. Yet it suffered from some deficiencies and drawbacks, which were too vivid and needed to be identified, diagnosed and even verified. Keeping this in view, the provinces launched investigations into local governing bodies in order to make them perfect institutions for managing local affairs. The Central Provinces set up an enquiry committee in 1935, the United Provinces in 1938, and Bombay in 1939. Although the recommendations of the municipal enquiry committees were unevenly carried

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<sup>9</sup> Stephen F., Rajasekaran, An Empirical Study of Women in Local Self Governance in Karnataka, Search publications, Bangalore, 2001.

out in various provinces, there was a definite trend towards democratisation of local government. The franchise was further lowered, and the system of nominations was abolished as also the deliberative functions were separated from the executive ones.<sup>10</sup>

The year 1947 ushered in a new period in the history of local government in India after Independence from British rule. Thus, ensuring local government at both town and village levels to function under an atmosphere of national independence for the first time. It was clear during the transfer of power in 1947, that India being a country of villages and smaller towns must strengthen village panchayats and town councils to strengthen democracy. Mahatma Gandhi's call for Grama Swaraj pleaded for the transfer of power to the masses at the local level. However, the draft Constitution prepared in 1948 had no place for panchayat, town councils, and other forms of LG. Mahatma Gandhi severely criticized this and called for immediate attention. It is thus, that panchayats only found a place under Article 40 of the Part IV, Directive Principles of the State Policy, of the finally adopted The Constitution of India in November 1949.

*Article 40: The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.*

There was nothing included concerning municipal bodies and town administration. The only reference to urban self-government was made in the entry viz., Entry 5 of List 11 of the Seventh Schedule (refer to Article 246 of the Constitution). The most important aspect to strengthen grass root democracy was not considered by the Constitution makers as Directive Principle of State Policy is not legally binding on the governments.

#### **4. Recent History**

From 1957 through 1986, significant committees were formed and worked on to conceptualise India's local self-government system but mostly concerning the panchayats. Therefore, it will be beneficial to have an overview of the committees, and their major recommendations mentioned below.

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<sup>10</sup> LOCAL GOVERNANCE: EVOLUTION, IGNOU, Contributed by Dr. Sweta Mishra, Associate Professor, Department of Political Science, Gargi College, University of Delhi, New Delhi

*Balwant Rai Mehta Committee in 1957:* The Committee believed that community development would only be effective when the community was involved in the planning, decision, and implementation process. The Committee suggested that the basic unit of democratic decentralization was to be at the block (*samiti*) level since the area of jurisdiction of the local body should neither be too large nor too small. The block was large enough for efficiency and economy of administration, and small enough for sustaining a sense of involvement in the citizens. Further, the Zilla Parishad (ZP) should play an advisory role.

The term “*Panchayati Raj Institution*” came into usage after the acceptance of the recommendations on democratic decentralisation of the Committee. Previously the terms used were ‘village panchayat’, ‘district board’ or ‘sub-district board’, which were the self-governing bodies at the village or regional levels. Panchayati Raj Institution (PRI) implies the creation of local government institutions at the village, block and district levels. The committee focused on the rural sector and recommended that the functions of PRIs should cover the development of agriculture in all its aspects, the promotion of local industries and other services such as drinking water, road, building permission, etc. In 1959, Rajasthan was the first state to adopt the recommendations of this Committee in Nagaur district on 2 Oct 1959.

*K Santhanam Committee in 1963:* The Committee was appointed to look solely at the issue of PRI finances. Its recommendations have influenced the thinking and the debate to date about granting autonomy to PRIs about fiscal management of PRIs. The Committee recommended (a) granting panchayats should have special powers to levy special tax on land revenues, home tax, etc; (b) all grants and subventions at the state level should be consolidated and untied; and (c) a Panchayat Raj Finance Corporation should be set up which would look into the financial resources of PRIs at all three levels, provide loans and financial assistance to these grassroots level governments and also provide support for non-financial requirements of villages.

*Ashok Mehta Committee in 1977:* The Government of India appointed a Committee with Ashok Mehta as the Chairman and was entrusted with the task of enquiring into the causes responsible for the poor performance of PRIs. It was also asked to suggest measures to strengthen PRIs. The committee suggested a two-tier system of PRI consisting of *Zilla Parishads*

at the district level and *Mandal Panchayats* at the grass root level as against three tier system suggested by the Balwant Rai Mehta Committee. The Committee recommended constitutional protection to the Panchayati Raj Institutions and further decentralization of power at all levels. A noteworthy feature of the report is that it recommended regular elections to these bodies and open participation of political parties. The Committee also suggested for reservation of seats for the weaker sections and two seats for women.

*G V K Rao Committee in 1985:* The Planning Commission of India appointed the Committee in 1985. The Committee stated that the accepted development methods were increasingly being removed from local self-government organisations, resulting in a system with no roots. The Committee recommended that PRIs at the district level and below be assigned responsibilities for planning, monitoring and implementation of rural development programs and that the block development office should be the spinal cord of rural development. The Committee also recommended that elections at PRIs must be held regularly.

*L M Singhvi Committee in 1986:* The Committee recommended that *Gram Sabha* (village assembly) must be considered the base of the decentralized democracy. The PRIs were to be viewed as institutions of self-government which would facilitate the participation of the people in the process of planning and development. It recommended that local self-government should be constitutionally recognized, protected and preserved by the inclusion of a new chapter in the Constitution.

*V N Gadgil Committee in 1988:* The Committee on Policy and Programmes was constituted under the chairmanship of V.N. Gadgil. The Committee was asked to consider the question of “how best Panchayati Raj Institutions could be made effective”. The recommendations of the Gadgil Committee became the basis for drafting an amendment bill aimed at conferring constitutional status and protection to the Panchayat. The Committee also recommended a three-tier system of PRI, reservation of constituencies for SC/STs and women so that adequate representation is given to the weaker sections, five years tenure for PRIs, and constitution of State Finance Commission.

*P K Thungon Committee in 1988:* The P K Thungon Committee recommended constitutional recognition for the local government bodies and

constitutional amendments to provide for periodic elections to local government institutions, and enlistment of appropriate functions to them, along with funds.

The similar recommendations of the L M Singhvi Committee (1986), V N Gadgil Committee (1988), and P K Thungon Committee (1988) resulted in the introduction of 64<sup>th</sup> Constitutional Amendment Bill in the Parliament in July 1989. All political parties by and large arrived at the conclusion that it was a high time to give constitutional status to PRIs. The Constitutional (64<sup>th</sup> Amendment) Bill, 1989, which though was passed by the Lok Sabha could not become a part of the Constitution as it was not passed by the Rajya Sabha. This Bill provided for constitution of Panchayats in every state at the village, intermediate and district levels except for States, which have a population not exceeding 2 million, where states may not constitute the intermediate level. It also provided for introduction of the “Eleventh Schedule” to the Constitution embodying the functions to be given to PRIs. After the defeat of the 64<sup>th</sup> Amendment Bill, the then Government re-introduced the Bill in the Lok Sabha on 4 September 1990 as a new Amendment Bill. However, this Bill also could not be proceeded as the then ruling party was dismissed and the Parliament was dissolved before passing the Bill.

As compared to the dramatic changes in rural local government, the development of urban local government was slow to the extent of being unimpressive. The concept of urban local government and its importance was considered for serious attention of the Government of India quite late as compared to rural local bodies. The Third Five-Year Plan took note of the significance of urban local government and stated, *“In the next phase of planning, as many towns and cities as possible, at any rate those with a population of one lakh or more, should come into the scheme of planning in an organic way, each state mobilising its own resources and helping to create conditions for a better life for its citizens”*. (Planning Commission: Third Five Year Plan, 1961).

The Government of India appointed several committees and commissions, after independence, but separate from the Committees on PRIs, to improve and strengthen the conditions urban local bodies (ULBs). Some of these Committees are:

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- *The Local Finance Enquiry Committee (1949-51)*, which mainly recommended the widening of the scope of taxation to be levied by ULBs.
- *The Taxation Enquiry Committee (1953-54)*, which recommended that certain taxes be segregated so that they can be exclusively utilised by or for local government.
- *The Committee on the Training of Municipal Employees (1963)*, which laid emphasis on the fact that training institutes be set up both at the central and the state levels so that they can provide training to the municipal personnel.
- *The Rural-Urban Relationship Committee (1963-66)*, which enquired into all the aspects of municipal administration from personnel, planning and taxation to interdependence between the town and its surrounding villages.
- *The Committee of Ministers on Augmentation of Financial Resources of Urban Local Bodies (1963)*, which highlighted the fact that the urban local bodies were not levying taxes even in the fields earmarked for them and urged the local bodies to set up statutory Urban Development Boards to undertake town development.
- *The Committee on Service Conditions of Municipal Employees (1965-68)*, which suggested the constitution of a state-wide cadre of municipal employees.
- *The National Commission on Urbanisation (1988)*, which recommended revitalising the urban government.

Like the 64<sup>th</sup> Constitution Amendment Bill, in 1989 the 65<sup>th</sup> Constitution Amendment Bill was introduced in the Parliament, which aimed at constitutionalising the urban local bodies. The Bill was passed in the Lok Sabha but was defeated in the Rajya Sabha. Once again, a similar effort was made in the year 1990 to re-introduce the 65<sup>th</sup> Constitution Amendment Bill in Parliament. However, for this Bill also could not be proceeded as the then ruling party was dismissed and the Parliament was dissolved before passing the Bill.

Finally in June 1991, the freshly elected Government gave top priority to the PRI's and brought out the Constitution (Seventy-second Amendment) Bill, 1991 as Bill No. 158-C of 1991. After preliminary discussion on the bill, it was

referred to the Select Committee of the House for detailed scrutiny. After receiving the comments of the select committee, the Bill again came before the House for discussion and adoption in the winter session of the Parliament in December 1992. Finally, on 22 December 1992, the Bill was passed by the Parliament and is now known as the **Constitution (Seventy-third Amendment) Act, 1992**. Finally, after forty years since Independence, the 73<sup>rd</sup> Constitutional Amendment Act, 1992 has constitutionalised the PRIs, which gave a constitutional status to local governance in the rural India that was shaping up as an institution since the Vedic times. It is a step in the direction of speeding up the process of rural local governance and giving strength as well as stability to local institutions. By April 1994, all the states had completed the process of enacting fresh legislation on strengthening the PRI's.

Similar to the enactment of the Constitution (Seventy-third Amendment) Act, 1992, the **Constitution (Seventy-fourth Amendment) Act, 1992** was enacted and passed by the Parliament. The 74<sup>th</sup> Constitutional Amendment Act, 1992 ushered in a new era in the urban local governance in India. It has constitutionalised the municipal local bodies by providing them with a constitutional status and making it mandatory for the government to constitute them. The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts brought a new kind of life in every sphere of local body governance in India. These two-landmark initiatives of the Government of India to strengthen local self-government in villages, cities, and towns need to be chiselled further and embedded within the respective institutions so to realize the objectives of the Amendment Acts and fulfil the aspirations of close to 1.5 billion citizens of the country.



## Chapter 2:

# Constitution (Seventy-fourth Amendment) Act, 1992 and Other Constitutional Provisions

## 1. Constitutional Provisions

The Constitution of India has made detailed provisions for ensuring protection of democracy in Parliament and in the State Legislatures. However, the Constitution that was adopted in November 1949 did not make the local self-government in urban areas a clear-cut constitutional obligation. While the Directive Principles of State Policy had reference to village panchayats under Article 40 of the Constitution, there were no specific reference to municipalities in the Constitution when it was adopted in 1949 and this position continued until the enactment of the Constitution (Seventy-fourth Amendment) Act, 1992. This chapter and this immediate section of the publication now concentrates on the various constitutional provisions that concerns the municipalities or urban local bodies of India.

### 1.1. Article 246

Part XI of the Constitution concerns, Relations Between the Union and the States. Chapter I of Part XI discusses Legislative Relations and Distribution of Legislative Powers between the Union and the States. Article 246 of the Constitution (*as amended until date*) being reproduced below:

**Article 246.** Subject-matter of laws made by Parliament and by the Legislatures of States. — (1) Notwithstanding anything in clauses (2) and (3), Parliament has exclusive power to make laws with respect to any of the matters enumerated in **List I in the Seventh Schedule** (in this Constitution referred to as the “**Union List**”).

(2) Notwithstanding anything in clause (3), Parliament, and, subject to clause (1), the Legislature of any State also, have power to make laws with respect to any of the matters enumerated in **List III in the Seventh Schedule** (in this Constitution referred to as the “**Concurrent List**”).

(3) Subject to clauses (1) and (2), the Legislature of any State has exclusive power to make laws for such State or any part thereof with

respect to any of the matters enumerated in **List II in the Seventh Schedule** (in this Constitution referred to as the “**State List**”).

(4) Parliament has power to make laws with respect to any matter for any part of the territory of India not included in a State notwithstanding that such matter is a matter enumerated in the State List.

*[Note: the bold emphasis has been done by the author to signify the importance of the words and phrases.]*

The Seventh Schedule to the Constitution of India defines and specifies allocation of powers and functions between the Union and States. It contains three lists:

- List I – the Union List, which contains the functions to be performed by the Union and the Union have the exclusive rights to frame laws and policies. The Union List includes various entries detailing functions like (*examples*):
  - Entry 1: Defence of India.
  - Entry 4: Naval, military and air force works.
  - Entry 5: Arms, firearms, ammunition and explosives.
  - Entry 15: War and peace.
  - Entry 16: Foreign jurisdiction.
  - Entry 45: Banking.
  - Entry 76: Audit of the accounts of the Union and of the States.
  - Entry 85: Corporation tax.
- List II – the State List which contains the functions to be performed by the States and the States have the exclusive rights to frame laws and policies. The State List includes various entries detailing functions like (*examples*):
  - Entry 1: Public order but not including the use of any naval, military or air force or any other armed force of the Union or of any other force subject to the control of the Union or of any contingent or unit thereof in aid of the civil power.
  - Entry 2: Police including railway and village police subject to the provisions of entry 2A of List I.

- **Entry 5: Local government, that is to say, the constitution and powers of municipal corporations, improvement trusts, districts boards, mining settlement authorities and other local authorities for the purpose of local self-government or village administration.**

*[Note: the bold emphasis has been done by the author to signify the importance of the words and phrases.]*

- Entry 6: Public health and sanitation; hospitals and dispensaries.
  - Entry 10: Burials and burial grounds; cremations and cremation grounds.
  - Entry 13: Communications, that is to say, roads, bridges, ferries, and other means of communication not specified in List I; municipal tramways; ropeways; inland waterways and traffic thereon subject to the provisions of List I and List III with regard to such waterways; vehicles other than mechanically propelled vehicles.
  - Entry 16: Pounds and the prevention of cattle trespass.
  - Entry 17: Water, that is to say, water supplies, irrigation and canals, drainage and embankments, water storage and water power subject to the provisions of entry 56 of List I.
  - Entry 28: Markets and fairs.
  - Entry 49: Taxes on lands and buildings.
  - Entry 58: Taxes on animals and boats.
  - Entry 59: Tolls.
  - Entry 60: Taxes on professions, trades, callings and employments.
  - Entry 62: Taxes on entertainments and amusements to the extent levied and collected by a Panchayat or a Municipality or a Regional Council or a District Council.
- List III – the Concurrent List which contains the functions to be performed by both the Union and the States and the Union and States have the rights to frame laws and policies. However, when there is conflict in laws made by the Union and the State, the central law prevails. The Concurrent List includes various entries detailing functions like (*examples*):

- Entry 6: Transfer of property other than agricultural land; registration of deeds and documents.
- Entry 17: Prevention of cruelty to animals.
- Entry 18: Adulteration of foodstuffs and other goods.
- Entry 20: Economic and social planning.
- Entry 26: Legal, medical and other professions.
- Entry 30: Vital statistics including registration of births and deaths.

Interpretation of Article 246 clearly suggests that the responsibility of managing local governments – both PRIs and ULBs rests with the respective States of India vide **Entry 5 of the List II – the State List** since the adoption of the Constitution in November 1949. The States were supposed to frame appropriate laws to manage PRIs and ULBs. In accordance with the provisions of Article 246, some States framed laws for both PRIs and ULBs while delegating certain functions and responsibilities that were mentioned in List II (like functions under entries – 6, 10, 13, 16, 17, 28) and List III (like functions under entries – 6, 17, 18, 20, 30). This was done by States – but not all States of India could comply with the provisions of Article 246 prior to the enactment of the Constitution (Seventy-fourth Amendment) Act, 1992.

## 1.2. The Constitution (Seventy-fourth Amendment) Act, 1992

With the passing of the Constitution (Seventy-fourth Amendment) Act, 1992 (*hereinafter referred to as 74 CAA*), that became effective on 01 June 1993, it became mandatory for every state to have urban local self-governments in place and the mechanisms to fund these bodies. It also became compulsory that these bodies carry out elections every five years. With the creation of this local governance, urban local bodies were given the constitutional status that ensured uniformity in their functioning and structure across India as the **third tier** (below the Union and State) of government by assigning them specific civic urban functions to deal with. Specifically, 74 CAA added the following to the Constitution:

- A new Part IXA in the Constitution, which deals with Municipalities vide Articles 243P to 243ZG of the Constitution.
- A new schedule, Twelfth Schedule under Article 243W, where the functions were listed that the State Government to decide to devolve to municipalities of the State.

The Statement of Objects and Reasons included with the amendment stated that, *“In many States local bodies have become weak and ineffective on account of a variety of reasons, including the failure to hold regular elections, prolonged supersessions and inadequate devolution of powers and functions. As a result, Urban Local Bodies are not able to perform effectively as vibrant democratic units of self-government.”*<sup>11</sup>

The Statement of Objects and Reasons included with the amendment further added that,

*“Having regard to these inadequacies, it is considered necessary that provisions relating to Urban Local Bodies are incorporated in the Constitution particularly for:*

- (i) putting on a firmer footing the relationship between the State Government and the Urban Local Bodies with respect to -
  - a. the functions and taxation powers; and*
  - b. arrangements for revenue sharing;**
- (ii) Ensuring regular conduct of elections;*
- (iii) ensuring timely elections in the case of supersession; and*
- (iv) providing adequate representation for the weaker sections like Scheduled Castes, Scheduled Tribes and women.”*<sup>12</sup>

As mentioned in the Statement of Objects and Reasons to remove the deficiencies as identified, the 74 CAA was moved to include the new Part IXA in the Constitution and Twelfth Schedule.

Let us now, focus on the exact provisions added by the 74 CAA.

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<sup>11</sup> Extracted from The Constitution (Seventy-Fourth Amendment) Act, 1992 effective from 01 June 1993.

<sup>12</sup> *Ibid*

### 1.2.1. Part IXA of the Constitution – Articles 243P to 243ZG

The extract is from the Part IXA of the Constitution, as amended until date and formatted Article-wise.<sup>13</sup>

## PART IXA: THE MUNICIPALITIES

Article	Content
<b>243P</b>	<b>Definitions.</b> —In this Part, unless the context otherwise requires,— (a) “Committee” means a Committee constituted under article 243S; (b) “district” means a district in a State; (c) “Metropolitan area” means an area having a population of ten lakhs or more, comprised in one or more districts and consisting of two or more Municipalities or Panchayats or other contiguous areas, specified by the Governor by public notification to be a Metropolitan area for the purposes of this Part; (d) “Municipal area” means the territorial area of a Municipality as is notified by the Governor; (e) “Municipality” means an institution of self-government constituted under article 243Q; (f) “Panchayat” means a Panchayat constituted under article 243B; (g) “population” means the population as ascertained at the last preceding census of which the relevant figures have been published.
<b>243Q</b>	<b>Constitution of Municipalities.</b> —(1) There shall be constituted in every State,— (a) a Nagar Panchayat (by whatever name called) for a transitional area, that is to say, an area in transition from a rural area to an urban area; (b) a Municipal Council for a smaller urban area; and

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<sup>13</sup> *Ibid*

Article	Content
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(c) a Municipal Corporation for a larger urban area, in accordance with the provisions of this Part:

Provided that a Municipality under this clause may not be constituted in such urban area or part thereof as the Governor may, having regard to the size of the area and the municipal services being provided or proposed to be provided by an industrial establishment in that area and such other factors as he may deem fit, by public notification, specify to be an industrial township.

(2) In this article, “a transitional area”, “a smaller urban area” or “a larger urban area” means such area as the Governor may, having regard to the population of the area, the density of the population therein, the revenue generated for local administration, the percentage of employment in non-agricultural activities, the economic importance or such other factors as he may deem fit, specify by public notification for the purposes of this Part.

**243R Composition of Municipalities.**—(1) Save as provided in clause (2), all the seats in a Municipality shall be filled by persons chosen by direct election from the territorial constituencies in the Municipal area and for this purpose each Municipal area shall be divided into territorial constituencies to be known as wards.

(2) The Legislature of a State may, by law, provide—

(a) for the representation in a Municipality of—

(i) persons having special knowledge or experience in Municipal administration;

(ii) the members of the House of the People and the members of the Legislative Assembly of the State representing constituencies which comprise wholly or partly the Municipal area;

(iii) the members of the Council of States and the members of the Legislative Council of the State registered as electors within the Municipal area;

(iv) the Chairpersons of the Committees constituted under clause (5) of article 243S:

Article	Content
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	<p>Provided that the persons referred to in paragraph (i) shall not have the right to vote in the meetings of the Municipality;</p> <p>(b) the manner of election of the Chairperson of a Municipality.</p>
<b>243S</b>	<p><b>Constitution and composition of Wards Committees, etc.—</b></p> <p>(1) There shall be constituted Wards Committees, consisting of one or more wards, within the territorial area of a Municipality having a population of three lakhs or more.</p> <p>(2) The Legislature of a State may, by law, make provision with respect to—</p> <p>(a) the composition and the territorial area of a Wards Committee;</p> <p>(b) the manner in which the seats in a Wards Committee shall be filled.</p> <p>(3) A member of a Municipality representing a ward within the territorial area of the Wards Committee shall be a member of that Committee.</p> <p>(4) Where a Wards Committee consists of—</p> <p>(a) one ward, the member representing that ward in the Municipality; or</p> <p>(b) two or more wards, one of the members representing such wards in the Municipality elected by the members of the Wards Committee, shall be the Chairperson of that Committee.</p> <p>(5) Nothing in this article shall be deemed to prevent the Legislature of a State from making any provision for the constitution of Committees in addition to the Wards Committees.</p>
<b>243T</b>	<p><b>Reservation of seats.—</b>(1) Seats shall be reserved for the Scheduled Castes and the Scheduled Tribes in every Municipality and the number of seats so reserved shall bear, as nearly as may be, the same proportion to the total number of seats to be filled by direct election in that Municipality as the population of the Scheduled Castes in the Municipal area or of the Scheduled Tribes in the Municipal area bears to the total population of that area and such seats may be allotted by rotation to different constituencies in a Municipality.</p>

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(2) Not less than one-third of the total number of seats reserved under clause (1) shall be reserved for women belonging to the Scheduled Castes or, as the case may be, the Scheduled Tribes.

(3) Not less than one-third (including the number of seats reserved for women belonging to the Scheduled Castes and the Scheduled Tribes) of the total number of seats to be filled by direct election in every Municipality shall be reserved for women and such seats may be allotted by rotation to different constituencies in a Municipality.

(4) The offices of Chairpersons in the Municipalities shall be reserved for the Scheduled Castes, the Scheduled Tribes and women in such manner as the Legislature of a State may, by law, provide.

(5) The reservation of seats under clauses (1) and (2) and the reservation of offices of Chairpersons (other than the reservation for women) under clause (4) shall cease to have effect on the expiration of the period specified in Article 334.

(6) Nothing in this Part shall prevent the Legislature of a State from making any provision for reservation of seats in any Municipality or offices of Chairpersons in the Municipalities in favour of backward class of citizens.

**243U Duration of Municipalities, etc.—**(1) Every Municipality, unless sooner dissolved under any law for the time being in force, shall continue for five years from the date appointed for its first meeting and no longer:

Provided that a Municipality shall be given a reasonable opportunity of being heard before its dissolution.

(2) No amendment of any law for the time being in force shall have the effect of causing dissolution of a Municipality at any level, which is functioning immediately before such amendment, till the expiration of its duration specified in clause (1).

(3) An election to constitute a Municipality shall be completed,—

(a) before the expiry of its duration specified in clause (1);

(b) before the expiration of a period of six months from the date of its dissolution:

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Provided that where the remainder of the period for which the dissolved Municipality would have continued is less than six months, it shall not be necessary to hold any election under this clause for constituting the Municipality for such period.

(4) A Municipality constituted upon the dissolution of a Municipality before the expiration of its duration shall continue only for the remainder of the period for which the dissolved Municipality would have continued under clause (1) had it not been so dissolved.

**243V Disqualifications for membership.**—(1) A person shall be disqualified for being chosen as, and for being, a member of a Municipality—

(a) if he is so disqualified by or under any law for the time being in force for the purposes of elections to the Legislature of the State concerned:

Provided that no person shall be disqualified on the ground that he is less than twenty-five years of age, if he has attained the age of twenty-one years;

(b) if he is so disqualified by or under any law made by the Legislature of the State.

(2) If any question arises as to whether a member of a Municipality has become subject to any of the disqualifications mentioned in clause (1), the question shall be referred for the decision of such authority and in such manner as the Legislature of a State may, by law, provide.

**243W Powers, authority and responsibilities of Municipalities, etc.**—Subject to the provisions of this Constitution, the Legislature of a State may, by law, endow—

(a) the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, subject to such conditions as may be specified therein, with respect to—

(i) the preparation of plans for economic development and social justice;

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	<p>(ii) the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the <b>Twelfth Schedule</b>;</p> <p>(b) the Committees with such powers and authority as may be necessary to enable them to carry out the responsibilities conferred upon them including those in relation to the matters listed in the <b>Twelfth Schedule</b>.</p>
<b>243X</b>	<p><b>Power to impose taxes by, and Funds of, the Municipalities.</b>— The Legislature of a State may, by law,—</p> <p>(a) authorise a Municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;</p> <p>(b) assign to a Municipality such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;</p> <p>(c) provide for making such grants-in-aid to the Municipalities from the Consolidated Fund of the State; and</p> <p>(d) provide for constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Municipalities and also for the withdrawal of such moneys therefrom, as may be specified in the law.</p>
<b>243Y</b>	<p><b>Finance Commission.</b>—(1) The Finance Commission constituted under article 243I shall also review the financial position of the Municipalities and make recommendations to the Governor as to—</p> <p>(a) the principles which should govern—</p> <p>(i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Municipalities at all levels of their respective shares of such proceeds;</p> <p>(ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities;</p> <p>(iii) the grants-in-aid to the Municipalities from the Consolidated Fund of the State;</p>

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	<p>(b) the measures needed to improve the financial position of the Municipalities;</p> <p>(c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Municipalities.</p> <p>(2) The Governor shall cause every recommendation made by the Commission under this article together with an explanatory memorandum as to the action taken thereon to be laid before the Legislature of the State.</p>	
<b>243Z</b>	<b>Audit of accounts of Municipalities.</b> —The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts.	
<b>243ZA</b>	<b>Elections to the Municipalities.</b> —(1) The superintendence, direction and control of the preparation of electoral rolls for, and the conduct of, all elections to the Municipalities shall be vested in the State Election Commission referred to in article 243K.	<p>(2) Subject to the provisions of this Constitution, the Legislature of a State may, by law, make provision with respect to all matters relating to, or in connection with, elections to the Municipalities.</p>
<b>243ZB</b>	<b>Application to Union territories.</b> —The provisions of this Part shall apply to the Union territories and shall, in their application to a Union territory, have effect as if the references to the Governor of a State were references to the Administrator of the Union territory appointed under article 239 and references to the Legislature or the Legislative Assembly of a State were references in relation to a Union territory having a Legislative Assembly, to that Legislative Assembly:	<p>Provided that the President may, by public notification, direct that the provisions of this Part shall apply to any Union territory or part thereof subject to such exceptions and modifications as he may specify in the notification.</p>
<b>243ZC</b>	<b>Part not to apply to certain areas.</b> —(1) Nothing in this Part shall apply to the Scheduled Areas referred to in clause (1), and the tribal areas referred to in clause (2) of article 244.	

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(2) Nothing in this Part shall be construed to affect the functions and powers of the Darjeeling Gorkha Hill Council constituted under any law for the time being in force for the hill areas of the district of Darjeeling in the State of West Bengal.

(3) Notwithstanding anything in this Constitution, Parliament may, by law, extend the provisions of this Part to the Scheduled Areas and the tribal areas referred to in clause (1) subject to such exceptions and modifications as may be specified in such law, and no such law shall be deemed to be an amendment of this Constitution for the purposes of article 368.

**243ZD Committee for district planning.**—(1) There shall be constituted in every State at the district level a District Planning Committee to consolidate the plans prepared by the Panchayats and the Municipalities in the district and to prepare a draft development plan for the district as a whole.

(2) The Legislature of a State may, by law, make provision with respect to—(a) the composition of the District Planning Committees;

(b) the manner in which the seats in such Committees shall be filled:

Provided that not less than four-fifths of the total number of members of such Committee shall be elected by, and from amongst, the elected members of the Panchayat at the district level and of the Municipalities in the district in proportion to the ratio between the population of the rural areas and of the urban areas in the district;

(c) the functions relating to district planning which may be assigned to such Committees;

(d) the manner in which the Chairpersons of such Committees shall be chosen.

(3) Every District Planning Committee shall, in preparing the draft development plan,—

(a) have regard to—

(i) matters of common interest between the Panchayats and the Municipalities including spatial planning, sharing of water and

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other physical and natural resources, the integrated development of infrastructure and environmental conservation;

(ii) the extent and type of available resources whether financial or otherwise;

(b) consult such institutions and organisations as the Governor may, by order, specify.

(4) The Chairperson of every District Planning Committee shall forward the development plan, as recommended by such Committee, to the Government of the State.

**243ZE Committee for Metropolitan planning.**—(1) There shall be constituted in every Metropolitan area a Metropolitan Planning Committee to prepare a draft development plan for the Metropolitan area as a whole.

(2) The Legislature of a State may, by law, make provision with respect to—

(a) the composition of the Metropolitan Planning Committees;

(b) the manner in which the seats in such Committees shall be filled:

Provided that not less than two-thirds of the members of such Committee shall be elected by, and from amongst, the elected members of the Municipalities and Chairpersons of the Panchayats in the Metropolitan area in proportion to the ratio between the population of the Municipalities and of the Panchayats in that area;

(c) the representation in such Committees of the Government of India and the Government of the State and of such organisations and institutions as may be deemed necessary for carrying out the functions assigned to such Committees;

(d) the functions relating to planning and coordination for the Metropolitan area which may be assigned to such Committees;

(e) the manner in which the Chairpersons of such Committees shall be chosen.

(3) Every Metropolitan Planning Committee shall, in preparing the draft development plan,—

(a) have regard to—

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(i) the plans prepared by the Municipalities and the Panchayats in the Metropolitan area;

(ii) matters of common interest between the Municipalities and the Panchayats, including coordinated spatial planning of the area, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation;

(iii) the overall objectives and priorities set by the Government of India and the Government of the State;

(iv) the extent and nature of investments likely to be made in the Metropolitan area by agencies of the Government of India and of the Government of the State and other available resources whether financial or otherwise;

(b) consult such institutions and organisations as the Governor may, by order, specify.

(4) The Chairperson of every Metropolitan Planning Committee shall forward the development plan, as recommended by such Committee, to the Government of the State.

**243ZF Continuance of existing laws and Municipalities.—**

Notwithstanding anything in this Part, any provision of any law relating to Municipalities in force in a State immediately before the commencement of the Constitution (Seventy-fourth Amendment) Act, 1992, which is inconsistent with the provisions of this Part, shall continue to be in force until amended or repealed by a competent Legislature or other competent authority or until the expiration of one year from such commencement, whichever is earlier:

Provided that all the Municipalities existing immediately before such commencement shall continue till the expiration of their duration, unless sooner dissolved by a resolution passed to that effect by the Legislative Assembly of that State or, in the case of a State having a Legislative Council, by each House of the Legislature of that State.

**243ZG Bar to interference by courts in electoral matters.—**

Notwithstanding anything in this Constitution,—

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	(a) the validity of any law relating to the delimitation of constituencies or the allotment of seats to such constituencies, made or purporting to be made under article 243ZA shall not be called in question in any court;
	(b) no election to any Municipality shall be called in question except by an election petition presented to such authority and in such manner as is provided for by or under any law made by the Legislature of a State.

### **1.2.2. Twelfth Schedule to the Constitution<sup>14</sup>**

The extract is from the Twelfth Schedule to the Constitution, as amended until date.

#### **TWELFTH SCHEDULE (*Read with Article 243W*)**

<b>Sl. No.</b>	<b>Functions entrusted to municipalities</b>
1.	Urban planning including town planning.
2.	Regulation of land-use and construction of buildings.
3.	Planning for economic and social development.
4.	Roads and bridges.
5.	Water supply for domestic, industrial and commercial purposes.
6.	Public health, sanitation conservancy and solid waste management.
7.	Fire services.
8.	Urban forestry, protection of the environment and promotion of ecological aspects.
9.	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
10.	Slum improvement and upgradation.

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<sup>14</sup> *Ibid*

Sl. No.	Functions entrusted to municipalities
11.	Urban poverty alleviation.
12.	Provision of urban amenities and facilities such as parks, gardens, playgrounds.
13.	Promotion of cultural, educational and aesthetic aspects.
14.	Burials and burial grounds; cremations, cremation grounds; and electric crematoriums.
15.	Cattle pounds; prevention of cruelty to animals.
16.	Vital statistics including registration of births and deaths.
17.	Public amenities including street lighting, parking lots, bus stops and public conveniences.
18.	Regulation of slaughter houses and tanneries.

### 1.3. Article 243I

Article 243Y(1) inserted under Part IXA stated that, “*The Finance Commission constituted under article 243I shall also review the financial position of the Municipalities and make recommendations to the Governor.....*”. Therefore, it is pertinent to refer to Article 243I about constitution of Finance Commission that would review the financial position of municipalities along with the financial positions of panchayats constituted vide the enactment of the Constitution (Seventy-third Amendment) Act, 1992.

**243I. Constitution of Finance Commission to review financial position.**—(1) The Governor of a State shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the Panchayats and to make recommendations to the Governor as to—

(a) the principles which should govern—

(i) the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Panchayats at all levels of their respective shares of such proceeds;

- (ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats;
  - (iii) the grants-in-aid to the Panchayats from the Consolidated Fund of the State;
  - (b) the measures needed to improve the financial position of the Panchayats;
  - (c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats.
- (2) The Legislature of a State may, by law, provide for the composition of the Commission, the qualifications which shall be requisite for appointment as members thereof and the manner in which they shall be selected.
- (3) The Commission shall determine their procedure and shall have such powers in the performance of their functions as the Legislature of the State may, by law, confer on them.
- (4) The Governor shall cause every recommendation made by the Commission under this article together with an explanatory memorandum as to the action taken thereon to be laid before the Legislature of the State.

Interpretation of Article 243Y read with Article 243I allows that the Finance Commission constituted under Part IX for Panchayats shall also review the financial position of the municipalities and will make recommendations to the Governor. This Finance Commission is also referred to as **State Finance Commissions** (SFC) The recommendations of the Finance Commission will broadly cover the following:

- Distribution between the State Government and Municipalities of the net proceeds of the taxes, duties, tolls and fees to be levied by the State
- Allocation of share of such proceeds between the Municipalities at all levels in the State
- Determination of taxes, duties, tolls and fees to be assigned or appropriated by the Municipalities
- Grants-in-aid to Municipalities from the Consolidated Fund of the State
- Measures needed to improve the financial position of the Municipalities.

#### 1.4. Article 280

Under Article 280 concerns constitution of Finance Commission. This Finance Commission also known as the **Central Finance Commission** (CFC). As per the provisions of Article 280, it shall be the duty of the CFC to make recommendations to the President of India as to the distribution of the net proceeds of taxes between the Union and the States which are to be, or may be, divided between them and the allocation between the States of the respective shares of such proceeds.

The **Article 280(3)(c)** which was inserted by the Constitution (Seventy-fourth Amendment) Act, 1992, with effect from 1 June 1993 provides,<sup>15</sup>

*“(c) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State;”*

Thus, the Constitution also provides that the Central Finance Commission would also suggest the measures needed to augment the Consolidated Funds of States to supplement the resources of the municipalities in the states.

The various constitutional provisions devolved onerous responsibilities before the respective State Governments and the municipalities within the State to create appropriate legal, institutional, administrative, and financial framework so to strengthen the third-tier government required to function in and for the cities and towns of India. With economic growth centred around urban areas having better and modern health, educational, and logistic facilities on one hand and better job (mainly non-agrarian) opportunities on the other hand, numerous related problems have cropped up – namely, growth in urban population, mainly due to migration from surrounding rural areas and adjoining towns that is continuously creating resource stress in the urban towns and urban agglomerations. This has also put increased demands on urban space and urban utilities, which have been unable to keep up with the increased speed and pressure of urbanization. Resources with ULBs were always insufficient, now the pressure is still more to provide for the extra population that migrate on a regular basis. Direct result of above developments has been, degradation of the urban environment, proliferation

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<sup>15</sup> *Extracted from Article 280 of the Constitution.*

of slums, increase in diseases because of worsening sanitation condition, and the worsening law and order situation.

## 2. Impact of 74 CAA

The 74 CAA brought wide ramifications towards the functioning of municipalities or ULBs in India. At the broader level, the impact of the 74 CAA on the LG at towns/cities/urban areas is the fact that this had increased the participation of people in the governance of the society as a whole. After the central and the state levels of government, adding the third tier at the local level to the administering authority keeps the total administration of India more effective and more participative. Apart from that, the 74 CAA has also added a uniformity in the legislation or the laws for the various governmental bodies at the urban level and ensured uniformity of functions that ULBs shall at least provide to its citizens.

*Types of municipalities defined:* Municipalities can be categorised into three distinct categories of Nagar Panchayat, Municipal Council and the Municipal Corporation.

- The *Nagar Panchayat* can be found in those areas that are on the verge of transition from rural to urban areas.
- Next is the *Municipal Council* which is responsible for urban areas that are small in area.
- Contrasting to the Municipal Council is the *Municipal Corporation* which takes care of the large urban areas.

But the 74 CAA left the exact definition and categorization of the municipalities to the State Government, who shall do so through their state-specific municipal legislation keeping their local needs and conditions in view. The 74 CAA did not impose any categorization considering the geographic diversity of each state and union territory of India.

*Composition of municipalities:* To form the municipal body – usually known as a council, corporation, or a house in the municipalities, elections are to be conducted every five years. It is here that the municipal areas are further categorised into different wards or territorial constituencies. Local citizens are elected from these individual wards which make up part of a municipal body in that urban area. The 74 CAA left to the state legislature to decide the

manner of conducting elections for the urban local bodies. Some municipalities also group wards into zones and boroughs.

*Reservation of seats:* The 74 CAA have ensured numerous preconditions to provide an acceptable representation of the weaker and backward classes of society in the council, corporation, or a house in the municipalities. In the case of the scheduled caste and scheduled tribe, they would have those many seats in the municipality, relative to their population in the municipal areas. Likewise, women too have 1/3<sup>rd</sup> representation or quotas for their seat in the urban local body.

*Duration of municipalities:* Municipalities would have a tenure period of five years. Elections for the new municipalities should be conducted before the ending date of the existing municipal body. However, if the body is dissolved before the decided tenure of five years, then the election for the municipalities should be conducted within a time span of six months. The State Election Commission of the respective States would be responsible to conduct the municipal elections.

*Powers and functions:* 74 CAA specifically inserted the Article 243W and the Twelfth Schedule. It is important to note the starting words and phrases of Article 243. It says, “*Subject to the provisions of this Constitution, the Legislature of a **State may**, by law, endow .....*”. [Bold and italics emphasis done by the author]. The 74 CAA judiciously inserted the Twelfth Schedule detailing eighteen functions that the State Government **may** devolve to the municipalities. The 74 CAA did not make the devolution of functions as mentioned in the Twelfth Schedule by the State Government mandatory by inserting the word **may** and not made compulsory by inserting the word “*shall*”. It is the State Legislature to decide the extent of the powers and functions that are to be handed over to the municipal bodies. The 74 CAA probably avoided to make the devolution of Twelfth Schedule functions mandatory maybe because the functions meant for State listed under the List II, State List under the Seventh Schedule (Article 246) had overlapping references to the functions listed under the Twelfth Schedule. Therefore, the States were left to decide through legislature the powers that are to be bestowed to the municipalities keeping in mind the very necessity of the ULBs in the urban areas. This non-mandatory provision of devolution of functions resulted in different States devolving functions differently to municipal bodies

thus missing the objective of 74 CAA ensuring that all municipal bodies performing a uniform set of functions across India.

*State Finance Commission:* The Governor of the state holds the responsibility of setting up a State Finance Commission to look after the finances of the urban areas along with the panchayats. It is the Consolidated Funds of the State that funds the activities of the State authorities and the urban level bodies under the state. According to a report by the Standing Committee on Rural Development and Panchayati Raj tabled in Lok Sabha on 14 March 2023, by 2023, all states should have constituted the Sixth Finance Commission applicable for the fiscal years 2021-22 to 2026-27. However, so far, only nine states have constituted 6th SFC, of which only two are active. Even some states have not even constituted the 4th and 5th Finance Commissions. Also, since SFC recommendations are not binding, State Governments often deviate from the devolution package to LGs as the SFC recommends suggested by the it.

*State Election Commissions:* State Election Commission (SEC) is the body that takes care of the independent local body elections which are conducted every five years, for electing the municipal bodies in different urban areas of the state government. The responsibility of controlling, maintaining, and preparation of the electoral rolls lies in the hands of the State Election Commission.

In a nutshell, the 74 CAA has significantly contributed to the restructuring of the urban local bodies in India vis-à-vis a somewhat common legal, institutional, administrative, and financial framework. It also achieved to ensure smaller states like Nagaland, Arunachal Pradesh, Mizoram, and Sikkim also constitute municipal bodies to fulfil the aspirations of urban citizens of the State. 74 CAA has also succeeded in ensuring functional, financial, and administrative transparency for these bodies that is expected from a public body. Urban local bodies have indeed been empowered with their abilities of decision making, ensuring financial autonomy and acts of revenue generation for the fulfilment of the demands and necessities of the people.



## Chapter 3:

# Legislative Framework of Municipalities of India

## 1. Requirements of a Strong Public Financial Management Framework

With this gradual increase in external stakeholders, the LGs and related agencies cannot continue to function as closed dominions within their set systems. These bodies and agencies now need to demonstrate an efficient system of public financial management, an ability to provide cost effective services and an environment of accountability and transparency to their stakeholders. It is in this context that improved **Public Financial Management** (PFM) has become crucial not only for better governance but also for improved service delivery. A strong PFM framework is the key to achieving development objectives and an efficient service delivery mechanism in any government body or agency. The PFM framework is to bring out the right and required linkages between legislative, budgeting, implementation, reporting, and oversight process in the government bodies. Improved functioning in these areas would lead to increased accountability and enhanced levels of service delivery.

Components usually considered for strong PFM frameworks in LGs and related agencies, include:

- **Legislative Framework:** a strong and comprehensive legislative framework is existing leading to improved PFM.
- **Planning and Budgeting:** policy direction and budget planning and preparation is realistic, comprehensive, orderly, and participatory within overall government policy.
- **Budget Execution:** the budget is used as a tool for planning, procurement, and expenditure control.
- **Accounting and MIS:** accounting system and management information system are complete, accurate, timely and meaningful.
- **Cash and Fund Flow Management:** cash receipts, payments and fund flows are managed efficiently.

- **Procurement:** efficient system and management of procurement in place to ensure increased competition, value-for-money, and transparency.
- **Internal Control and Audit:** clearly defined and effective policies, systems and procedures for internal control and audit are in use.
- **Assets and Liabilities Management:** policies, procedures and database of all assets is available and used for effective decision making in capital investment and management.
- **Reporting:** timely, meaningful, and user-friendly reporting structures in place allowing effective engagement with various stakeholders.
- **External Audit:** clearly defined systems for timely, independent, and effective external audit.
- **External Oversight:** functional independent systems for increased accountability and oversight are in place leading to improved decision making.

Effective institutions and systems of public financial management (PFM) play a critical role in the implementation of national policies concerning development and poverty reduction. Good PFM is the linchpin that ties together available resources, delivery of services, and achievement of government policy objectives. If it is done well, PFM ensures that revenue is collected efficiently and used appropriately and sustainably.<sup>16</sup>

In accord with widespread international agreement on the importance of PFM, the *Public Expenditure and Financial Accountability* (PEFA) program was initiated in 2001 by international development partners.<sup>17</sup> PEFA began as a means to harmonize assessment of PFM across the partner organizations. It was created to establish a standard methodology and reference tool for PFM diagnostic assessments. PEFA 2016 acknowledges the changing landscape of PFM reforms and the evolution of good practices over the last decade. The PEFA program provides a framework for assessing

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<sup>16</sup> *Framework for Assessing Public Financial Management, OCTOBER 2019, Second Edition, PEFA Secretariat.*

<sup>17</sup> *The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom.*

and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time. The PEFA framework includes a report that provides an overview of the PFM system and evidence-based measurement against 31 performance indicators. It also provides an assessment of the implications for overall system performance and desirable public financial management outcomes. It provides a foundation for reform planning, dialogue on strategy and priorities, and progress monitoring. PEFA is a tool that helps governments achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important public financial management institutions, systems, and processes.<sup>18</sup>

PEFA identifies seven pillars of performance in an open and orderly PFM system that are essential to achieving the PFM objectives. The seven pillars thereby define the key elements of a PFM system. They also reflect what is desirable and feasible to measure. The pillars are as follows:

- **Budget reliability.** The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.
- **Transparency of public finances.** Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.
- **Management of assets and liabilities.** Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

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<sup>18</sup> *Framework for Assessing Public Financial Management, OCTOBER 2019, Second Edition, PEFA Secretariat*

- **Policy-based fiscal strategy and budgeting.** The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.
- **Predictability and control in budget execution.** The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.
- **Accounting and reporting.** Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.
- **External scrutiny and audit.** Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Within the seven broad areas marked by these pillars, PEFA defines 31 specific indicators that focus on key measurable aspects of the PFM system. PEFA uses the results of the individual indicator calculations, which are based on available evidence, to provide an integrated assessment of the PFM system against the seven pillars of PFM performance. It then assesses the likely impact of PFM performance levels on the three desired budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

The PFM framework at Union and State emanates from the Indian Constitution and is guided by Central policies and processes. India has a federal, three-tier structure of Government comprising: the Union level; State level; and **Local bodies**. While State Governments have their own Finance Acts that regulate PFM practices, some areas of PFM at the state level are necessarily guided by initiatives taken at the Union level, notably with regard to the chart of accounts, which follows a uniform classification system across the Union and States, and accounting and financial reporting, since responsibility at the state level is vested in the Accountant General and the basis of accounting and financial reporting is guided by the Constitution and Comptroller and Auditor General and the Controller General of Accounts. The Fiscal Responsibility and Budget Management Acts (FRBM) at Union and State level provide a rules-based framework for fiscal consolidation and

management. The objective of the FRBM is to ensure a sustainable fiscal policy, prudent debt management through limits on the Government borrowing, limits on debt and deficits, greater transparency in fiscal operation, and conduct fiscal policy in a medium-term framework. The General Financial Rules (GFR) guide the financial, internal control and procurement framework in GOI.

Realizing the full potential of these reforms and achieving the states' own priorities will require competent and efficient PFM systems in the States, coupled with enhanced transparency and accountability. Individual states will need to manage a complex set of three PFM objectives involving trade-off and sequencing. The first is to improve the quality and sustainability of fiscal deficits, contingent liabilities, and fiscal risks; the second is to increase public investment; and the third is to focus on the outcomes of government expenditure rather than on merely outlays. Consequently, these are expected to impose significant pressure on existing systems of planning, revenue administration, and management of expenditure and reporting on the use of public funds in the states. **PFM reforms in municipalities or ULBs as the third tier of the federal three-tier structure of India's governance mechanism is a must.**

A strong PFM system in local bodies is thus a key to achieving development objectives and an efficient service delivery mechanism in municipalities or ULBs. The PFM framework brings out the linkages between legislative, budgeting, implementation, reporting and oversight process in the ULBs. Improved functioning in these areas would lead to increased accountability and enhanced levels of service delivery. The recent impetus for reforms brings out the acceptance, need and requirement to put PFM at the centre stage of improved governance and service delivery. ULBs as the providers of urban services face the challenge of meeting these demands through better management of resources and identifying new and innovative sources of funding. It also requires ULBs to shift their dependence for funds from the traditional central / state government grants to the citizens (for taxes), external financiers (for borrowings) and development agencies (for soft loans).

## 2. Municipal Legislative Framework as part of PFM

Vide the provisions of Seventh Schedule, List II – State List, Entry No. 5 read with Article 246 (3) of the Constitution and vide the provisions of Article 243W, municipalities are constituted and governed by separate legislations enacted by a state and union territory of India. Every state and almost all union territories of India either amended their original legislation or enacted legislation in order to comply with the provisions of 74 CAA.

To help facilitate the implementation of 74 CAA, the then Ministry of Urban Development, Government of India developed a “**Model Municipal Law**” in 2003 (facilitated by the Indo-USAID FIRE –D project) to serve as a template for states and union territories to revise their municipal legal framework. Key relevant provision of the Model Municipal Law include:

- i. Improving state oversight of municipal finances through SFC recommendations;
- ii. A form of administrative receivership for cities that default in the performance of their duties;
- iii. Mandatory framing of ULB debt limitation policy;
- iv. Development of a state-wide municipal accounting manual;
- v. Creation of a Municipal Accounts Committee at ULB level and preparation of annual Balance Sheets;
- vi. Mandatory requirement for ULBs to prepare inventory of all municipal assets;
- vii. Encouragement for ULBs to implement their own development plans; and
- viii. Framework for private sector participation in the construction, financing and delivery of services.

The Model Municipal Law had been recommendatory in nature and the Government of India advocated adoption. Since the model law remained recommendatory and not linked to any legislative requirement or reform-mandate, its compliance could not be adequately ensured. Hence, the municipal laws of India are not uniform, and each state and union territory had their own set of laws in compliance with Article 246(3) of the Constitution. Hence, to understand the functioning of municipalities of India, one must study, understand, and interpret laws of each state and union territory.

### 3. List of Municipal Legislations of States and Union Territories of India

A strong and comprehensive legislative framework is a prerequisite for effective PFM in municipalities and the same was stressed and expected upon the constitutionalizing municipalities within the provisions of the Constitution after 74 CAA. The legislative framework, in effect, provides the enabling environment and hence should cover all aspects of public financial management viz. budget, accounts, procurement, audit, etc. However, having good laws is not an end in itself – the accomplishment is in its enforcement and implementation.

An attempt is being made to list all legislations of states and union territories as had been legislated until date of this publication.<sup>19</sup> In some states and union territory, there are separate legislations for *nagar panchayats*, municipalities, and municipal corporations. In some states, there is a single legislation for all types of municipal bodies within the state and union territory. In a few states, there are multiple legislations for various municipal bodies within the state and union territory. Thus, the gamut of municipal legislations in India is very wide and there exists no uniformity in the provisions of these legislations. Nevertheless, all these legislations exhibit a common intent to implement the provisions of 74 CAA and other policy framework introduced by Government of India about various aspects of urban governance, management and service delivery for ULBs in the state and the union territory. The list of municipal legislations in the states and union territories of India is given in **Table 1**.

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<sup>19</sup> *Care had been taken to collect and collate the reference of legislations enacted from all secondary sources, nevertheless, the list may be cross-checked by the reader of this publication to ensure to refer the amended and updated legislation of the state and union territory. Care had also been taken to list all available legislations, but in the case, if some have been omitted unintentionally, then the list may be updated subsequently.*

**Table 1: List of Legislations of States and Union Territories of India**

Sl. No.	States and Union Territories	Long title of the Enabling Legislation enacted by the State
1.	Andaman and Nicobar Islands	<ul style="list-style-type: none"> <li>The Andaman and Nicobar Islands (Municipal), Regulation, 1994 (No. 5 of 1994)</li> </ul>
2.	Andhra Pradesh	<ul style="list-style-type: none"> <li>The Andhra Pradesh Municipal Corporations Act, 1994 (Act No. 25 of 1994)</li> <li>Andhra Pradesh Municipalities Act, 1965 (Act No. 6 of 1965)</li> </ul>
3.	Arunachal Pradesh	<ul style="list-style-type: none"> <li>The Arunachal Pradesh Municipal Act, 2007 (Act No. 4 of 2008)</li> </ul>
4.	Assam	<ul style="list-style-type: none"> <li>Assam Municipal Act, 1956 (Act 15 of 1957)</li> <li>The Assam Municipal Corporation Act, 2022 (Act No. 08 of 2022)</li> <li>Guwahati Municipal Corporation Act, 1971 (Assam Act No. 1 of 1973)</li> </ul>
5.	Bihar	<ul style="list-style-type: none"> <li>Bihar Municipal Act, 2007 (BIHAR ACT 11 of 2007)</li> </ul>
6.	Chandigarh	<ul style="list-style-type: none"> <li>The Punjab Municipal Corporation Law (Extension to Chandigarh) Act, 1994 (Act No. 45 Of 1994)</li> </ul>
7.	Chhattisgarh	<ul style="list-style-type: none"> <li>The Chhattisgarh Municipalities Act 1961 (Madhya Pradesh Act No. 37 of 1961)</li> <li>The Chhattisgarh Municipal Corporation Act, 1956 (Madhya Pradesh Act No. 23 of 1956)</li> </ul>
8.	Dadra and Nagar Haveli and Daman & Diu	<ul style="list-style-type: none"> <li>The Dadra and Nagar Haveli and Daman and Diu Municipal Council Regulation, 2004 (No. 2 of 2004)</li> </ul>

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Sl. No.	States and Union Territories	Long title of the Enabling Legislation enacted by the State
9.	Goa	<ul style="list-style-type: none"> <li>• The Goa, Daman and Diu Municipality Act, 1968 (Act No. 16 of 1968)</li> </ul>
10.	Gujarat	<ul style="list-style-type: none"> <li>• The Gujarat Provincial Municipal Corporations Act, 1949 (Bombay Act No. LIX of 1949)</li> <li>• The Gujarat Municipalities Act, 1963 (Act No. 34 of 1964)</li> </ul>
11.	Haryana	<ul style="list-style-type: none"> <li>• Haryana Municipal Act, 1973 (Act No. 24 of 1973)</li> <li>• The Haryana Municipal Corporation Act, 1994 (Haryana Act No. 16 of 1994)</li> </ul>
12.	Himachal Pradesh	<ul style="list-style-type: none"> <li>• The Himachal Pradesh Municipal Corporation Act, 1994 (Act No. 12 of 1994)</li> <li>• The Himachal Pradesh Municipal Act, 1994 (Act No. 13 of 1994)</li> </ul>
13.	Jammu and Kashmir	<ul style="list-style-type: none"> <li>• The Jammu and Kashmir Municipal Act, 2000 (Act No. XX of 2000)</li> </ul>
14.	Jharkhand	<ul style="list-style-type: none"> <li>• Jharkhand Municipal Act, 2011 (Jharkhand Act 07 of 2012)</li> </ul>
15.	Karnataka	<ul style="list-style-type: none"> <li>• The Karnataka Municipalities Act, 1964 (Karnataka Act No 22 of 1964)</li> <li>• The Karnataka Municipal Corporations Act, 1976 (Karnataka Act No. 14 of 1977)</li> </ul>
16.	Kerala	<ul style="list-style-type: none"> <li>• The Kerala Municipality Act, 1994 (Act No. 20 of 1994)</li> </ul>
17.	Ladakh	No separate municipal legislation yet since the enactment and adoption of Jammu and Kashmir Reorganisation Act, 2019 (Union Act 34 of 2019). Prior to that, the enabling legislation was The Jammu and Kashmir Municipal Act, 2000 (Act No. XX of 2000)

Sl. No.	States and Union Territories	Long title of the Enabling Legislation enacted by the State
18.	Lakshadweep	There are no separate municipal legislations yet in this Union Territory.
19.	Madhya Pradesh	<ul style="list-style-type: none"> <li>• The Madhya Pradesh Municipalities Act 1961 (Madhya Pradesh Act No. 37 of 1961)</li> <li>• The Madhya Pradesh Municipal Corporation Act, 1956 (Madhya Pradesh Act No. 23 of 1956)</li> </ul>
20.	Maharashtra	<ul style="list-style-type: none"> <li>• The Mumbai Municipal Corporation Act, 1888 (Bombay Act No. III of 1888)</li> <li>• The Maharashtra Municipal Corporations Act (Act No. LIX of 1949) (<i>earlier, The Bombay Provincial Municipal Corporation Act, 1949</i>)</li> <li>• The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965 (Act No. 40 of 1965)</li> </ul>
21.	Manipur	<ul style="list-style-type: none"> <li>• The Manipur Municipalities Act, 1994 (Act No. 43 of 1994)</li> </ul>
22.	Meghalaya	<ul style="list-style-type: none"> <li>• Meghalaya Municipal Act, 1973 (the Assam Municipal Act, 1956 as adapted and amended by Meghalaya)</li> </ul> <p><i>[This Act was extended in its application to the State of Meghalaya vide the Meghalaya Adoption of laws Order (No.4). 1971 to be applicable from 2nd April, 1970, and Meghalaya Adoption of Laws Order No. 3 1973 which shall be deemed to have had effect and came into force on the 21st day of January, 1972, and further named as the Meghalaya Municipal Act].</i></p>
23.	Mizoram	<ul style="list-style-type: none"> <li>• The Mizoram Municipalities Act, 2007 (Act No. 6 of 2007)</li> </ul>
24.	Nagaland	<ul style="list-style-type: none"> <li>• The Nagaland Municipal Act, 2023 (Act No. 9 of 2023)</li> </ul>

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Sl. No.	States and Union Territories	Long title of the Enabling Legislation enacted by the State
25.	Odisha	<ul style="list-style-type: none"> <li>• Odisha Municipal Act, 1950 (Odisha Act 23 of 1950)</li> <li>• Odisha Municipal Corporation Act, 2003 (Odisha Act 11 of 2003)</li> </ul>
26.	Puducherry	<ul style="list-style-type: none"> <li>• The Puducherry Municipalities Act, 1973 (Act No. 9 of 1973)</li> </ul>
27.	Punjab	<ul style="list-style-type: none"> <li>• Punjab Municipal Corporation Act, 1976 (Punjab Act 42 of 1976)</li> <li>• The Punjab Municipal Act, 1911 (Punjab Act 3 of 1911)</li> </ul>
28.	Rajasthan	<ul style="list-style-type: none"> <li>• The Rajasthan Municipalities Act, 2009 (Act No. 18 of 2009)</li> </ul>
29.	Sikkim	<ul style="list-style-type: none"> <li>• The Sikkim Municipalities Act, 2007 (Act No 5 of 2007)</li> </ul>
30.	Tamil Nadu	<ul style="list-style-type: none"> <li>• The Tamil Nadu District Municipalities Act, 1920 (Act 5 of 1920)</li> <li>• The Chennai City Municipal Corporation Act, 1919 (Tamil Nadu Act IV of 1919)</li> <li>• The Madurai City Municipal Corporation Act, 1971 (Tamil Nadu Act 15 of 1971)</li> <li>• The Coimbatore City Municipal Corporation Act, 1981 (Tamil Nadu Act 25 of 1981)</li> <li>• The Tiruchirappalli City Municipal Corporation Act, 1994 (Tamil Nadu Act 27 of 1994)</li> <li>• The Tirunelveli City Municipal Corporation Act, 1994 (Tamil Nadu Act 28 of 1994)</li> <li>• The Salem City Municipal Corporation Act, 1994 (Tamil Nadu Act 29 of 1994)</li> <li>• The Tiruppur City Municipal Corporation Act, 2008 (Tamil Nadu Act 7 of 2008)</li> </ul>

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Sl. No.	States and Union Territories	Long title of the Enabling Legislation enacted by the State
		<ul style="list-style-type: none"> <li>• The Erode City Municipal Corporation Act, 2008 (Tamil Nadu Act 8 of 2008)</li> <li>• The Vellore City Municipal Corporation Act, 2008 (Tamil Nadu Act 26 of 2008)</li> <li>• The Thoothukudi City Municipal Corporation Act, 2008 (Tamil Nadu Act 27 of 2008)</li> <li>• The Thanjavur City Municipal Corporation Act, 2013 (Tamil Nadu Act 24 of 2013)</li> <li>• The Dindigul City Municipal Corporation Act, 2013 (Tamil Nadu Act 25 of 2013)</li> <li>• The Hosur City Municipal Corporation Act, 2019 (Tamil Nadu Act 10 of 2019)</li> <li>• The Nagercoil City Municipal Corporation Act, 2019 (Tamil Nadu Act 11 of 2019)</li> <li>• The Avadi City Municipal Corporation Act, 2019 (Act 24 of 2019)</li> <li>• The Tambaram City Municipal Corporation Act, 2022 (Act No. 05 of 2022)</li> </ul>
31.	Telangana	<ul style="list-style-type: none"> <li>• The Telangana Municipalities Act, 2019 (Act No. 11 of 2019)</li> </ul>
32.	The Government of NCT of Delhi	<ul style="list-style-type: none"> <li>• The Delhi Municipal Corporation Act, 1957 (Act No. 66 of 1957)</li> <li>• The New Delhi Municipal Council Act, 1994 (Act No. 44 of 1994)</li> </ul>
33.	Tripura	<ul style="list-style-type: none"> <li>• The Tripura Municipal Act, 1994 (Act No. 7 of 1994)</li> </ul>
34.	Uttar Pradesh	<ul style="list-style-type: none"> <li>• The Uttar Pradesh Municipalities Act, 1916 (U.P. Act. No - II of 1916)</li> <li>• The Uttar Pradesh Municipal Corporation Act, 1959 (U.P. Act No. 2 of 1959)</li> </ul>

Sl. No.	States and Union Territories	Long title of the Enabling Legislation enacted by the State
35.	Uttarakhand	<ul style="list-style-type: none"><li>• The Uttar Pradesh Municipalities Act, 1916 (U.P. Act. No - II of 1916)</li><li>• The Uttar Pradesh Municipal Corporation Act, 1959 (U.P. Act No. 2 of 1959)</li></ul>
36.	West Bengal	<ul style="list-style-type: none"><li>• The Kolkata Municipal Corporation Act, 1980 (West Bengal Act LVII of 1980)</li><li>• The Howrah Municipal Corporation Act, 1980 (West Bengal Act LIX of 1980)</li><li>• The West Bengal Municipal Act, 1993 (West Bengal Act XXII of 1993)</li><li>• The West Bengal Municipal Corporation Act, 2006 (West Bengal Act XXXIX of 2006)</li></ul>

Source: As collected and collated from websites of various State Government and Union Territory and from the <https://www.indiacode.nic.in/>

#### 4. Comparative Analysis of Municipal Legislations of States of India

Although most of the states have amended their existing Acts to incorporate the 74 CAA some states have enacted fresh legislations either replacing the earlier Act or introducing municipalization for the first time in their respective states. However, the objective of decentralization and ensuring effective PFM has been, on the whole, limited, slow and uneven across states and union territories. As seen, the state and union territory legislations usually provide for the broad aspects of PFM such as manner of passing the budget, maintenance of accounts, maintenance and use of municipal fund, power to raise money, receive loans etc. with the state empowered to issue detailed Rules in this behalf.

This publication attempted to compare some of the important provisions concerning the accounting component of PFM in the enacted legislations of seven States of India. The selection of the seven States have been done randomly covering the different geographic locations of India. The seven state legislations selected are as below:

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- **Tripura:** The Tripura Municipal Act, 1994
- **Maharashtra:** The Maharashtra (Municipal Councils), (Nagar Panchayats) and Industrial Townships Act, 1965
- **Bihar:** The Bihar Municipal Act, 2007
- **West Bengal:** The West Bengal Municipal Act, 1993
- **Kerala:** The Kerala Municipality Act, 1994
- **Madhya Pradesh:** The Madhya Pradesh Municipalities Act, 1961
- **Sikkim:** The Sikkim Municipalities Act, 2007.

The comparative analysis exhibited in **Table 2** show the variations in the provision across the legislations of the selected states.

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**Table 2: Comparative Analysis of Legislations of States and Union Territories of India**

Scope	Tripura	Maharashtra	Bihar	West Bengal	Kerala	Madhya Pradesh	Sikkim
<b>Definition</b>	None	None	<p><b>Sec 2 (38)</b> defines "Financial Statement"</p> <p><b>Sec 2(58)</b> defines "Municipal Accounting Manual"</p> <p><b>Sec 2(61)</b> defines "Municipal Fund"</p>	None	None	None	<p><b>Sec 2 (29)</b> defines "financial statement"</p> <p><b>Sec 2 (43)</b> defines "Municipal Accounting Manual"</p> <p><b>Sec 2 (48)</b> defines "Municipal Fund"</p>
<b>Accounts</b>	<p><b>Chapter XVIII on Budget, Accounts, and Audit</b></p> <p><b>Sec 262(1)</b>, Within three months of the close of a year, a financial statement for</p>	<p><b>Chapter VIII Budget and Accounts</b></p> <p><b>Sec 102(1)</b> Accounts of the receipts and disbursements of every council shall be kept in accordance with the rules contained in</p>	<p><b>Chapter XII Accounts and Audit</b></p> <p><b>Sec 86</b> The Chief Municipal Officer shall prepare and maintain accounts of receipts and expenditure of the Municipality in such form, and in such manner as may be prescribed.</p>	<p><b>Chapter IX Budget, Accounts, and Audit</b></p> <p><b>Sec 84 (1)</b> Within six months of the close of a year, a financial statement (Annual Financial Statement) for the preceding year in respect of a municipality shall be prepared in the form and manner prescribed, and presented before a meeting</p>	<p><b>Chapter XIV Taxation and Finance</b></p> <p><b>Sec 294 (1)</b> The Secretary of a Municipality shall publish, not later than the first week of June, an annual financial statement of the preceding year, approved by the Council, in such form</p>	<p><b>Chapter V Property, Contracts, and Liabilities</b></p> <p><b>Sec 120 (1)</b> The Chief Municipal Officer shall draw up a quarterly abstract of the receipts and expenditure of the preceding quarter and such abstract</p>	<p><b>Chapter XI Accounts and Audit</b></p> <p><b>Sec 55</b> The Chief Municipal Officer shall prepare and maintain, in such manner as may be prescribed, accounts of receipts and expenditure of the Municipality</p>

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Scope	Tripura	Maharashtra	Bihar	West Bengal	Kerala	Madhya Pradesh	Sikkim
	<p>the preceding year in respect of a municipality shall be prepared in the form and manner prescribed and presented before a meeting of the Municipality</p> <p><b>Sec 263 (1)</b> Every Municipality shall cause to be prepared annually a balance sheet of assets and liabilities in</p>	<p>the Municipal Accounts Code prescribed by the State Government and shall be placed before the Council in the prescribed manner.</p> <p><b>Sec 102 (2)</b> After the end of official year the Chief Officer shall arrange to get prepared, and if so required by Sec 104 get audited by the Municipal Auditor, the accounts, of the Council for the year and shall place them before</p>	<p><b>Sec 87</b> The State Government shall prepare and maintain a manual to be called the Municipal Accounting Manual containing details of all financial matter and procedures relating thereto in respect of the Municipality.</p> <p><b>Sec 88 (1)</b> The Chief Municipal Officer shall within four months of the close of the financial year, cause to prepare a financial statement containing an income and expenditure account and a receipts and payments account for the preceding year in respect of the Municipality.</p>	<p>of the Board of Councillors. Financial Statement shall consist of a Balance Sheet of the sources and application of funds, Income and Expenditure Account disclosing the surplus (excess of income over expenditure) or deficit (excess of expenditure over income) for the financial year, Receipts and Payments Account (showing the head-wise receipts and payments for the year along with balances of cash in hand, cash at bank, and cash at treasury) and a Cash Flow Statement (showing the receipts and payments of cash as per three distinct categories of operating, investing, and financing activities). Every such statement shall give a true and correct view of the</p>	<p>as may be prescribed embodying a classified abstract of receipts and payments of the Municipality under Revenue, Capital and Debt heads, a demand, collection and balance statement and a statement of the general financial position of the Municipality</p> <p><b>Sec 294 (2)</b> As soon as may be, after the publication of the financial statement under subsection (1), the Secretary shall forward a copy there of to the auditors</p> <p><b>Sec 295 (1)</b> The Municipality shall maintain its accounts and other books connected with the accounts in the</p>	<p>shall be examined by the prescribed authority.</p> <p><b>Sec 125 (2)</b> The abstract of the Municipal accounts drawn up under sub section (1) shall be placed before the council.</p> <p><b>Sec 125 (3)</b> For the purposes of examining the accounts by the Council, the Council shall have access to all the records and correspondence relating thereto, and the Chief Municipal Officer shall furnish to the Council any explanation concerning the receipts and</p>	<p>separately under revenue account and capital account on the basis of accrual.</p> <p><b>Sec 56</b> The State Government shall prepare and maintain a Manual to be called the Municipal Accounting Manual containing details of all financial matters, and procedures relating thereto, in respect of the Municipality.</p> <p><b>Sec 57 (1)</b> The Chief Municipal Officer shall, within four months of the close of a year, cause to be prepared under revenue account and capital account</p>

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Scope	Tripura	Maharashtra	Bihar	West Bengal	Kerala	Madhya Pradesh	Sikkim
	<p>the prescribed form within six-months of the close of a year.</p> <p><b>Sec 263 (2)</b> The Balance Sheet shall be placed before a meeting of the Municipality</p>	<p>the Council not later than the 30<sup>th</sup> day of June of the following year.</p> <p><b>Sec 102 (3)</b> An abstract of the annual accounts as passed by the Council showing the receipts and disbursements of the municipal fund under each head of receipt and disbursements, the charges for establishment, the balance, if any, of the fund remaining unspent, and such other</p>	<p><b>Sec 88 (2)</b> The form of the financial statement, and the manner in which the balance sheet shall be prepared, shall be such as may be prescribed.</p> <p><b>Sec 89 (1)</b> The Chief Municipal Officer shall, within four months of the close of a year, cause to be prepared a balance sheet of the assets and the liabilities of the municipality for the preceding year.</p> <p><b>Sec 89 (2)</b> The Form of the Balance Sheet, and the manner in which the balance sheet shall be prepared, shall be such as may be prescribed.</p>	<p>state of affairs of the Municipality.</p> <p><b>Sec 84 (2)</b> A copy of the financial statement shall be given to the Director of Local Bodies and shall be available for inspection by the members of the public in the manner prescribed.</p> <p><b>Sec 84 (3)</b> Notwithstanding anything contained in the foregoing provisions of this section, the State Government may, on the prayer of a Municipality, extend the date for preparation and presentation of the financial statement of a Municipality for reasons to be recorded in writing.</p>	<p>manner and form as prescribed and shall enter the receipt and expenditure accounts forthwith in such books.</p> <p><b>Sec 295 (2)</b> The responsibility to maintain or cause to maintain the accounts and the connected books of the Municipality in the manner and form as prescribed and to submit or cause to submit such accounts to the Local Fund Examiner for conducting audit in the time shall vest with the Secretary</p>	<p>expenditure which it may call for.</p> <p><b>Sec 125 (4)</b> Any councilor may with the permission of the President and in the presence of the Chief Municipal Officer, inspect any document relating to accounts of the Council within two days before the meeting of the Council in which they are to be considered.</p>	<p>a financial statement containing an account of income and expenditure and an account of receipts and payments for the preceding year in respect of the Municipality.</p> <p><b>Sec 57 (2)</b> The Form of the financial statement, and the manner in which the financial statement shall be prepared, shall be such as may be prescribed.</p> <p><b>Sec 58 (1)</b> The Chief Municipal Officer shall, within three months of the close of a year, cause to be prepared a balance sheet of assets and</p>

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Scope	Tripura	Maharashtra	Bihar	West Bengal	Kerala	Madhya Pradesh	Sikkim
		<p>information as may be required by the State Government shall be forwarded by the Council to the Director, not later than the 31<sup>st</sup> day of July of the next financial year.</p>					<p>liabilities of the Municipality for the preceding year.</p> <p><b>Sec 58 (2)</b> The Form of the balance sheet, and the manner in which the balance sheet shall be prepared, shall be such as may be prescribed.</p> <p><b>Sec 59</b> The financial statement prepared under section 56 and the balance sheet of assets and liabilities prepared under section 57 shall be placed by the Chief Municipal Officer before the Chief Councillor, who shall, after examination of the said financial statement and the balance sheet,</p>

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Scope	Tripura	Maharashtra	Bihar	West Bengal	Kerala	Madhya Pradesh	Sikkim
							adopt them, and shall remit them to the Auditor as may be appointed by the State Government in this behalf.
<b>Publication of Accounts</b>	None	<b>Sec 103</b> The Quarterly and annual accounts, receipts and disbursements, and the budget when sanctioned shall be open to inspection by any adult inhabitant in the municipal area and the budget are so kept for inspection shall be published in the local newspapers.	None	<b>Sec 64 B (1)</b> Every Municipality shall publish, -  (a) the audited financial statements and cash flow statement on a half-yearly basis, within two months from the end of the second and fourth quarter of a year;  (b) financial statements for the full financial year, within three months from the date of completion of audit; and  (c) such other documents relating to development programmes of the Municipality as may be prescribed.	None	<b>Sec 119</b> The annual accounts of receipts and expenditure, and the budget when sanctioned, shall be open to public inspection free of charge and shall be published in Hindi Language in Devangiri script.	None

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Scope	Tripura	Maharashtra	Bihar	West Bengal	Kerala	Madhya Pradesh	Sikkim
		<p><b>Sec 87 A (1)</b> The Council shall maintain and publish all its record duly catalogued and indexed in a manner, and form which enables the Corporation to disclose the information specified in sub-section (3).</p> <p><b>Sec 87 A (2)</b> The manner of disclosure of information shall include the publication of the information, -</p> <p>(i) in Newspapers</p>		<p><b>Sec 64 B (2)</b> The manner of publication under sub section (1) shall be such as may be prescribed.</p>			

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Scope	Tripura	Maharashtra	Bihar	West Bengal	Kerala	Madhya Pradesh	Sikkim
		<p>(ii) on Internet</p> <p>(iii) on Notice Boards of the Council at its Head Office as well as other offices, if any</p> <p>(iv) by such other mode, as may be prescribed:</p> <p>Provided that the information shall be disclosed in the language in which it is available with the Corporation.</p> <p><b>Sec 87 A (3)</b> The council shall be required to disclose the</p>					

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Scope	Tripura	Maharashtra	Bihar	West Bengal	Kerala	Madhya Pradesh	Sikkim
		following information, namely:-  (v) audited financial statements showing Balance Sheet, Receipts and Expenditures, and cash flow on a quarterly basis, within two months of end of each quarter, and audited financial statements for the full financial year, within three months of the end of the Financial Year					

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Municipal Fund (Explanation and Accounting thereof)	<p>Chapter VII General Powers and Functions, <u>Municipality Fund</u> and Property</p> <p><b>Sec 85 (1)</b> There shall be constituted for each municipality a fund to be called Municipal Fund to be held by the Municipality in trust for the purpose of this Act and all moneys realized under this Act and all</p>	<p>Chapter VII Municipal Property, <u>Funds, Contracts, and Liabilities</u></p> <p><b>Sec 90 (1)</b> All moneys received by or on behalf of a council by virtue of this Act or any other law for the time being in force, all taxes, fines, and penalties paid to or levied by it under this Act, other than fines imposed by and accruing from its land or property, and all interest,</p>	<p>Chapter IX Municipal Finance and <u>Municipal Fund</u></p> <p><b>Sec 73 (1)</b> There shall be a fund to be called the Municipal Fund which shall be held by the Municipality in trust for the purposes of this Act, and all moneys realized or realizable under this Act and all moneys otherwise received by the Municipality shall be credited thereto.</p> <p><b>Sec 73 (2)</b> Subject to such directions as the State Government may issue in this behalf, and keeping in view the classification of municipal areas under section 7, the receipts and expenditures of the Municipality shall be</p>	<p>Chapter VIII Municipal Fund</p> <p><b>Sec 67</b> There shall be constituted for each Municipality a fund to be called Municipal Fund to be held by the Board of Councilors in trust for the purposes of this Act, and all moneys realized or realizable under this Act and all moneys otherwise received by the Municipality shall be credited thereto.</p> <p><b>Sec 68</b> All moneys received on account of the Municipal Fund shall be paid into a government treasury or into any bank in the municipal area, and shall be credited to an account to be called the account of the Municipality to which they belong:</p> <p>Provided that the Chairman-in-Council may</p>	<p>Chapter XIV Taxation and <u>Finance</u></p> <p><b>Sec 283 (1)</b> All moneys received by a Municipality under this Act or the rules made there under or any other law for the time being in force, shall constitute a fund which shall be called the Municipal Fund and shall be utilized and disposed of subject to the provisions of this Act or any other laws.</p> <p><b>Sec 283 (2)</b> The items of income to be credited to the Municipal Fund consist of the following, namely:—</p> <p>(a) Taxes, duties cess and surcharge levied under this Act or any</p>	<p>Chapter V Property, Contracts, and Liabilities</p> <p><b>Sec 104</b> There shall be formed for each Municipality a Municipal Fund, and it shall be held by the Council in trust for the purposes of this Act, subject to the provisions therein contained.</p> <p><b>Sec 105 (1)</b> There shall be credited to the Municipal Fund –</p> <p>(a) all moneys received by or on behalf of the Council under the provisions of this Act or of any other law for the time being in force</p>	<p>Chapter IX Municipal Fund</p> <p><b>Sec 39 (1)</b> There shall be a fund to be called the Municipal Fund which shall be held by the Municipality in trust for the purposes of this Act, and all moneys realized or realizable under this Act and all moneys otherwise received by the Municipality shall be credited thereto.</p> <p><b>Sec 39 (2)</b> Subject to such directions as the State Government may give in this behalf, and keeping in view the classification of municipal areas under section 7, the receipts and</p>

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	<p>moneys otherwise received by the Municipality shall be credited thereto.</p> <p><b>Sec 85 (2)</b> All moneys received on account of the Municipal Fund shall be paid into a Government treasury or into any bank in the Municipal area and shall be credited to an account to be called the account</p>	<p>profits and other moneys constituted the municipal fund, and shall be held and dealt with in a similar manner to the property specified in Sec 88 and Sec 97 respectively: -</p> <p>Provided that –</p> <p>(a) nothing in this section or in sec 88 shall in any way affect any obligation accepted by or imposed upon any council by any declarations of trust executed by or on behalf</p>	<p>kept under such heads of accounts, including those for water-supply, drainage and sewerage, solid waste management, road development and maintenance, slum services, commercial projects and other account heads as may be specified and the general account head, in such manner, and in such form, as may be prescribed, so as to facilitate the imposition of user charges and preparation of any subsidy report under this Act.</p> <p>Explanation – For the purposes of this section, “commercial projects” shall include municipal markets, market development</p>	<p>invest moneys not required for immediate use, either in Government securities or in any other form of security which may be approved by the State Government or in fixed deposit in the State Bank of India or in any nationalized bank or State Co-operative Bank or in any other form as the State Government may direct.</p> <p>Explanation – “State Cooperative Bank” shall mean the West Bengal State Cooperative Bank Limited and shall include any cooperative bank affiliated to the West Bengal State Cooperative Bank Limited.</p> <p><b>Sec 69 (1)</b> All moneys credited to the Municipal Fund from time to time shall be applied for payment of all sums, charges and cost necessary for carrying out</p>	<p>other law, the rent from properties, fees from licences and permissions and its income from other miscellaneous items;</p> <p>(b) Share of the taxes levied by the Government and transferred to the Municipality and the grants released to the Municipality by the Government;</p> <p>(c) Grants released by the Government for the implementation of schemes, projects and plans formulated by the Municipality;</p> <p>(d) Grants released by the Government for the implementation of the schemes, projects and plans assigned or entrusted to the</p>	<p>or under any contract</p> <p>(b) the balance, if any standing at the commencement of this Act at the credit of the Municipal Fund;</p> <p>(c) all proceeds of the disposal of property by, or on behalf of, the Council;</p> <p>(d) all rents accruing from any property of the Council;</p> <p>(e) all moneys raised by the tax levied for the purposes of this Act;</p> <p>(f) all fees payable and levied under this Act;</p>	<p>expenditure of the Municipality shall be kept under the following heads of accounts :-</p> <p>(a) the Water Supply, Sewerage and Drainage Account,</p> <p>(b) the Solid Waste Management Account,</p> <p>(c) the Road Development and Maintenance Account,</p> <p>(d) the Slum Services Account,</p> <p>(e) the Commercial Projects Account, and</p>

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	<p>of the Municipality to which they belong:</p> <p>Provided that the Municipality may invest moneys not required for immediate use, either in Government Securities or in any other form of security which may be approved by the State Government or in a fixed deposit in the State Co-operative Bank, or in any other</p>	<p>of such council or by any scheme settled under the Charitable Endowments Act, 1890 for the administration of any trust, or by a trust of the nature specified in clause (b)</p> <p>(b) a Council may, subject to the condition that reasonable provision shall be made for the performance of all obligations imposed or that may be imposed on it by or under this</p>	<p>projects, property development projects, and such other projects of a commercial nature as may be specified by the Municipality from time to time.</p> <p><b>Sec 73 (3)</b> Every head of account specified under sub-section (1) shall be split up into a revenue account and a capital account and all items of receipts and expenditures shall be kept appropriately under such revenue account or capital account, as the case may be.</p> <p><b>Chapter X Application of Municipal Fund</b></p> <p><b>Sec 74</b> The money credited to the</p>	<p>the purposes of this Act and the rules and the regulations made there under or for payment of all sums payable out of the Municipal Fund under any other law for the time being in force.</p> <p><b>Sec 69 (2)</b> No payment of any sum shall normally be made out of the Municipal Fund unless such budget grant is available for the purpose.</p> <p><b>Sec 69 (3)</b> Whenever any sum is paid for the purposes not covered by the budget grant, the matter shall forthwith be communicated to the Chairman-in-Council who shall take such action under the provisions of this Act as may appear to it be feasible and expedient for covering</p>	<p>Municipality under this Act; and</p> <p>(e) Money raised through donations and contributions from the public and non-governmental agencies.</p> <p><b>Sec 283 (3)</b> All fees for licences and permissions received by the Municipality under this Act or any other law shall be accounted separately and shall be utilised for the purpose for which such fees are levied.</p> <p><b>Sec 283 (4)</b> Grants released by the Government to the Municipality for the implementation of the schemes, projects and plans shall be utilised only for that purpose</p>	<p>(g) all moneys received by way of compensation or for compounding offences under the provisions of this Act;</p> <p>(h) all moneys received by, or on behalf of, the Council from the state Government or private individuals by way of grant or gift or deposits; and</p> <p>(i) all interest and profits arising from any investment of, or from any transaction in connection with, any money belonging to the Council;</p> <p><b>Sec 105 (2)</b> Nothing in this section or in this Act shall effect</p>	<p>(f) the General Administration Account.</p> <p>Explanation -For the purposes of this section, "commercial projects" shall include bazars, bazar development projects, property development projects, and such other projects of a commercial nature as may be specified by the Municipality from time to time.</p> <p><b>Sec 40 (1)</b> The State Government may, from time to time, give grants or other financial assistance to a Municipality with directions, if any, as to the manner in</p>

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	<p>form as the State Government may direct.</p> <p><b>Sec 86 (1)</b> All moneys credited to the Municipal Fund from time to time shall be applied for payment of all sums, charges, and costs necessary for carrying out the purposes of this Act and the Rules made there under or for payment of</p>	<p>Act or any other law for the time being in force, after crediting the necessary sums to the funds created under section 50 and 91, credit to a separate heading in the municipal accounts any portion of the municipal funds received or set apart by it specially for the purposes of schools or dispensaries or water works or fire brigades or such other purposes as the Director in</p>	<p>Municipal Fund from time to time shall be applied for payment of all sums, charges, and costs necessary for carrying out the purposes of this Act and the rules and the regulations made there under and for payment of all sums payable out of the Municipal Fund under any other law for the time being in force.</p> <p><b>Sec 75</b> The Chief Municipal Officer shall have powers to make payment of any sum out of the Municipal Fund or enter into any contract involving any expenditure – provided such payment or expenditure is covered by a current budget grant and a sufficient balance of such</p>	<p>the amount of such payments.</p> <p><b>Sec 70</b> Notwithstanding anything contained elsewhere in this Act, the State Government may require a Municipality to earmark a particular portion of the Municipal Fund or a particular grant or thereof, or any item of receipt under any head or any percentage thereof, or any share of tax receivable by the Municipality under any other law for the time being in force or any part thereof, to be used exclusively for any specified purpose, and it shall be mandatory on the part of the Municipality to follow the same. The State Government may also formulate separate sets of Rules for observance by different groups of Municipalities in this regard.</p>	<p>for which such grants are released.</p> <p><b>Sec 283 (5)</b> The share of taxes levied by the Government and transferred to the Municipality and the grants released to the Municipality shall be fixed by the Government with due regard to the recommendations of the Finance Commission and the needs of development and the cost of the Municipal administration and services.</p> <p>Provided that any sum due from a Municipality to the Government or any fund established or operated or administered under</p>	<p>any obligation of a council arising from a trust legally imposed upon or accepted by the Council.</p> <p><b>Sec 105 (3)</b> A Council may, for the purpose of efficient discharge of any of the duties imposed upon it under clauses (d), (j) and (l) of Section 123, by a resolution passed in that behalf, earmark for each purpose a specified portion of its income every year for a specified number of years for being credited to a Fund called the Public Utility Schemes Fund. The amount so credited</p>	<p>which such grants or other financial assistance shall be applied.</p> <p><b>Sec 40 (2)</b> The Municipality shall maintain separate accounts for each such grant or other financial assistance.</p> <p><b>Sec 41</b> Every head of account specified in sub-section (2) of section 39 shall be split up into revenue account and capital account and all items of receipts and expenditure shall be kept appropriately under such revenue account or capital account, as the case may be.</p>

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	<p>all sums payable out of the Municipal Fund under any other law for the time being in force.</p> <p><b>Sec 86 (2)</b> No payment of any sum shall normally be made out of the Municipal Fund unless such expenditure is covered by a current budget grant and a sufficient balance of budget grant is available</p>	<p>this behalf approves, and the Council shall apply sums so credited exclusively to the special purposes for which sums were received or set apart;</p> <p>(c) (i) every council which levies a tax on pilgrims resorting periodically to a shrine within its area shall subject to the condition that reasonable provision shall be made for the purposes specified in</p>	<p>budget grant is available, notwithstanding any reduction or transfer thereof under the provisions of this Act.</p> <p>Provided that this section shall not apply to any payment in the following cases:-</p> <p>(a) refund of taxes and other money which are authorized by this Act;</p> <p>(b) repayment of money belonging to contractors or other persons and held in deposit and all money collected by the municipality or credited to the Municipal Fund by mistake;</p> <p>(c) temporary payment for works urgently required by the State</p>		<p>any rules made under, this Act or any fund borrowed from any public sector undertaking or any agency on Government guarantee may be adjusted by the Government from any grant or sum due to the Council then and thereafter,</p> <p><b>Sec 283 (6)</b> No expense, financial assistance or grant for a purpose not directly concerned with the function of the Municipality specified in this Act or rules made there under or any other law shall be made by a Municipality in excess of the annual limit that may be</p>	<p>shall be expended for the purposes for which it has been earmarked.</p> <p><b>Sec 106 (1)</b> All property vested in a Council under this Act, all funds received by it in accordance with the provisions of this Act, be applied for the purposes of this Act within the limits of the Municipality.</p> <p><b>Sec 106 (2)</b> Notwithstanding anything contained in sub section (1) it shall be lawful for a Council, subject to Rules framed under this Act –</p> <p>(a) to incur expenditure beyond the Municipal limits</p>	<p><b>Sec 42</b> The moneys credited to the Municipal Fund from time to time shall be applied for payment of all sums, charges and costs necessary for carrying out the purposes of this Act and the rules and the regulations made there under and for payment of all sums payable out of the Municipal Fund under any other law for the time being in force.</p> <p><b>Sec 43</b> No payment of any sum out of the Municipal Fund shall be made unless such expenditure is covered by a current budget grant and a sufficient balance of</p>

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	<p>for the purpose.</p> <p><b>Sec 86 (3)</b> Whenever any sum is to be paid for the purposes not covered by the budget grant, the matter shall forthwith be brought before the Chairperson of Municipality who shall take such action under the provisions of this Act as may appear to it to be feasible and</p>	<p>sub-clause (ii) credit the proceeds of the said tax to a separate heading in the municipal account to be called "Pilgrim Fund Account"</p> <p>(c) (ii) the purposes for which provision shall be made by a council before the proceeds of the pilgrim tax are credited to the Pilgrim Fund Account shall be the following, namely the payment to the council of such percentage of</p>	<p>Government in the public interest</p> <p>(d) expenses incurred by the Municipality on special measures on the outbreak of dangerous diseases, natural or technological hazards or in any other emergent case,</p> <p>(e) sums payable as compensation under this Act or the rules or the regulations made there under,</p> <p>(f) sums payable -</p> <p>(i) under orders of the State Government on failure of the Municipality to take any action required by the State Government</p>		<p>specified by the Government.</p> <p><b>Sec 283 (7)</b> All amounts accounted to the Municipal fund and of its release under this Act, shall be in full rupee.</p> <p>Explanation:— For this purpose fraction of a rupee shall be rounded to the next higher rupee.]</p> <p><b>Sec 283A (1)</b> The Chief Secretary of the State shall submit an annual report to the Governor, immediately after the expiry of each financial year, regarding any amount of grants to be received annually by the Municipality as per any law or otherwise, and the actual amount</p>	<p>on the acquisition of land or on the construction, maintenance or repair of works, for the purpose of obtaining a supply of water required for the inhabitants of the Municipality or on providing the supply of electrical energy for the use of inhabitants of the said municipality or on establishing slaughter houses or places for the disposal of night soil or sewage or carcasses of animals or for the drainage works, or for the purpose of providing mechanically propelled transport facilities for the</p>	<p>such budget grant is available, notwithstanding any reduction or transfer thereof under any provision of this Act:</p> <p>Provided that this section shall not apply to any payment in the following cases :-</p> <p>(a) refund of taxes and other moneys which are authorized by this Act,</p> <p>(b) repayment of moneys belonging to contractors or other persons and held in deposit and all moneys collected by the Municipality or credited to the</p>

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	<p>expedient for covering the amount of such payments.</p> <p><b>Sec 87</b> Notwithstanding anything contained elsewhere in this Act, the State Government may require a municipality to earmark a particular portion of the Municipal Fund or a particular grant or a part thereof or any item of receipt</p>	<p>the proceeds of the said tax as may be determined from time to time by the Council with the approval of the Collector for –</p> <p>(A) making reasonable provision for the performance of all obligations imposed or which may be imposed on it by or under this Act or any other law for the time being in force;</p> <p>(B) such general duties, of the Council</p>	<p>under any provision of this Act, or</p> <p>(ii) under any other law for the time being in force, or</p> <p>(iii) under the decree or order of a civil or criminal court against the Municipality, or</p> <p>(iv) under a compromise of any claim, suit or other legal proceeding, or</p> <p>(v) on account of the cost incurred in taking immediate action by any of the municipal authorities to avert a sudden threat or danger to the property of the Municipality or to human life, and</p>		<p>given to the Municipality and the criterion adopted by the Government for such payment.</p> <p><b>Sec 283A (2)</b> Annual report under sub-section (1) shall be laid before the Legislative Assembly, within the first six months of the next financial year.</p> <p><b>Sec 284</b> Every Municipality shall provide in its Annual Budget two per cent of the revenue receipt of the Municipality for constituting a separate fund to be called <b>Poverty Alleviation Fund</b> for implementing poverty alleviation programmes in the municipal area, which shall be utilised subject to such</p>	<p>conveyance of the public, for the purpose of setting up of dairies or farms for the supply, distribution and procuring of milk or milk products for the benefit of the inhabitants of the Municipality or for any other purpose calculated to promote the health, safety, or convenience of the inhabitants of the said Municipality; or</p> <p>(b) to make a contribution toward expenditure incurred by any other local authority or out of any public fund for measures affecting the health, instruction, safety,</p>	<p>Municipal Fund by mistake,</p> <p>(c) temporary payment for works urgently required by the State Government in the public interest,</p> <p>(d) expenses incurred by the Municipality on special measures on the outbreak of dangerous diseases, or for dealing effectively with natural or technological hazards, or in any other emergent case,</p> <p>(e) sums payable as compensation under this Act or the rules</p>

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	<p>under any head or any percentage thereof, or any share of tax receivable by the Municipality under any other law for the time being in force or any part thereof, to be utilized exclusively for any specified purpose, and it shall be mandatory on the part of the Municipality to follow the same. The State</p>	<p>as are connected with the health, convenience and safety of the said pilgrims; and</p> <p>(C) the cost of collection of the said tax;</p> <p>(c) (iii) the sums credited under sub clause (i) shall be devoted to such works conducive to the health, convenience, and safety of the said pilgrims as may be approved by the Collector.</p> <p><b>Sec 90 (2)</b> The State</p>	<p>(g) such other cases as may be determined by regulations.</p> <p>Provided further that no contract involving an expenditure exceeding ten lakh rupees but not exceeding twenty five lakh rupees in case of a Municipal Corporation, five lakh rupees but not exceeding twelve lakhs in case of a Municipal Council or two lakhs but not exceeding five lakhs in case of a Nagar Panchayat shall be made by the Chief Municipal Officer unless it has been sanctioned by the Empowered Standing Committee</p>		<p>guidelines as the Government may issue from time to time.</p>	<p>or convenience of public calculated to benefit the residents within the limits of the Municipality; or</p> <p>(c) to create scholarship tenable outside the limits of the Municipality; or</p> <p>(d) to utilize the Municipal fire brigade and other mechanical appliance beyond the Municipal limits; or</p> <p>(e) to make with previous sanction of the State Government, any other kind of contribution as may be deemed necessary by the Council:</p>	<p>or the regulations made there under,</p> <p>(f) sums payable -</p> <p>(i) under the orders of the State Government on failure of the Municipality to take any action required by the State Government under any provision of this Act, or</p> <p>(ii) under any other law for the time being in force, or</p> <p>(iii) under the decree or order of a civil or criminal court against the Municipality, or</p> <p>(iv) under a compromise of any</p>

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	<p>Government may also formulate separate sets of rules for observance by different groups of Municipalities in this regard.</p> <p><b>Sec 88</b> The State Government may, from time to time, give financial assistance to a Municipality with or without directions as to the manner in which the</p>	<p>Government may under appropriation duly made in this behalf make such grants to every council every year and subject to such terms and conditions and in such manner as it may deem fit for all or any of the following purposes, namely:-</p> <p>(a) water supply</p> <p>(b) Drainage</p> <p>(c) Primary and Secondary education</p>	<p>Provided further that no contract involving an expenditure exceeding twenty five lakh rupees in case of a Municipal Corporation, twelve lakhs in case of a Municipal Council or five lakhs in case of a Nagar Panchayat shall be made by the Chief Municipal Officer unless it has been sanctioned by the Municipal Corporation or Municipal Council or Nagar Panchayat as the case may be.</p> <p><b>Sec 76</b> Whenever any sum is paid in any of the cases referred to in the proviso to section 75, the Chief Municipal Officer shall forthwith communicate the circumstances of such</p>			<p>Provided that nothing in this section or in any other provision of this Act shall be deemed to make it unlawful for a Council when it has constructed works beyond the limits of the Municipality for the supply of water or electrical energy or for drainage as aforesaid –</p> <p>(a) to supply or extend to or benefit of any person or building of any person or building or lands in any place, whether such place is or is not within the limits of the said municipality, any quantity of water or electrical energy not</p>	<p>claim, suit or other legal proceeding,</p> <p>or</p> <p>(v) on account of the cost incurred in taking immediate action by any of the municipal authorities referred to in section 20 to avert a sudden threat or danger to the property of the Municipality or to human life,</p> <p>and</p> <p>(g) such other cases as may be determined by regulations.</p> <p><b>Sec 43</b> Whenever any sum is paid in any of the cases referred to in the proviso to section</p>

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	sum shall be applied.	<p>(d) Development plan and town planning schemes under the Maharashtra Regional and Town Planning Act, 1966</p> <p>(e) Dearness Allowance to the officers and servants of the Council;</p> <p>(f) xxx</p> <p>(g) Public Health</p> <p>(h) Fire Brigade</p> <p>(i) Construction and Maintenance of Roads; and</p>	<p>payment to the Empowered Standing Committee, and, thereupon, the Empowered Standing Committee may take, or recommend to the Municipality to take, such action under the provisions of this Act as may appear to it to be feasible and expedient for covering the amount of such payment.</p> <p><b>Sec 77 (1)</b> On a requisition, in writing, by the State Government, the Empowered Standing Committee, at any time, may require the Chief Municipal Officer to undertake the execution of any work certified by the State Government to be</p>			<p>required for the purpose of this Act within the said municipality or the advantages afforded by the system of drainage works, on such terms and conditions with regard to payment and to the continuance or such supply or advantages as shall be settled by agreement between the Council and such persons or occupier or owner of such buildings or land; or</p> <p>(b) to incur any expenditure on such terms with regard to payment as may be settled as aforesaid for the construction,</p>	<p>42, the Chief Municipal Officer shall forthwith communicate to the Executive Authority, the circumstances of such payment, and, thereupon, the Executive Authority may take, or recommend to the Municipality to take, such action under the provisions of this Act as may appear to the Executive Authority to be feasible and expedient for covering the amount of such payment.</p> <p><b>Sec 44 (1)</b> On a requisition, in writing, by the State Government, the Chief Councillor</p>

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		<p>(j) Such other amenities as the State Government may from time to time determine.</p> <p>Such grants shall be credited to the Municipal Fund and applied for the purposes for which they are sanctioned.</p> <p><b>Sec 90 (3)</b> It shall be competent for the State Government to deduct, -</p> <p>(a) from the grants made under sub-section (2); or</p>	<p>urgently required in the public interest and, for this purpose, to make payment for such work from the Municipal Fund in so far as such payment may be made without unduly interfering with the regular work of the Municipality.</p> <p><b>Sec 77 (2)</b> The cost of all work so executed, and the proportionate establishment charges for executing such work, shall be paid by the State Government and credited to the Municipal Fund.</p> <p><b>Sec 77 (3)</b> On receipt of a requisition under sub-section (1), the Empowered Standing Committee shall forthwith forward a copy thereof to the</p>			<p>maintenance, repair or charge of any connection pipe or any electric supply lines or other works necessary for the purpose of such supply or for the extension of such advantages.</p> <p><b>Sec 107</b> Notwithstanding anything contained in section 106, it shall be the duty of a Council to apply annually out of the Municipal Fund first such sum as may be required for the payment of any amount falling due on any loan legally contracted by it.</p> <p><b>Sec 108 (1)</b> In places where there is a Government</p>	<p>may, at any time, require the Chief Municipal Officer to undertake the execution of any work certified by the State Government to be urgently required in the public interest and, for this purpose, to make payment for such work from the Municipal Fund in so far as such payment may be made without unduly interfering with the regular work of the Municipality.</p> <p><b>Sec 44 (2)</b> The cost of any work so executed, and the proportionate establishment charges for</p>

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		<p>(b) from any sum representing the grant-in-aid or the share of the Council in the net proceeds of the taxes, duties, tolls, and fees levied by the State and distributed and allocated, as determined by the State Government, on the recommendations of the Finance Commission;</p> <p>Any amount, which is due to the State Government or to any</p>	<p>Municipality together with a report of the steps taken in pursuance of the said requisition.</p> <p><b>Sec 78</b> Notwithstanding anything contained elsewhere in this chapter, the Municipality may, with the approval of the State Government, authorize expenditure to be incurred beyond the limits of the municipal area for creation of physical assets relating to the core functions of the Municipality outside the limits of such municipal area and for maintenance thereof for carrying out the purposes of this Act.</p>			<p>treasury or sub-treasury or a bank to which the Government treasury business has been made over, the Municipal Fund shall be kept in such treasury, sub-treasury or bank.</p> <p><b>Sec 108 (2)</b> In places where there is no such treasury or sub-treasury or banks, the Municipal Fund may with the previous approval of the State Government, be deposited with any banker who furnishes such security for safe custody and repayment on demand of the fund</p>	<p>executing such work, shall be paid by the State Government and credited to the Municipal Fund.</p> <p><b>Sec 44 (3)</b> The Chief Councillor shall, on receipt of a requisition under subsection (1), forthwith forward a copy thereof to the Municipality together with a report of the steps taken in pursuance of the said requisition.</p> <p><b>Sec 46</b> Notwithstanding anything contained elsewhere in this chapter, the Municipality may, with the approval of the State</p>

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		<p>Government Corporation, Government Company or any other statutory authority constituted by the Government of Maharashtra:</p> <p>Provided that before making such deduction, the Council's say in the matter shall be considered by the Government.</p> <p><b>Sec 91</b> Every council shall build up a "Salary Reserve Fund" within a period of three</p>	<p><b>Sec 79 (1)</b> Notwithstanding anything contained elsewhere in this chapter, the State Government may, by order, require the municipality to earmark a particular portion of the Municipal Fund or a particular grant or a part thereof, or any item of receipt under any head of account, or any percentage thereof, or any share of tax receivable by the Municipality other than taxes, duties and fines assigned to the Municipality under this Act or any part thereof, to be utilized exclusively for such purpose related to municipal functions as may be specified by</p>			<p>so deposited as the State Government may in each case, think sufficient.</p> <p><b>Sec 108 (3) A</b> Council may, from time to time, with the previous sanction of the State Government, invest any portion of its Municipal Fund in Securities of the Government of India or in such other securities, including fixed deposits in banks, as the State Government may approve in this behalf, and may vary such investment for others of the like nature; and the income resulting from the securities</p>	<p>Government, authorize expenditure to be incurred beyond the limits of the municipal area for creation of physical assets and for maintenance thereof for providing the core municipal services.</p> <p><b>Sec 47 (1)</b> Notwithstanding anything contained elsewhere in this chapter, the State Government may, by order, require the Municipality to earmark a particular portion of the Municipal Fund, or a particular grant or a part thereof, or any item of receipt under any head of account</p>

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		<p>financial years by transferring annually on or before the 31<sup>st</sup> day of December a sum equal to the total of one month's salary and allowance of the officers and servants working under the Council. Neither during the period of three years aforesaid nor thereafter, shall it be competent for the Council to incur any expenditure from this fund, except with the previous sanction of the Collector. The</p>	<p>the State Government, and it shall be the duty of the Municipality to act accordingly.</p> <p><b>Sec 79 (2)</b> The State Government may, for carrying out the purposes of sub-section (1), make rules for different classes of Municipalities.</p> <p><b>Sec 80</b> Subject to the other provisions of this Act, payment from the Municipal Fund shall be made in such manner as may be determined by regulations, and the heads of accounts referred to in section 73 shall be operated by such officers of the Municipality as may be authorized by the</p>			<p>and proceeds of the sale of the same shall be credited to the Municipal Fund.</p> <p><b>Sec 108 (4)</b> Notwithstanding anything contained in sub-sections (1), (2), and (3) a Council shall maintain cash balance not less than such amount as may be prescribed by rules in the office for meeting the current charges and may recoup the same as and when such cash balance is depleted on account of expenditure there from.</p>	<p>or any percentage thereof, or any share of tax receivable by the Municipality other than taxes, duties and fines assigned to the Municipality under this Act or any part thereof, to be utilized exclusively for such purpose related to municipal functions as may be specified by the State Government in the order, and it shall be the duty of the Municipality to act accordingly.</p> <p><b>Sec 47 (2)</b> The State Government may, for carrying out the purposes of sub-section (1), make rules for different</p>

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		Collector may give his sanction if he is satisfied that the proposed expenditure is for the payment of salaries and allowances, and cannot be incurred from the unreserved funds of the Council. Such Sanction shall further be subject to the condition that no expenditure from the municipal fund shall be incurred thereafter except for the purposes specified below in order of	<p>Municipality by regulations.</p> <p><b>Sec 81 (1)</b> Surplus money standing at the credit of any of the heads of accounts of the Municipal Fund which are not required, either immediately or at an early date, to be applied for the purposes of this Act by the Municipality, may, in accordance with such regulations as may be made by the Municipality in this behalf, be transferred by the Municipality, either in whole or in part, to any other head of account of the Municipal Fund:</p> <p>Provided that no such money shall be transferred permanently from any</p>				<p>classes of Municipalities.</p> <p><b>Sec 48</b> Subject to the other provisions of this Act, payment from the Municipal Fund shall be made in such manner as may be determined by regulations, and the heads of accounts referred to in section 39 shall be operated by such officers of the Municipality as may be authorized by the Executive Authority.</p> <p><b>Sec 49 (1)</b> Surplus moneys standing at the credit of any of the heads of accounts referred to in section 39, which are not required, either immediately or at any date in the</p>

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		<p>priority, till the Salary Reserve Fund is fully recouped.</p> <p>(a) recoupmnt of the "Salary Reserve Fund"</p> <p>(b) payment of salaries and allowances.</p> <p>The Collector shall also prescribe the period and the monthly installment by which the said fund shall be recouped, which period in no case shall exceed six months.</p> <p><b>Sec 91 A (1)</b> Every Council</p>	<p>of the heads of accounts to any other head of account without the previous approval of the Municipality:</p> <p>Provided further that such surplus money standing at the credit of the Commercial Projects Account of the Municipal Fund shall not be transferred to the General Account of the Municipal Fund.</p> <p><b>Sec 81 (2)</b> Surplus money which are not transferred under sub-section (1) may be invested in public securities or small savings schemes, approved by the State Government, or deposited at interest with such scheduled bank as may be</p>				<p>near future, to be applied for the purposes of this Act by the Municipality, may, in accordance with such rules as may be made by the State Government in this behalf, be transferred by the Municipality, either in whole or in part, to any other head of account:</p> <p>Provided that no such money shall be transferred permanently from any head of account to any other head of account without the previous approval of the Municipality:</p> <p>Provided further that such surplus moneys standing at the credit of the</p>

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		<p>shall create and maintain a special fund called "the Dry Latrine Conversion Fund", to which shall be credited –</p> <p>(i) the proceeds of the special latrine tax levied under clause (e) of Sub section (2) of Section 105;</p> <p>(ii) any grants or loans received from the State Government for the conversion of dray latrines into wet latrines, of which a separate</p>	<p>determined by the Empowered Standing Committee.</p> <p><b>Sec 81 (3)</b> Profit or loss, if any, arising from the investment as aforesaid shall be credited or debited, as the case may be, to the account to which such profit or loss relates.</p>				<p>Commercial Projects Account shall not be transferred to the General Administration Account.</p> <p><b>Sec 49 (2)</b> Surplus moneys, which are not transferred under sub-section (1), may be invested in public securities or small savings schemes, approved by the Municipality, or deposited at interest with such nationalized bank as may be determined by the Executive Authority.</p> <p><b>Sec 49 (3)</b> Profit or loss, if any, arising from the investment under sub-section (2) shall be credited</p>

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		<p>accounts shall, however, be maintained by the Council.</p> <p><b>Sec 91 A (2)</b> The amount standing to the credit of this fund shall be utilized only for the purpose of conversion of dry latrines in the municipal area into wet latrines.</p> <p><b>Sec 97</b> The Municipal Fund and all property vested in a council shall be applied for the purposes of this Act within its area:</p>					<p>or debited, as the case may be, to the account to which such profit or loss relates.</p>

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		<p>Provided that, it shall be lawful for the Council with the sanction of the Director or any officer duly authorized by him in this behalf –</p> <p>(a) to incur expenditure in the acquisition of land or in the constructions, maintenance, repair or purchase of works beyond the limits of its area for the purpose of obtaining a supply of water required for the inhabitants of the municipal</p>					

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		area or of providing the supply of electrical energy or gas for the use of the inhabitants of the municipal area or of establishing slaughter-houses or places for the disposal of night soil or sewerage or carcasses of animals or for drainage works or for the purpose of providing mechanically propelled transport facilities for the conveyance of					

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		<p>the public or for the purpose of setting up of dairies or farms for the supply, distribution, and processing of milk or milk products for the benefit of the inhabitants of the municipal area, or for any other purpose calculated to promote the health, safety, or convenience of the inhabitants of the municipal area; or</p> <p>(b) to make a contribution towards expenditure incurred by any</p>					

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		<p>other local authority or out of any public funds for measures affecting the health, safety, or convenience of the public and calculated to benefit directly the residents within the limits of the contributing council:</p> <p>Provided further that, nothing in this section or in any other provisions of this Act, shall be deemed to make it unlawful for a council when</p>					

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		<p>with such sanction as aforesaid it has constructed works beyond the limits of the municipal area for the supply of water or electrical energy or gas or for drainage as aforesaid -</p> <p>(i) to supply or extend to or benefit of any persons or buildings or lands in any place whether such place is or is not within the limits of the municipal area, any quantity of water or electrical</p>					

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		energy or gas not required for the purposes of this Act within the municipal area, or the advantages afforded by the system of drainage works on such terms and conditions with regard to payment and to the continuance of such supply or advantages as shall be settled by agreement between the Council and such persons or the occupiers or owners of such					

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		buildings or lands; or  (ii) to incur any expenditure, on such terms with regard to payment as may be settled as aforesaid, for the construction, maintenance, repairs, or alteration of any connection pipes or any electric gas supply lines or other works necessary for the purpose of such supply or for the extension of such advantages,					

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		(iii) to make contributions towards the construction, establishment or maintenance of institutions referred to in clause (t) of sub-section (3) of Section 49, subject to the conditions that the total of such contributions in any financial year shall not exceed two per cent of the general revenues (excluding government grants) of the council for the					

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		<p>previous financial year;</p> <p>Provided that such contributions may, with the prior approval of the State Government, exceed two per cent but not five per cent of such revenues.</p> <p><b>Sec 99 (1)</b> It shall be lawful for a Council to deposit, with the State Bank of India or such other bank as may hereafter be appointed to conduct the business of Government treasury or in any other</p>					

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		scheduled bank or with the sanction of the State Government in any co-operative bank in the State of Maharashtra, or to deposit with the State Government or with any statutory corporation approved by the State Government any surplus funds in its hands which may not be required for current charges, and to invest such funds in public securities in the					

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		<p>name of the council, and from time to time, to dispose of such securities as may be necessary.</p> <p><b>Sec 99 (2)</b> All surplus funds over and above what may be required for current expenses, unless deposited or invested as provided for in sub-section (1) shall be deposited in the local government treasury or such other place of</p>					

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Scope	Tripura	Maharashtra	Bihar	West Bengal	Kerala	Madhya Pradesh	Sikkim
		security as may be approved by the Collector.					
<b>Municipal Properties</b>	<p><b>Chapter VII General Powers and Functions, Municipality Fund and Property</b></p> <p><b>Sec 90</b> The Municipality shall, for the purposes of this Act, have power to acquire, by gift, purchase or otherwise, and hold, moveable and immovable property or any interest therein</p>	<p><b>Chapter VII Municipal Property, Funds, Contracts, and Liabilities</b></p> <p><b>Sec 88 (1)</b> Subject to any special reservation made or to any special conditions imposed by the State Government, all property of the nature hereinafter in this section specified (not being of private ownership) and situate within</p>	<p><b>Chapter XIII Municipal Property</b></p> <p><b>Sec 99</b> The Municipality shall, for the purposes of this Act, have power to acquire and hold by gift, purchase or otherwise, movable and property immovable properties or any interest therein, whether within or outside the limits of the municipal area.</p> <p><b>Sec 100</b> Notwithstanding anything contained in any other law for the time being in force, the movable and the immovable properties of the following</p>	<p><b>Chapter VIII Municipal Property</b></p> <p><b>Sec 74</b> The Board of Councilors shall for the purposes of this Act, have power to acquire, by gift, purchase or otherwise, and hold, moveable and immovable property or any interest therein, whether within or outside the limits of the municipal area.</p> <p><b>Sec 75</b> Notwithstanding anything contained in any other law for the time being in force, the moveable and immovable properties of the following categories within the limits of a municipal area shall vest in the Municipality, unless the State Government otherwise directs by a</p>	<p><b>Chapter XIII Property, Contracts and Establishment</b></p> <p><b>Sec 207 (1)</b> Notwithstanding anything contained in the Kerala Land Conservancy Act, 1957 (8 of 1958) or in any other law for the time being in force all public roads, streets, lanes and paths, the bridges, ditches, dykes and fences on or beside the same, and all adjacent land not being private property appertaining thereto in any municipal area other than [National Highway or State Highway or major</p>	<p><b>Chapter V Property, Contracts and Liabilities</b></p> <p><b>Sec 100 (1)</b> Subject to any special reservation made to or to any special conditions imposed by the State Government, all property of the nature hereinafter in this section specified within the limits of the Municipality, shall vest in and be under the control of the council and with all other property which has already vested, or may hereafter vest in the Councils</p>	<p><b>Chapter XIII Municipal Property</b></p> <p><b>Sec 81</b> Subject to the provisions of any law relating to land for the time being in force, the Municipality shall, for the purposes of this Act, have power to acquire, by gift, purchase or otherwise, and hold, movable and immovable properties or any interest therein, whether within or outside the limits of the municipal area.</p> <p><b>Sec 82</b> Notwithstanding</p>

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	<p>whether within or outside the limits of the Municipal area.</p> <p><b>Sec 91</b> Notwithstanding anything contained in any other law for the time being in force, the moveable and immoveable properties of the following categories within the limits of a municipal area shall vest in the Municipality, unless the</p>	<p>the limits of the municipal area shall vest in and be under the control of the council, and with all other property which has already vested or may hereafter vest in the Council, shall be held and applied by it for the purpose of this Act, that is to say –</p> <p>(a) all public town-walls, gates, markets, slaughter houses, manure and night soil depots and all</p>	<p>categories within the limits of a municipal area, not belonging to any Government department or statutory body (excluding Zila Parishad or corporation), shall vest in the Municipality, unless the State Government directs otherwise by notification, namely:-</p> <p>(a) all public lands not belonging to any Government department or statutory body or corporation,</p> <p>(b) all public tanks, streams, reservoirs, and wells,</p> <p>(c) all public markets and slaughterhouses,</p>	<p>notification in the Official Gazette:</p> <p>(a) all vested public lands not belonging to any government department or statutory body or corporation;</p> <p>(b) all public tanks, streams, reservoirs, and wells;</p> <p>(c) all public markets and slaughter houses;</p> <p>(d) all public sewers and drains, channels, tunnels, culverts and water courses in, alongside, or under, any street;</p> <p>(e) all public streets and pavements, stones, and other materials thereof, and also trees on such public streets or pavements not</p>	<p>district road or roads classified by Government as such] shall stand transferred to, and vest absolutely in the Municipality together with all pavements, stones and other materials and other things provided therein, all sewers, drains, drainage works, tunnels and culverts, whether made at the cost of the Municipal fund or otherwise in, alongside or under such roads and all works, materials and things appertaining thereto.</p> <p><b>Sec 207 (2)</b> Notwithstanding anything contained in sub-section (1) the Government may, by</p>	<p>shall be held and applied by it as trustees for the purposes of this Act, this is to say –</p> <p>(a) all public town-halls, gates, markets, slaughterhouses, manure and night-soil depots and public buildings of every description which have been constructed or maintained out of the Municipal Fund;</p> <p>(b) all public streams, tanks, reservoirs, cisterns, wells, springs, aqueducts, conduits, tunnels, pipes, pumps and other water works, and all bridges, buildings, engines,</p>	<p>anything contained in any other law for the time being in force, the movable and the immovable properties of the following categories within the limits of a municipal area, not belonging to any Government department or statutory body or corporation, shall vest in the Municipality, unless the State Government directs otherwise by notification, namely :-</p> <p>(a) all vested public lands,</p> <p>(b) all public tanks, streams, reservoirs, and wells,</p>

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	<p>State Government otherwise directs by a Notification in the Official Gazette:</p> <p>(a) all public land, not belonging to Central or State Government Department or statutory body;</p> <p>(b) all public tanks, streams, reservoirs, and wells;</p> <p>(c) all public markets and slaughter houses;</p>	<p>public buildings of every description which have been constructed or are maintained out of the municipal fund</p> <p>(b) all public streams, springs and works for the supply, storage, and distribution of water for public purposes, and all bridges, buildings, engines, materials, and things connected there with or appertaining thereto, and</p>	<p>(d) all public sewers and drains, channels, tunnels, culverts and watercourses in, alongside, or under, any street,</p> <p>(e) all public street and pavements, and stones and other materials thereon, and also trees on such public streets or pavements not belonging to any private individual,</p> <p>(f) all public parks and gardens, including squares and public open spaces,</p> <p>(g) all public ghats on rivers or streams or tanks,</p> <p>(h) all public lamps, lamp-posts and apparatus connected</p>	<p>belonging to any private individual;</p> <p>(f) all public parks and gardens, including squares and public open spaces;</p> <p>(g) all public ghats on rivers or streams or tanks;</p> <p>(h) all public lamps, lamp posts and apparatus connected therewith, or appertaining thereto;</p> <p>(i) all public places for disposal of dead, excluding those governed by any specific law in this behalf;</p> <p>(j) all solid and liquid wastes collected on a public street or public place, including dead animals and birds;</p> <p>(k) all stray animals not belonging to any private persons;</p>	<p>notification in the Gazette, at any time, withdraw such public roads and or streets, sewer drain, drainage work tunnel or culvert adjacent to it from the control of the Municipality for the purpose of classifying, it as any public road, street National Highway, State Highway or Major District road under the control of Municipality and thereupon it shall re-vest in the Government on issuing such a notification:</p> <p>Provided that before issuing such a notification, the Government shall consult the Municipality concerned</p>	<p>works, materials, and things connected with or appertaining thereto, and also adjacent land not being private property, appertaining to any public tank or well;</p> <p>(c) all public sewers and drains, and all sewers, drains, tunnels, culverts, gutters, and water courses in, alongside or under any streets and all works materials and things appertaining thereto;</p> <p>(d) all dust, dirt, dung, ashes, refuse, animal matter, filth, night-soil or rubbish of any kind collected by the Council or by</p>	<p>(c) all bazars and slaughterhouses,</p> <p>(d) all public sewers and drains, channels, tunnels, culverts, and watercourses in, alongside, or under, any street,</p> <p>(e) all public streets and pavements, and stones and other materials thereon, and also trees on such public streets or pavements not belonging to any private individual,</p> <p>(f) all public parks and gardens, including squares and public open spaces,</p>

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	<p>(d) all public sewers, drains, channels, tunnels, culverts, and water courses in, alongside, or under any street;</p> <p>(e) all public streets and pavements, bus, taxi or rickshaw stands or other parking or transportation terminals, stones and other materials thereof, and also trees on such public</p>	<p>also any adjacent and (not being private property) appertaining to any public tank or well;</p> <p>(c) all public sewers and drains, and all sewers, drains, culverts and water courses in, alongside or under any street, and all works, materials and things appertaining thereto;</p> <p>(d) all dust, dirt, dung, ashes, refuse, animal matter or filth, or rubbish of</p>	<p>therewith, or appertaining thereto,</p> <p>(i) all public places for disposal of the dead, excluding those governed by any specific law in this behalf,</p> <p>(j) all solid wastes collected on a public street or public place, including dead animals and birds, and</p> <p>(k) all stray animals not belonging to any private person.</p> <p><b>Sec 101 (1)</b> The Municipality may, on such terms and conditions as may be approved by it, acquire by agreement</p>	<p><b>Sec 76 (1)</b> The Board of Councilors may, on such terms and conditions as maybe approved by it, acquire by agreement –</p> <p>(a) any immoveable property</p> <p>(b) any easement affecting immoveable property</p> <p><b>Sec 76 (2)</b> The Board of Councilors may also acquire a property by exchange on such terms and conditions as may be approved by it.</p> <p><b>Sec 76 (3)</b> The Board of Councilors may also hire or take on lease immoveable property on such terms and conditions as may be approved by it from time to time.</p> <p><b>Sec 76 (4)</b> The Board of Councilors may receive, on</p>	<p>and give due regard to the objections, if any.]</p> <p><b>Sec 208</b> Duty of Municipality in respect of public streets withdrawn from its control.—</p> <p>Where any public street has been withdrawn from the control of a Municipality under subsection (2) of section 207 and placed under the control of the Government or under the control of any other authority by the Government, it shall be the duty of the Municipality to provide at the cost of the municipal fund, to such extent as the Government may, by</p>	<p>any customary or private sweeper from the streets, houses, privies, sewers, cesspools or elsewhere;</p> <p>(e) all public lamps, lamp posts and apparatus connected therewith, or appertaining thereto;</p> <p>(f) all public streets, not being land owned by the State Government and the pavement, stone, and other material thereof and also trees growing on and erections, materials, implements and things provided for such street;</p>	<p>(g) all public ghats on rivers or streams or tanks,</p> <p>(h) all public lamps, lamp-posts, and apparatus connected therewith, or appertaining thereto,</p> <p>(i) all public places for disposal of the dead, excluding those governed by any law for the time being in force,</p> <p>(j) all solid wastes collected on a public street or public place, including dead animals and birds, and</p>

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	<p>streets or pavements not belonging to any private individual;</p> <p>(f) all public parks and gardens, including squares and public open spaces;</p> <p>(g) all public ghats on rivers or streams or tanks;</p> <p>(h) all public lamps, lamp posts and apparatus connected therewith, or</p>	<p>any land, or unclaimed dead bodies of animals, collected by the Council from the streets, houses, privies, sewers, cess-pools or elsewhere, or deposited in places fixed by the Council in that behalf;</p> <p>(e) all public lamps, lamp posts and apparatus connected therewith or appertaining thereto;</p> <p>(f) all lands, buildings or other property transferred to</p>	<p>(a) any immovable property, and</p> <p>(b) any easement affecting immovable property.</p> <p><b>Sec 101 (2)</b> The Municipality may also acquire any property by exchange on such terms and conditions as may be approved by it.</p> <p><b>Sec 101 (3)</b> The Municipality may also hire or take on lease immovable property on such terms and conditions as may be approved by it from time to time.</p> <p><b>Sec 101 (4)</b> The Municipality may receive any grant or dedication by donor,</p>	<p>behalf of the Municipality, any grant or dedication by donor, whether in the form of any income or any moveable or immovable property, by which any obligatory or discretionary function of the Municipality may be benefited.</p> <p><b>Sec 76 (5)</b> It shall be lawful for the Municipality to be the beneficiary of any trust created under the Charitable and Religious Trusts, Act 1920 or the Indian Trusts Act, 1882.</p> <p><b>Sec 77 (1)</b> When any land, whether within or outside the limits of a municipal area, or any easement affecting any immovable property vested in the Municipality is required for any public purpose under this Act, the State Government may, at the request of the Board of</p>	<p>general or special order, direct-</p> <p>(a) for the lighting, watering, scavenging and drainage of such street;</p> <p>(b) for the provision, maintenance and repair of the water-supply mains, drains and sewers in, alongside, or under such street;</p> <p>(c) for the provision, maintenance and repair of footways attached to such street:</p> <p>Provided that where in the discharge of such duties, it is necessary for the Municipality to open and break up the soil or pavement of any such street, the</p>	<p>(g) all lands and/or other property transferred to the Council by the State Government or acquired by gift, purchase, or otherwise, for public purposes;</p> <p><b>Sec 100 (2)</b> The state Government by notification, direct that any property which has vested in the Council shall cease to be so vested; and thereupon the property specified in the notification shall cease to be so vested, and the State Government may pass such orders as it think fit regarding the disposal and</p>	<p>(k) all stray animals not belonging to any private person.</p> <p><b>Sec 83 (1)</b> Subject to the provisions of any law relating to land for the time being in force, the Municipality may, on such terms and conditions as may be approved by it, acquire by agreement -</p> <p>(a) any immovable property, and</p> <p>(b) any easement affecting any immovable property.</p> <p><b>Sec 83 (2)</b> The Municipality may also acquire any property by</p>

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	<p>appertaining thereto:</p> <p>(i) all public places for disposal of the dead including those governed by any specific law in this behalf;</p> <p>(j) all solid and liquid wastes collected on a public street or public place, including dead animals and birds;</p> <p>(k) all stray animals not belonging to</p>	<p>the Council by the Central Government or the State Government or acquired by gift, purchase or otherwise for local public purposes; and</p> <p>(g) all public streets, not being open spaces or lands owned by Government and the pavements, stones and other materials thereof, and also all trees, erections, materials, implements and things</p>	<p>whether in the form of any income</p> <p>or any movable or immovable property, by which the Municipality may be benefited in the discharge of any of its functions.</p> <p><b>Sec 101 (5)</b> It shall be lawful for the Municipality to be the beneficiary of any trust created under the Charitable and Religious Trusts Act, 1920, or the Indian Trusts Act, 1882.</p> <p><b>Sec 102 (1)</b> When any land, whether within or outside the limits of the municipal area, or any easement effecting any immovable property vested in the Municipality, is</p>	<p>Councilors proceed to acquire it under the Land Acquisition Act, 1894.</p> <p><b>Sec 77 (2)</b> The Board of Councilors shall be bound to pay to the State Government the cost including all charges in connection with the acquisition of the land under the Land Acquisition Act, 1894.</p> <p><b>Sec 79</b> Whenever the Board of Councilors makes a request to the State Government for acquisition of land for the purpose of providing a new street or for widening or improving an existing street, it shall be lawful for the Board of Councilors to apply to the State Government for the acquisition of such additional land immediately adjoining the land to be occupied by such new</p>	<p>Municipality shall obtain the previous consent of such officer as the Government may by general or special order, specify</p> <p>Provided further that in cases of emergency, the Municipality may, without such consent, open and break up soil or pavement of any such street, but shall, as far as practicable, restore such soil or pavement to the condition in which it was immediately before it was opened and broken up; and a report of the action so taken and the reasons therefore shall be sent forthwith to the officer specified under the foregoing proviso.</p>	<p>management of such property.</p> <p><b>Sec 100 (3)</b> The State Government may resume any immovable property transferred to the Council by itself or any other local authority, where such property is required for public purpose, without payment of any compensation other than the amount paid by the Council for such transfer and the market value at the date of resumption of any building or works subsequently erected or executed thereon by the Council;</p>	<p>exchange on such terms and conditions as may be approved by it.</p> <p><b>Sec 83 (3)</b> The Municipality may also hire or take on lease any immovable property on such terms and conditions as may be approved by it from time to time.</p> <p><b>Sec 83 (4)</b> The Municipality may receive any grant or dedication by donor, whether in the form of any income or any movable or immovable property, by which the Municipality may be benefited in the discharge of any of its functions.</p>

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	<p>any private persons:</p> <p>Provided that the State Government may by notification withdraw any public street, square, park, garden, or transportation terminal and transfer to an agency for a limited period for development and maintenance in the public interest</p> <p><b>Sec 92</b> When any land whether</p>	<p>provided for such streets.</p> <p><b>Sec 88 (2)</b> The lands and buildings belonging to Government and transferred under clause (f) of sub-section (1) shall not, unless otherwise expressly provided in the instrument or order of transfer, belong by right of ownership to the Council, but shall vest in it subject to the terms and conditions of the transfer. On the breach of</p>	<p>required for any public purpose under this Act, the State Government may, at the request of the Municipality, proceed to acquire such land or easement under the Land acquisition Act, 1894.</p> <p><b>Sec 102 (2)</b> The Municipality shall be bound to pay to the State Government the cost including all charges in connection with the acquisition of the land under the Land Acquisition Act, 1894.</p> <p><b>Sec 102 (3)</b> The Municipality may resort to other methods of land assembly, including the use of</p>	<p>street or existing street as is required for the sites of building to be erected on either side of the street, and such additional land shall be deemed to be required for the purposes of this Act.</p> <p><b>Sec 80</b> The property belonging to a Municipality may be disposed of in the manner provided in this section, namely –</p> <p>(a) the chairman-in-council may sell, or grant lease of, by public auction, any movable property belonging to the Municipality;</p> <p>(b) the Board of Councillors, with the prior approval of the State Government, may for valuable consideration, let out on hire, grant, lease of, or sell or otherwise transfer, any immovable property belonging to the</p>	<p><b>Sec 208A (1)</b> Notwithstanding anything contained in the Kerala Land Conservancy Act, 1957 (8 of 1958) or in any other law for the time being in force, all public watercourses including those which the public have been using so as to give them easement rights over them, (other than rivers flowing through the municipal areas and other areas as may be specified by Government, by notification in the Gazette) whether existing at the commencement of this Act or were made; set up or constructed, thereafter whether made or constructed at the cost of the</p>	<p>Provided that before taking any such action, the State Government shall obtain and take into consideration the view or objections of the Council.</p> <p>Provided further that compensation need not be paid for buildings or works constructed or erected in contravention of the terms of the transfer.</p> <p><b>Sec 101 (1)</b> the nazul lands transferred to the Council by the State Government shall be managed in accordance with the bye-laws made by the Council with the previous approval of</p>	<p><b>Sec 83 (5)</b> It shall be lawful for the Municipality to be the beneficiary of any trust created under the Charitable and Religious Trusts Act, 1920(14 of 1920), or the Indian Trusts Act, 1882 (2 of 1882)</p> <p><b>Sec 84 (1)</b> When any land, whether within or outside the limits of the municipal area, or any easement affecting any immovable property vested in the Municipality, is required for any public purpose under this Act, the State Government may, at the request of the Municipality,</p>

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	<p>within or outside the limits of a Municipal area is required for any public purpose under this Act, it may request the appropriate authority to proceed to acquire it under the Land Acquisition Act, 1894 or any other law for the time being in force.</p> <p><b>Sec 93</b> Whenever the Municipality</p>	<p>any of the said terms or conditions, the land or the building as the case may be, with all things attached to the terms and conditions of the transfer. On the breach of any of the said terms and conditions, the land or the buildings as the case may be, with all things attached to such land or building as the case may be, with all things attached to such land or building including all</p>	<p>transferable development rights.</p> <p><b>Sec 103</b> Whenever the Municipality makes a request to the State Government for acquisition of land for the purpose of widening or improving an existing street, it shall be lawful for the Municipality to apply to the State Government for the acquisition of such additional land immediately adjoining the land to be occupied by such new street or existing street as is required for the sites of buildings to be erected on either side of the street, and such additional land shall be deemed to be required for the purposes of this Act.</p>	<p>Municipality but not required for carrying out the purposes of this Act;</p> <p>(c) the municipality shall not transfer any immovable property vested in it by virtue of this Act, but shall cause the same to be maintained, controlled and regulated in accordance with the provisions of this Act and the rules and the regulations made there under;</p> <p>Provided that the State Government may authorize, in the public interest, the disposal of such immoveable property by the Municipality if the Board of Councilors so requires for reasons to be recorded in writing.</p> <p><b>Sec 81 (1)</b> The Chairman-in-Council shall maintain an inventory of the moveable</p>	<p>Municipality or not, along with their river beds, banks, springs, channels for irrigation and drainage, canals, lakes, backwaters, water courses all water whether standing, or flowing streams, reservoirs, ponds, water beds, fountains, wells, 'Kappus' channels stand pipes, and other water reservoirs and any land appertaining there to other than private property shall stand transferred to and shall absolutely vest in the Municipality:</p> <p>Provided that nothing contained in this sub-section shall apply to an irrigation project or any work connected</p>	<p>the state Government.</p> <p><b>Sec 101 (2)</b> The Council may, with the previous approval of the State Government from time to time, add to, vary or rescind the bye-laws made under Sub-section (1).</p> <p><b>Sec 102 (1)</b> When any land, whether within or without the limits of a Municipality, is required for the purposes of this Act and the Council is unable to acquire it by agreement the State Government may, at the request of the Council proceed to acquire such land under the</p>	<p>proceed to acquire such land or easement under the Land Acquisition Act, 1894 (1 of 1894)</p> <p><b>Sec 84 (2)</b> The Municipality shall be bound to pay to the State Government the cost including all charges in connection with the acquisition of the land under the Land Acquisition Act, 1894.</p> <p><b>Sec 84 (3)</b> The Municipality may resort to other methods of land assembly including the use of transferable development rights, if any, under any</p>

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	<p>makes a request for acquisition of land for the purpose of providing a new street or for widening or improving as existing street, it shall be lawful for the Municipality to ask for the acquisition of such additional land to be acquired for such new street or existing street as may be required for such new street or</p>	<p>fixtures and structures shall re-vest in government and it shall be lawful for Government to resume possession thereof and make such orders as to its management or disposal, as it may deem fit without payment of compensation.</p> <p><b>Sec 92 (1)</b> No council shall transfer any of its immoveable property without the sanction of the State Government.</p>	<p><b>Sec 104</b> Any property belonging to the Municipality may be disposed of with the prior approval of the State Government in the manner hereinafter provided, namely:-</p> <p>(a) the Empowered Standing Committee may sell, or grant lease of, or otherwise dispose of, by public auction, any movable property, and may grant lease of, or let out on hire, any immovable property, belonging to the Municipality,</p> <p>(b) the Municipality may, with the prior approval of the State Government, for valuable consideration, sell or otherwise transfer, any</p>	<p>and immoveable properties of the Municipality in such form and in such manner as may be prescribed.</p> <p><b>Sec 81 (2)</b> The Chairman-in-Council shall, in the case of the inventory of an immoveable property, prepare an annual statement along with references therein and place the same before the Board of Councilors.</p> <p><b>Sec 81 (3)</b> Such statement shall be included as an appendix to the annual administration report of the Municipality.</p>	<p>therewith or any land appertaining thereto.</p> <p><b>Sec 208A (2)</b> Subject to the provisions of this Act, all rights and liabilities of the Government in respect of the water-courses, springs, reservoirs, ponds, water beds, fountains, wells, channels, standpipes and other works connected with water shall be vested on the Municipality under sub-section (1) and shall be the rights and liabilities of the municipality from the date of such vesting.</p> <p><b>Sec 208A (3)</b> Notwithstanding anything contained in sub-section (1) and sub-section (2), the Government may, after</p>	<p>provisions of the Land Acquisition Act, 1894 (1 of 1894); and, on the payment by the Council of the compensation awarded under the Act, and of any other charges incurred by the State Government in connection with the acquisition the land shall vest in the Council.</p> <p>Explanation – When any land is required for a new street, or for the improvement of an existing street, the Council may proceed to acquire, in addition to the land to be occupied by the Street, the land necessary for</p>	<p>law for the time being in force.</p> <p><b>Sec 85</b> Whenever the Municipality makes a request to the State Government for acquisition of land for the purpose of widening or improving an existing street, it shall be lawful for the Municipality to apply to the State Government for the acquisition of such additional land immediately adjoining the land to be occupied by such new street or existing street as is required for the sites of buildings to be erected on either side of the street,</p>

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	<p>existing street as may be required for the sites of building to be erected on either side of the street.</p> <p><b>Sec 94</b> The property belonging to a Municipality may be disposed of in the manner hereinafter provided, namely –</p> <p>(a) the municipality may, in its discretion, dispose of,</p>	<p><b>Sec 92 (2)</b> A proposal of such transfer shall be accompanied by resolution of the Council passed at a meeting by a majority of not less than two-thirds of the total number of councilors and shall in no way be inconsistent with the rules made in this behalf by the State Government.</p> <p><b>Sec 92 (3)</b> Notwithstanding anything contained in sub section (1), a council may</p>	<p>immovable property belonging to the Municipality which is not required for carrying out the purposes of this Act, and</p> <p>(c) the Municipality shall not transfer any immovable property vested in it by virtue of this Act, but shall cause the same to be maintained, controlled and regulated in accordance with the provisions of this Act and the rules and the regulations made there under:</p> <p>Provided that the State Government may authorize, in the public interest, the disposal of such immovable property by the Municipality, if the</p>		<p>consultation with the Municipality and after giving due consideration to its objections, if any, take over the administration of any public water source and the public land appertaining thereto.</p> <p><b>Sec 208A (4)</b> It shall be unlawful for any person to reserve or take for himself from any land whether poramboke or otherwise transferred or vested in the Municipality under this Act, any tree, earth, sand, metal, laterite, limeshell or other valuable articles which may be notified by the Municipality, without a permit issued by the Municipality in this</p>	<p>the sites of the buildings to be erected on the sides to the street, and such land shall be deemed to be required for the purposes of this Act.</p> <p><b>Sec 102 (2)</b> - A Council shall not, without the previous sanction of the State Government, transfer any land which has been acquired for and vests in the Council under sub-section (1) or divert such land to a purpose other than the purpose for which it has been acquired.</p> <p><b>Sec 102 (3)</b> Notwithstanding anything contained in the Indian Stamp</p>	<p>and such additional land shall be deemed to be required for the purposes of this Act:</p> <p>Provided that every such acquisition shall be subject to the provisions of any law relating to land for the time being in force.</p> <p><b>Sec 86</b> The Municipality may dispose of any movable property, and, subject to the provisions of any law relating to sale, transfer, or lease of land for the time being in force, any immovable property, belonging to the Municipality in the</p>

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	<p>by sale, lease or otherwise, any moveable property belonging to the Municipality:</p> <p>Provided that the State Government may require a Municipality to obtain prior sanction of the State Government if value of the property exceeds certain amount mentioned in the rules;</p>	<p>lease its immoveable property not exceeding three years, and the lessee shall not be allowed to make any permanent constructions on such immoveable property. Such lease may be renewed by the Council beyond the period of three years so, however, that the total period of any lease shall not exceed nine years.</p> <p>No such lease or any renewal</p>	<p>Municipality so requires, for reasons to be recorded in writing.</p> <p>Explanation - "valuable consideration" shall, in relation to any immovable property, mean anything of considerable value in terms of money or property given in lieu of transfer, by way of sale or otherwise, of such immovable property.</p> <p><b>Sec 105 (1)</b> The Empowered Standing Committee shall maintain a register and a map of all the immovable properties of which the Municipality is the owner or which is vested in it, or which the Municipality holds</p>		<p>behalf and in accordance with the terms and conditions thereof and on payment of fee or compensation at such rates as may be fixed by the Municipality.]</p> <p><b>Sec 210 (1)</b> The management, control and administration of every public institution maintained exclusively out of the Municipal fund shall vest in the Municipality.</p> <p><b>Sec 210 (2)</b> When any public institution has been placed under the direction, management and control of the Municipality, all property, endowments and funds belonging thereto shall be held by the Municipality in trust for the purposes</p>	<p>Act, 1899 (II of 1899), all instruments of transfer of land in favour of a Council for the purposes of this Act shall be exempt from payment of stamp duty.</p> <p><b>Sec 103</b> The Council may, with the sanction of the State Government, transfer to the Central Government any property vested under Section 100 or 102, but not so as to affect any trust or public right subject to which the property is held.</p> <p><b>Sec 109 (1)</b> No streets, lands, public places, drains or irrigation channels</p>	<p>manner hereinafter provided, namely :-</p> <p>(a) the Executive Authority may sell, or grant lease of, or otherwise dispose of, by public auction, any movable property, and may grant lease of, or let out on hire, any immovable property, belonging to the Municipality,</p> <p>(b) the Municipality may, with the prior approval of the State Government and subject to the provisions of any law relating to land for the time being in force, for valuable consideration, sell or otherwise transfer, any immovable property</p>

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	<p>(b) the municipality may, for valuable considerate let out give in lease, or sell or otherwise transfer, any immoveable property belonging to the Municipality for carrying out the purposes of this Act:</p> <p>Provided that the State Government may by rules prescribe the made of such sale and specify the value</p>	<p>shall be granted unless supported by resolution passed at a meeting of the council.</p> <p><b>Sec 92A</b> Subject to the rules, if any, made in this behalf, the Council may transfer any of its moveable properties.</p>	<p>in trust for the Government, and a register of all movable properties belonging to the Municipality.</p> <p><b>Sec 105 (2)</b> The Empowered Standing Committee shall, in the case of the inventory of an immovable property, prepare an annual statement indicating the changes, if any, in the said inventory and shall place the same before the Municipality along with the budget estimate.</p>		<p>to which such property, endowments and funds were lawfully applicable at the time when the institution was so placed:</p> <p>Provided that the extent of the independent authority of the Municipality in respect of any such institution may, from time to time, be prescribed by the Government:</p> <p>Provided also that nothing in this section shall be held to prevent the vesting of any trust property in the Treasurer of Charitable Endowments under the law relating to charitable</p>	<p>shall be sold, leased or otherwise alienated, save in accordance with such rules as may be made in this behalf.</p> <p><b>Sec 109 (2)</b> Subject to the provisions of sub-section (1)</p> <p>(a) the Chief Municipal Officer may, in his discretion, grant a lease of any immoveable property belonging to the Council, including any right of fishing or of gathering and taking fruits, flowers and the like, of which the premium or rent, or both, as the case may be, does not exceed two hundred</p>	<p>belonging to the Municipality which is not required for carrying out the purposes of this Act, and</p> <p>(c) the Municipality shall not transfer any immovable property vested in it by virtue of this Act, but shall cause such property to be maintained, controlled, and regulated in accordance with the provisions of this Act and the rules and the regulations made there under:</p> <p>Provided that the State Government may authorize, in the public interest, the disposal of such immovable property</p>

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	<p>which, if it increases by way of consideration shall require the prior approval of the State Government in this behalf:</p> <p>(c) Save as otherwise provided in this Act, a Municipality shall not transfer any immoveable property vested in but shall cases the same to be maintained, controlled, and</p>				<p>endowments for the time being in force.</p> <p><b>Sec 211 (1)</b> The Secretary shall maintain an inventory of all immovable property owned by the Municipality or to which the Municipality has a reversionary right.</p> <p><b>Sec 211 (2)</b> A copy of the said inventory shall be deposited with the Government and all changes shall be forthwith communicated to them.</p> <p><b>Sec 212</b> A Municipality may accept trusts relating exclusively to the furtherance of any purpose to which the</p>	<p>and fifty rupees for any period not exceeding twelve months at a time;</p> <p>Provided that every such lease granted by the Chief Municipal Officer, other than the lease of the class in respect of which the President-in-Council has by resolution exempted the Chief Municipal Officer from compliance with the requirements of this proviso, shall be reported by him to the Standing Committee within fifteen days after the same has been granted.</p> <p>(b) with the sanction of the President-in-</p>	<p>by the Municipality, if the Municipality so requires, for reasons to be recorded in writing.</p> <p>Explanation. - "valuable consideration" shall, in relation to any immovable property, mean anything of considerable value in terms of money or property given in lieu of transfer, by way of sale or otherwise, of such immovable property.</p> <p><b>Sec 87 (1)</b> The Executive Authority shall cause to be maintained a register, and a map, of all immovable properties of which the Municipality is the owner or which</p>

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	<p>regulated in accordance with the provisions of this Act and the rules and regulations made there under:</p> <p>Provided that the State Government may authorize, in the public interest, disposal of such immovable property by the Municipality if the Municipality so requires for reasons to be</p>				<p>Municipal fund may be applied.</p> <p><b>Sec 213</b> The Government may, in consultation with a Municipality, transfer to the Municipality the management of any institution or the execution of any work not provided for by this Act, and it shall thereupon be lawful for the Municipality to undertake such management or execution:</p> <p>Provided that in very such case, the funds required for such management or execution shall be placed at the disposal of the Municipality by the Government.</p>	<p>Council, the chief Municipal Officer may, by sale or otherwise grant a lease of immoveable property including any such right as aforesaid for any period not exceeding three years at a time of which the premium, or rent, or both, as the case may be, for any one year does not exceed one thousand five hundred rupees.</p> <p>(c) with the sanction of the Council, the Chief Municipal Officer may lease, sell, or otherwise convey any immoveable</p>	<p>vest in it, or which the Municipality holds in trust on behalf of the State Government, and a register of all movable properties belonging to the Municipality.</p> <p><b>Sec 87 (2)</b> The Executive Authority shall, in the case of the inventory of an immovable property, cause to be prepared an annual statement indicating the changes, if any, in the said inventory and shall place the said inventory before the Municipality along with the budget estimate.</p>

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	<p>recorded in writing.</p> <p><b>Sec 95</b> Every Municipality shall maintain an inventory and annual statement of moveable and immoveable properties of the Municipality in such form and in such manner as may be prescribed.</p>				<p><b>Sec 214 (1)</b> Any immovable property which a Municipality is authorised by this Act to acquire may be acquired in accordance with the provisions of the Land Acquisition Act for the time being in force, and on payment of the compensation awarded under this said Act in respect of such property and of any other changes incurred in acquiring it, the said property shall vest in the Municipality:</p> <p>Provided that nothing contained in this section shall be deemed to prevent any Municipality from acquiring immovable property either through</p>	<p>property belonging to the Council.</p> <p><b>Sec 109 (3)</b> the sanction of the President-in-Council or of the Council under sub-section (2) may be given either generally for any class of cases or specifically in any particular case:</p> <p>Provided that</p> <p>(i) no property vesting in the Council in trust shall be lease, sold, or otherwise conveyed in a manner that is likely to prejudicially effect the purpose of the trust subject to which such property is held;</p>	

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					<p>private purchase or any free surrender.</p> <p><b>Sec 214 (2)</b> The Municipality shall implead in all Court proceedings relating to the acquisition of land for the Municipality.]</p> <p><b>Sec 215 (1) A</b> Municipality may in the manner prescribed, acquire any property such as land or building within or outside its Municipal area or dispose of any of its properties with the prior approval of the Government for providing any arrangement or facility for a public purpose,</p>	<p>(ii) no land exceeding fifty thousand rupees in value shall be sold or otherwise conveyed without the previous sanction of the State Government and every sale or other conveyance of property vesting in the Council shall be deemed to be subject to the conditions and limitations imposed by this Act or by any other enactment for the time being in force.</p>	

## 5. National Municipal Accounting Manual and State Accounting Manuals

In terms of the Eleventh Central Finance Commission recommendations and the Guidelines issued by the Ministry of Finance, Government of India, Comptroller and Auditor General of India (CAG) constituted a Task Force to recommend budget and accounting formats for Urban Local Bodies (ULBs) in India. The CAG Task Force issued a “*Report on Accounting and Budget Formats for ULBs*” in December 2002, suggesting accrual basis of accounting and budget and accounting formats, significant accounting policies, cost of important utilities and services and management information system (MIS) reports. The Report of the Task Force has been accepted by the Government of India and thereafter forwarded to the State Governments for implementation of the accounting and budget formats as specified by the Task Force, keeping in view the local requirements.

However, it had been felt that to align the National Level perspectives of reforms in municipal finance and financial management with that of the State Governments, a generic framework of National Municipal Accounting was essential. With this objective the Ministry of Urban Development, (now Ministry of Housing and Urban Affairs), Government of India launched the formulation of this **National Municipal Accounts Manual (NMAM)**, based on the TASK Force Report. The Comptroller & Auditor General of India has facilitated and overseen the development of the NMAM. NMAM was published in December 2004. The NMAM comprehensively detailed the accounting policies, procedures, guidelines designed to ensure correct, complete and timely recording of municipal transactions and produce accurate and relevant financial reports. The objective of drafting and publishing NMAM was to facilitate and assist State Governments in drafting state specific municipal accounts manuals.

In addition, the initiative of publishing NMAM as a guidance document was expected to enhance the capacities of ULBs in municipal accounting leading to increased transparency and accountability in the utilization of public funds and to help urban local bodies to play their roles more effectively and ensure better service - delivery. NMAM was drafted in four parts (Part I to IV) and thirty-four (34) chapters covering various aspects of municipal accounting. It also recommended various forms of registers, reports, and memorandums.

Based on the above, various state governments drafted their state level manuals and few states (like the State of Bihar, Odisha, and Jammu & Kashmir) included the provision of municipal accounting manual within the municipal law itself to make it mandatory for compliance with. Other states kept the accounting manual as a generic guideline to be followed by the municipal bodies of the State. This created an anomaly in legal enforcement of the accounting manual in these States. Some examples (*an illustrative list only*) of state level municipal accounting manual approved and notified by the respective state governments are:

- **Tripura:** Tripura Municipal Accounting Manual (2011)
- **Karnataka:** Karnataka Municipal Accounting Manual (2009)
- **Bihar:** Bihar Municipal Accounting Rules, 2014 and Bihar Municipal Accounting Manual (2014)
- **Odisha:** Odisha Municipal Accounts Rules, 2012 and Orissa Municipal Accounts Manual (2007)
- **Uttarakhand:** Uttarakhand Municipal Accounting Manual (2021)
- **Jammu & Kashmir:** Jammu & Kashmir Municipal Accounting & Budgeting Rules, 2021 and Jammu & Kashmir Municipal Accounting Manual (2011)
- **Assam:** Assam Municipal Accounting Manual (2011)
- **Tamil Nadu:** Tamil Nadu Municipal Accounting Manual (2014)
- **Madhya Pradesh:** Madhya Pradesh Municipal Accounts Manual (2007)

To conclude, it may be pertinent to refer to the provisions of **Article 243Z** of the Constitution which state that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the audit of such accounts, the question is as to what provisions may be made in the law has been left to individual states and union territories to decide and enact.

## 6. Other Legislations

There are various other legislations that have an impact on the working of the ULBs. Some of these laws are union laws and some are state-specific laws. Just to list a few of such laws to keep the user of this publication abreast of the legislative framework within which a ULB of India usually performs.

Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

- The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation & Resettlement Act, 2013.
- Income Tax Act, 1961.
- Goods and Services Tax Act, 2017 (for all Central GST, State GST, and Integrated GST).
- Solid Waste Management Rules, 2016.
- The Water (Prevention and Control of Pollution) Act, 1974.
- The Environment (Protection) Act, 1986.
- The Air (Prevention and Control of Pollution) Act, 1981.
- The National Environment Tribunal Act, 1995.
- The National Green Tribunal Act, 2010.
- The Hazardous Wastes (Management and Handling) Amendment Rules, 2003.
- The Financial Rules of respective states and union territories.
- The procurement laws of the union, and respective states and union territories.
- The Indian Contract Act, 1872.
- All Laws on labour and employment, including the municipal service rules.
- The Prevention of Corruption Act, 1988, wherever applicable.
- Arbitration and Conciliation Act, 1996.
- Competition Act, 2002.
- Information Technology Act, 2000, etc.



## Chapter 4:

# Financial Management through Planning, Budgeting, and Procurement

It is a truism that cities are engines of growth. Nevertheless, development economies and others have heatedly argued upon whether several large cities are good for the economic growth of the nation, or whether decentralized economic development plans that encourage local consumption of resources and the generation of local surpluses is a better mode. In reality, people – and cities, in almost all developing countries of the world have behaviourally shown that their care or concern for what economists' thinks is very little. Cities have continued to grow and show no signs of slowing down their rates of expansion. Especially in the developing countries, because of factors that are well known and well documented, it is unlikely that there is going to be a substantial slow-down in urban growth in the future.

The essential dilemma of Indian cities is predicated upon the management of inner city population densities while simultaneously providing affordable service in satellite areas posited as economic growth sectors. Had there been a noticeable movement of the underprivileged away from the inner city, and had there been therefore, an opportunity to leverage upon the consequent rise in land prices, perhaps a large part of this problem could have been handled through specific medium-term policies. That this does not happen in reality is because of one reason, which is well known and understood, and other, which are not so well known. The well-known reason is that given the dimensions of city level politics and the interplay of political linkages between major Local Governments and the State Government, it is merely impossible for Local Governments to restrict mixed land use to that extent enclaves of small service providers, which continue to exist, put pressure on city resources, logistics, and services.

Further, considerations must include ULBs financial capacities or abilities to determine taxes and more importantly define categories to which taxes would apply as well as specific relief in certain cases, user charges, license fees and others. In many instances, projections of revenue earnings are simply balancing figures created to match councillors' desired levels of spending. Other than those cities, which have substantial revenue from taxes other than

property taxes, meeting the desired level of expenditure is often an exercise in futility. A strategic finance perspective demands that growth and economic development of the city is encouraged through optimum deployment of public money, and that global economic strategies are adopted simultaneously to assure maximized returns.

Obviously, such a perspective then demands also that adequate capacity is built up within the ULBs to appreciate the various economic and social factors and to relate their impact in financial terms. Paradoxically, most ULBs in India are weak in this area. It may be pertinent to state here that even in the largest metropolises in India, urban planning is considered an architectural and town planning function only; there is little effort to understand and document the economic growth of the city and relate it with economic planning within the overall process of local government planning and financial budgeting.

As indicated, urban spatial planning plays a crucial role in influencing economic growth by shaping the spatial-economic landscape of cities. A city or town is always characterised by its economic importance and the potential of economic growth. If we take the example of any city of India, we will find some distinct economic characteristics like presence of industries, of financial institutions, of trading hubs, of tourism scope, of information technology opportunity shape up a city and gives it a direction of economic growth and spatial growth of the city. A ULB that manages the city's growth, hence, must closely interlink the economic growth and needs with urban spatial planning and further link it with the annual expenditure and forecast for annual municipal revenue. Having said that, effective urban governance is also essential for successful planning and delivery of public services, infrastructure, and housing, which are again vital for economic development.

Different urban growth patterns and approaches can lead to diverse economic and social outcomes, highlighting the importance of tailored planning strategies for each city's unique characteristics that again to be linked to resources available like source of water-supply, provision for sanitation, space for solid waste management, space for transport infrastructure and parking, space for parks and playgrounds, and space for amusement and entertainment. Simulating and predicting spatiotemporal changes in urban economy and ecosystem services can guide planning policies to achieve coordinated sustainable development between economy and ecology, ensuring high-quality urban economic development while

preserving ecological balance. Urban planning, when aligned with economic goals and sustainable practices, can foster economic development and enhance the overall quality of urban life.

## **1. Urban Planning within PFM Framework**

Sound planning and effective use of scarce resources of a ULB is perhaps the central tool for improved PFM in ULBs. [Planning for development is an envisioning process which requires a sound assessment of the ground realities and providing options for sustainable development within the bounds of the demographic, physical, socio-economic, jurisdictional and financial aspects. It is a continuous process and must incorporate a regular evaluation of implementation. However, plans have been criticised to be rigid and static having little regard to investment planning efforts and taking very long time in the process of formulation and approval.]<sup>20</sup>

74 CAA vide the Article 243W and the Twelfth Schedule included under Entry 1 of the Schedule, “Urban planning including town planning” to be one of the functions of the ULBs of India. In addition, under the Article 243ZD the 74 CAA mandated constituting a Committee for District Planning that would look to consolidate the plans prepared by the Panchayats and the Municipalities in the district and to prepare a draft development plan for the whole district. Article 243P(b) defined “district” as “a district in a State”.

Similarly, Article 243ZE mandated of the constitution, in every Metropolitan area, a Metropolitan Planning Committee may be constituted to prepare a draft development plan for the whole Metropolitan area. Every Metropolitan Planning Committee shall, in preparing the draft development plan have regard to (i) the plans prepared by the Municipalities and the Panchayats in the Metropolitan area; (ii) matters of common interest between the Municipalities and the Panchayats, including co-ordinated spatial planning of the area, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation; (iii) the overall objectives and priorities set by the Government of India and the Government of the State; and (iv) the extent and nature of investments likely to be made in the Metropolitan area by agencies of the Government of India and of the Government of the State and other available resources whether

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<sup>20</sup> *Urban and Regional Development Plans Formulation and Implementation (URDPFI) Guidelines, 2014, Ministry of Urban Development, Government of India*

financial or otherwise. The Chairperson of every Metropolitan Planning Committee shall forward the development plan, as recommended by such Committee, to the Government of the State. Under Article 243P(c), “Metropolitan Area” means an area having a population of ten lakhs or more, comprised in one or more districts and consisting of two or more Municipalities or Panchayats or other contiguous areas, specified by the Governor by public notification to be a Metropolitan area.

Government of India since the enactment of the 74 CAA, had been pursuing at the policy level to improve and strengthen the planning function of municipal bodies. For that reason, the then Ministry of Urban Development, Government of India (*now Ministry of Housing and Urban Affairs*) published the first national level planning guidelines, “Urban Development Plans Formulation and Implementation” (UDPFI) that were framed in 1996 by Institute of Town Planners, India. [The UDPFI Guidelines, 1996 provided a framework for plan preparation and implementation process. Since 1996, many developments took place in the field of urban planning, especially in view of emerging needs and requirements of urban settlements due to rapid population growth, globalization of economy and phenomenal advances in information and communication technologies. The towns and cities became more dynamic in nature and are subject to unprecedented changes in terms of requirements of infrastructure and other basic services/amenities. Besides, new emerging aspects like regional development, inclusive planning, sustainable habitat, land use and transport integration at planning stage, Service Level Benchmarks, disaster management concepts, and governance reforms have given a new dimension to the planning process.]<sup>21</sup>

The then Ministry of Urban Development, Government of India (*now Ministry of Housing and Urban Affairs*) considered to address the emerging aspects of urban planning and revised the UDPFI Guidelines 1996. Thereafter in 2014, the Ministry published the “Urban and Regional Development Plans Formulation and Implementation Guidelines, 2014” (URDPFI). The URDPFI was conceptualized after widespread consultations with various stakeholders linked to urban planning. Though core themes of urban planning involve the urban planners and development thinkers, but it is the starting point of urban financial planning and management also with development sector economist and public financial management experts pitching in to challenge or accept the plan vis-à-vis the guiding principles of the city’s economic growth,

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<sup>21</sup> *Ibid*, (adapted)

requirement of finances by the ULB, and return on investment (to the society/economy and the ULB both economic and financial returns).

***The URDPFI Guidelines, 2014 explained the planning process, contents of the plans suggested in the planning system, resource mobilization for plan implementation including land and finance as the primary resources for sustainable development, institutional reforms particularly at State level, and approaches and strategies for regional and urban planning.*** For addressing sustainability, URDPFI Guidelines, 2014 focused on land suitability and urban renewal norms and provided a framework for Crisis/Disaster Management Plans as part of Development Plan. The URDPFI Guidelines, 2014 recommended that the urban and regional planning system to be divided under two heads – a) Core Area Planning and b) Specific and Investment Planning.<sup>22</sup>

The Core Area Planning comprises of a set of 4 interdependent plans:

- (i) A **long-term Perspective Plan** with a vision and policy orientation,
- (ii) A sustainability based **long term Regional Plan** (and District Plan) with optimization of regional resources for development,
- (iii) A comprehensive **long term settlement plan as Development Plan** for urban and peri urban areas,
- (iv) A **short-term rolling Local Area Plan** within the framework of Development Plan.

The Specific and Investment Planning comprises a set of three plans,

- (i) A **rolling Special Purpose Plan** for special areas within the framework of Development Plan,
- (ii) **Annual Plans** to translate the physical and fiscal resource requirement of Development/Local Area Plan, and
- (iii) **Project/Research** to focus on items of execution.

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<sup>22</sup> *Ibid, (adapted)*

Along with the focus on core infrastructure planning and economic planning, ULBs now also must ensure during the planning process about the environmental and climate change factors so to make the infrastructure more sustainable and resilient to climate changes. For that reason, additional financial requirements are required now than what would have required for a normal situation planning and infrastructure execution.

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. The 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership while recognizing the need for ending poverty and other deprivations must go together with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. India is committed to achieve the SDGs. Nationally Determined Contribution (NDCs), is a climate action plan to cut emissions and adapt to climate impacts. Each party to the Paris Agreement, including India is required to establish an NDC and update it every five years. India updated its NDC while adopting the strategy it announced at the 26th session of the Conference of the Parties (COP26) to the UNFCCC. India expressed to intensify its climate action by presenting to the world five nectar elements (*Panchamrit*) of India's climate action.

India now stands committed to reduce Emissions Intensity of its GDP by 45 percent by 2030, from 2005 level and achieve about 50 percent cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030. This commitment would require huge investments in urban infrastructure that will require steady funding from government and financing by private sector and multilateral banks. Governmental bodies expect more private sector involvement in the long term but, private companies are known to have predominantly commercial interests rather than public ones. A major challenge for ULBs, thus would be to find the right balance between financial and public interests while deciding on the interventions that are required to ensure the desired performance and service delivery to citizens of the city. Again, less financial resources spent by the investor to achieve its' objective would ensure achievement of the concept of Value for Money (VfM). Thus, various layers of conflicting options and objectives where more development would require funding and financing when resources are scarce, whereas due to non-availability of resources leads to decreased development and increase

of inequality among citizens, which retard efforts of social, economic, and financial inclusion amongst citizens that do not support the poverty reduction efforts and increase the climate risks further. Again, more funding and financing for infrastructure would raise productivity, stimulate private investment, and facilitate domestic and international trade, thereby promoting sustainable growth. Trade-offs and balances are required to attain equilibrium within these conflicting options.

Under the planning process that had been described in URDPFI Guidelines, 2014, the **Annual Plan** prepared in the framework of an approved development plan by the local authority. It is an important document for the ULB as its aggregation at the district planning committee or metropolitan planning committee level will generate the district or metropolitan area annual plan which when further aggregated at State level will form its consolidated annual plan. The state-level annual plan would indicate the State and Central funds for different sectors, which finally will result in the allocation of funds to the local authorities. The annual plan of the local authority will also help in formulation of its annual budget and monitoring the performance annually.<sup>23</sup>

As annual plan and budget are interlinked it is important that preceding annual plan be evaluated before the next financial year, so that the following plan will have inputs from previous plan and investments for new plan can be incorporated in budget. The contents of annual plan of a local authority, as given in the following sections, are applicable to all sizes of urban centres.<sup>24</sup>

## **2. Annual Budget of a ULB within PFM Framework**

International best practice in urban planning has now evolved to a stage where planning and budgeting are both seen as iterative processes relying heavily on the negotiating ability of the actors. The usual reasons for not conforming the negotiating model so far as planning is concerned is that public negotiations take too much of time; yet the evidence is that those developmental bodies which had been formed to implement projects only after community negotiations, never had any problems, either pre- or post-project.

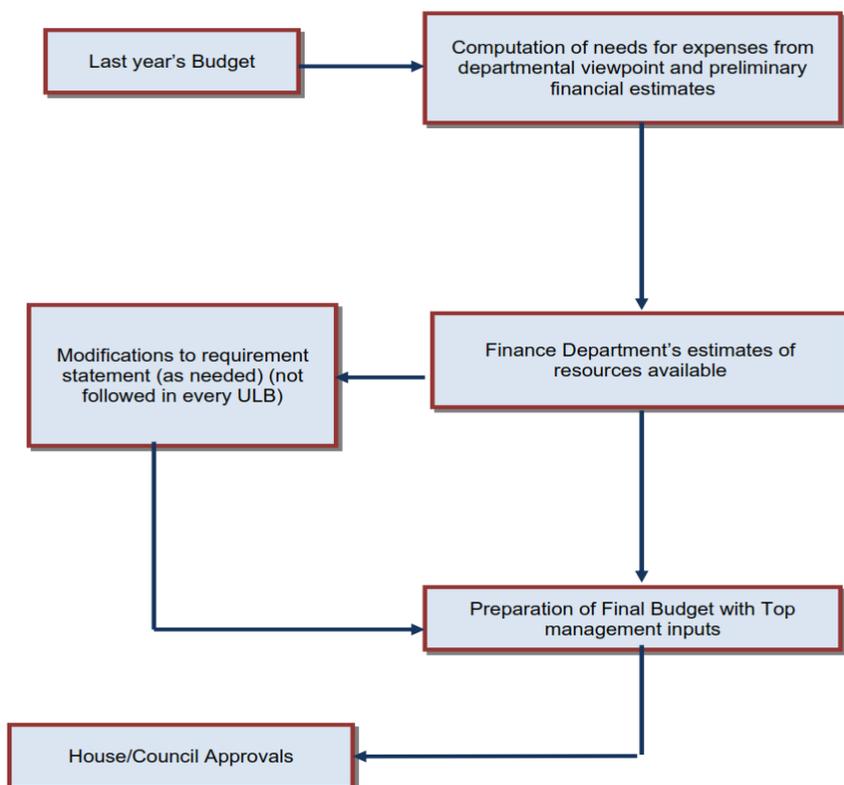
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<sup>23</sup> *Ibid, (adapted)*

<sup>24</sup> *Ibid, (adapted)*

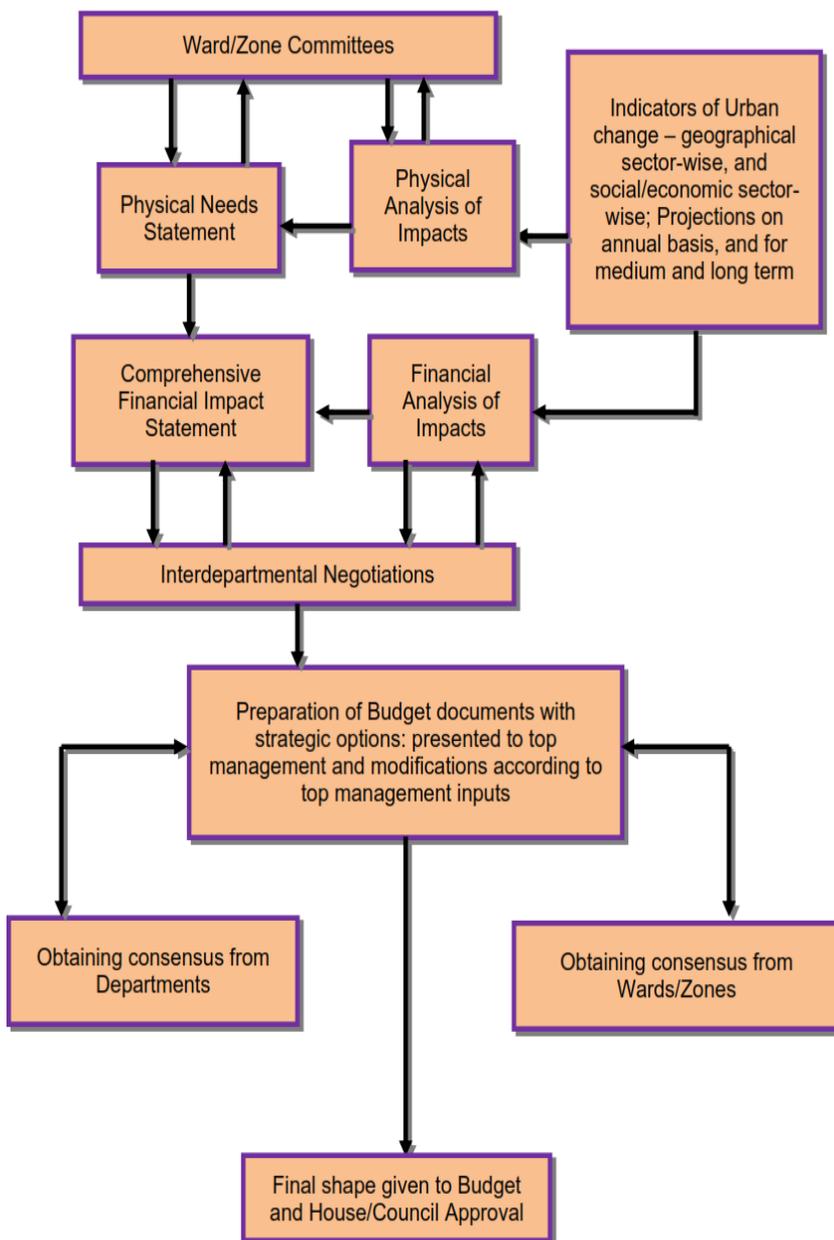
Both planning and budgeting are, by definition, exercises into the future. However, in most cases, the objectives as well as the timelines get confused. What is generally required is to project needs and then to allocate expenditure budgets. Most often what is done is to complete projects that remained incomplete last year, allow for annual maintenance, and do whatever is seen as the minimum during the next year as a new project. Planning as such really does not exist within urban local bodies for whatever reason. This culture certainly needs to change. This change in planning and budgeting approach is crucial. The inputs need to come from the various exercises.

The **Figure 1** and **Figure 2** below highlights the current approach and a proposed approach of budget preparation in a ULB:



**Figure 1: Current Approach to Budgeting Commonly Seen in a ULB of India**

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**Figure 2: Recommended Approach of Budgeting in a ULB of India**

It will be clear from the above diagrams that if the suggested proposed model is followed, not only does there need to be an institutionalized system for collection of data on related urban indicators, but also that the Budget cannot be seen as an exercise that is cosseted within an annual timeline. An extension of this argument leads to the linkage between planning and budgeting. By definition, planning is long term. Therefore, the long-term trends that are revealed by the indicators adopted for the city are to be scaled to annual and biannual figures and their impacts estimated. At the conclusion of every budgeting exercise, and during the budget year, figures need to be collected on the actual outcomes of budgeted actions. These outcomes then need to be incorporated within the plans so that planning really looks at the future and that too in terms of different scenarios that have differing socio-economic and environmental contexts.

In a normal budgetary process practiced in ULBs of India the process of formulating the executive budget begins at least six to eight months prior to the presentation of the budget or the beginning of the next fiscal year. The executive process begins with the setting of the priorities and the transmission of those priorities to the agency departments. Although this is done verbally, but issue of an instructional circular is helpful indeed. The Budget Department/Wing/Section (a part of the Finance and Accounts Wing) indicates through the circular any special issues or procedures for the upcoming budgetary process. The budget department holds reviews with agent department to identify issues and get initial agreement on budget directions. This review would cover the ways and means how the agency department plans to achieve the departmental objectives. All agency departments, considering their own departmental objective in mind start building their own budgets from a very early stage, in fact well before the budget department issues instruction. The review by the budget department will mainly focus on the state of the economy and on the impact that changes in economic conditions have on the budget under consideration and on the department budgets being constructed. Department budgets are submitted to the budget department for review, a dialogue ensues, and decisions are made and incorporated into the final draft of the budget document.

Prior to the start of the budgetary process, the head of the ULB usually the Mayor or Chairperson establishes the outlines of the general budget (to achieve the objectives of the annual plan vis-à-vis the political manifesto) and fiscal policy guidelines. These may result from conversations with close advisors, the commissioner, the finance head, the secretary, and key officials

from important agencies. During the budget preparation process, the budget department works with the agent departments to convert the desired general policies into specific policy directions and planning levels for the budget year. Once general guidelines have been set, departments begin their internal budgeting process.

Taking cues from the priorities set, head of department set priorities for their own departments. Departments submit their budget requests to the Budget Department, where the budget analysts review them. The budget department's review is first done at the staff level, where list of issues is prepared in consultation with the department and the recommendations are made. The head of the budget department then makes its review to discuss major issues with the departments and allow the budget analysts to defend their recommendations. The head of the budget department or sometimes the head of the finance department then makes his decisions, and the numbers are passed back to the departments. If the departments disagree with these numbers, they can appeal to the head of budget department. Usually, budget analysts are in close touch with their departments and its programs throughout the year on matters of budget execution as well as budget preparation. Once the policy decisions have been made, the numbers have been calculated and totalled and the actual budget story then written for the budget documents.

The house of elected representatives is an important player in the budgetary process. It considers the head of government's budget proposal and can approve, modify, or reject them. It can change the funding levels; add programs not earlier proposed by the head of the government and eliminate his favourite proposals. It can make changes in taxes and other receipts that fund government.

## **2.1. Types of Budgets in a Government System**

There are various type of budget depending on the process of preparation, presentation, and execution. A Government entity chooses a particular type based on its requirement, and the extent of capacity and capability available within the entity and in particularly with the Budget Department.

### **Line-Item Budget**

The line-item budget typically is used when control is the budget's main function. Most government department and in particular ULBs use this budget type. In a line-item budget, expenditures are listed under a large subject area – a fund; then broken down by a function or purpose, such as a department; then by an object, for example, Water Treatment Plant, Park Maintenance, Roads – Operation & Maintenance, etc. This can then be further broken down into items such as salaries, telephone, fuel, printing, stationery, and electricity. Imagine a tree, where you start at the trunk, then split into branches, then spread into leaves. The trunk is the General or Municipal Fund, the large branches are the departments, and the leaves are all the items that will be expended within each department. NMAM also suggests a similar approach to ULB budgeting.

A typical line-item budget<sup>25</sup> structure may have the following levels:

**Level 1:** Water Supply and Sanitation Fund (*Fund*)

**Level 2:** Zone 1 (*Field*)

**Level 3:** Water Treatment Plant Cell  
(*Functionary/Department*)

**Level 4:** Salaries & Allowances (*Revenue Expenses*)

**Level 5:** Pay (*Account Head*)

**Level 5:** Dearness Allowance (*Account Head*)

The more detailed levels the line items are broken down, the more control the ULB has over expenditures. The downside to line-item budgets is that they provide no information about the activities or functions of a program or department or how efficiently they operate. The focus is strictly on what is purchased and spend, or revenues collected.

### **Performance Budget**

A performance budget allocates money to activities or programs, and it describes the amount of services that will be produced with the money

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<sup>25</sup> According to *Budgeting: A Guide for Local Governments*, Robert L. Bland, 1997: "... the line-item budget originated in the late nineteenth century in response to the excesses of the political machines that controlled many state and local governments: this format was ideally suited to shifting power away from political bosses and toward legislative bodies, which were more accountable to voters."

allocated. It allows an adjustment of the level of services provided as to both quality and quantity. It is a very useful budget system, but it is very difficult to prepare because of the amount of information necessary to do so properly. Performance budgeting allocates resources based on the achievement of measurable objectives, which in turn, are related to the department's mission and goals.

Performance measurement is a method to measure progress of a public program or activity in achieving its intended purpose. It provides a system to define expected performance; track data and monitor progress towards that performance; evaluate whether or not the targeted level of performance is being achieved; and report performance to policymakers and citizens. Performance budgeting takes the concept one-step further. It links the allocation of money to programs to achieve desired results.

### ***Outcome Budgets***

The Outcome Budget is a progress card, presenting what various ministries or departments have done with the outlay announced in the annual budget. Outcome budgets are a performance measurement tool that helps in better service delivery, decision-making, evaluating program performance and results, communicating program goals, and improving program effectiveness. The Outcome Budget focuses on schemes or project wise outlays for all ministries, departments and government organizations during the budget year listed against corresponding outcomes (measurable physical targets) to be achieved during the year.

Outcome budgets measure the development outcomes of all government programs, which means that if one wants to find out whether some money allocated for, say, the building of a school or a health centre has actually been given, one might be able to find out whether students are actually receiving benefits of quality education. It will also tell one if the money has actually been spent for the purpose it was sanctioned and the outcome of the fund-usage i.e. providing quality education to produce quality citizens for the country.

### ***Program Budget***

A program budget focuses on the services to be provided by the entity and budgets money according to functions such as public safety, general

government, public works, recreation, etc. It shows the purposes for which money will be spent and the importance the entity, like the city government places on these functions. It does not show the level of services provided, and some say that, as a result, its value as a tool for managing the quantity and quality of public service programs is weakened.

The program budgeting integration is basically accomplished by the use of strategic output-oriented programs that are based on goals, purposes, and objectives. The basic objective of program budgeting is to provide output-oriented budget information with a long-range perspective to allocate resources more effectively. The output-oriented program expenditures are later translated into traditional line-item appropriation budget requests. Essentially, program budgeting is a management decision-making system that ties together strategic and long-range planning with conventional budgeting and supporting analysis so that an organization can most effectively assign resources to achieve both its short and long-range objectives. It utilizes a planning and budgeting process in an output-oriented program format, which is oriented to its objectives to facilitate developing and evaluating alternatives and making decisions. This process ultimately leads to an allocation of resources over a planning period.

### ***Gender Budget***

Gender is culturally and socially constructed roles, responsibilities, privileges, relations, and expectations of women and men, boys and girls and changes with time and from place to place. Sex refers to biological differences between the male and female of the species. It remains unchanged. Gender Budgeting is a process that entails incorporating a gender perspective at various stages—planning, policy, programme formulation, assessment of needs of target groups, allocation of resources, implementation, impact assessment, reprioritization of resources. The term “gender budgeting” has become a catchall phrase to describe various government initiatives that seek to address gender issues in the domain of public expenditure and policy. Two definitions are quoted to introduce the concept.

“Gender sensitive budgets”, “gender budgets”, and “women’s budgets” refer to a variety of processes and tools aimed at facilitating an assessment of the gendered impacts of government budgets. In the evolution of these exercises, the focus has been on auditing government budgets for their impact on women and girls. This has meant that, to date, the term ‘women’s

budget' has gained widest use. Recently, however, these budget exercises have begun using gender as a category of analysis so the terminology 'gender-sensitive budgets' is increasingly being adopted. It is important to recognize that 'women's budgets' or 'gender-sensitive budgets' are not separate budgets for women, or for men. They are attempts to break down or disaggregate; the government's mainstream budget according to its impact on women and men, and different groups of women and men, with cognizance being given to the society's underpinning gender relations." - (Sharp, Rhonda: 1999)

Gender budget initiatives analyze how governments raise and spend public money, with the aim of securing gender equality in decision-making about public resource allocation, and gender equality in the distribution of the impact of government budgets, both in their benefits and in their burdens. The impact of government budgets on the most disadvantaged groups of women is a focus of special attention. Therefore, in gender budgeting, "gender" means women and her empowerment.

### ***Cash-based Budget and Accrual-based Budgets***

The method of budget reporting represents much more than a technical decision about how to measure costs; rather it reflects fundamental choices about the types of controls and incentives that are important in the decision-making process. Countries traditionally have relied on cash-based budgeting — recording amounts in the budget based on when cash is received or paid, regardless of when revenues are earned, resources are consumed, or liabilities are increased. These cash-based systems reflect the traditional focus of public sector budgeting on control, ensuring compliance with spending limits and assessing the short-term economic impact of fiscal policy. The United States, however, uses a system of both a cash - and obligation-based budget that permits greater control than solely a cash-based system.

The main difference between accrual budgeting and the cash system of budgeting is that, in addition to cash, accrual budgets recognize non-cash costs such as long service leave entitlements and depreciation which were incurred but not properly accounted for under cash. Accrual budgeting provides a more complete picture of both department's actual financial position and the entity's position than was possible under the previous cash system. An accrual budget will illustrate how current decisions affect the

financial position of the entity in the future, by showing the impact of those decisions in the longer term.

Accrual information clearly identifies whether government revenue is sufficient to cover the full cost of the services delivered in a financial year, including the impact of decisions made now that will affect cash outflows in the future. In this way, the information shows whether the entity is living within its means and whether revenue is sufficient to sustain services in the long term. The focus now has shifted from year-by-year cash management (cash-basis) to total resource management of service delivery (accrual-basis). The information available under accrual budgeting improves the assessment of performance and enhances the information available to Government for making decisions about resourcing. Accountability and transparency of government accounting are improved by budgeting and reporting on an accrual basis.

## **2.2. Recent Innovations in Government and ULB Budgeting**

The experience of Australia, New Zealand, the United Kingdom and the United States in budget innovations can be seen for references and may be for adoption. In Australia and New Zealand, baseline projections and long-term planning have been undertaken. Rolling expenditure planning has an important role in the measurement of the fiscal outlook for the next year, which in turn determines the budget allocations for the next year. In Australia, New Zealand, and UK and in the USA, budgets are being prepared under the accrual basis and the budget is divided into operational and capital budgets. These countries include capital charge in the capital budgets.

In New Zealand, the format for budgets and accounts is the same. In Australia and in the USA budget authority is available to agencies after the approval of the annual budget; apportionments are made by the Office of Management and Budget to facilitate a smooth flow of expenditures. In Australia especially, all payments are centralized in the Department of Finance. All documentation reaches there for final approval and payment. Use of electronic payments is extensive. It is being observed that in all the countries under consideration the primary tools of control are corporate plans, program management that focuses on results, resource consciousness, and program and performance evaluation. To make the agencies and the departments more accountable, departments are made to publish annual reports indicating resource use and performance, and the plans and the Vision Statement.

The National Municipal Accounts Manual (NMAM) developed by CAG was made available to State Governments in December 2004 to be used by all ULBs across the country with a request to State Governments for development of State specific Budget and Accounts Manuals. The NMAM initiative attempted to make the presentation of budgets uniform across India. However, as States and Union Territories have adopted NMAM differently the objective of having a uniform presentation of the budget document across all ULBs of India fell short of the objective.

NMAM also suggested that all ULBs would adopt a specific structure of account heads using multiple levels of grouping and further detailing. NMAM kept some groups and levels compulsory for adoption and left others as optional to be decided by respective states and union territories for adoption. The NMAM made it mandatory that all ULBs adopt the same account heads for budgeting and accounting, so that comparison between estimates and actuals become easier and rationalistic. The explanation to adopt uniform heads of account may be referred from *Chapter 4 - Codification Structure and Chart of Accounts* of the NMAM. The NMAM, recommended the following **mandatory groups** for all local bodies:

- **Functions:** Functions are meant to represent the various functions or services carried out by the urban local body. The list of eighteen functions listed under the Twelfth Schedule read with Article 243W is important to consider here.
- **Account Heads:** Account Heads are meant to represent the nature of the income or expenditure.

In addition to these mandatory groups, there can be three **optional groups**, which a State Government may adopt for accounting and budgeting of a ULB. These are:

- **Functionary (Responsibility centre/department)** – ULBs are centered around their functions, which are provided through various responsibilities centres called departments.
- **Field (Geographical centre)** – In order to monitor the geographical dispersion of these activities, many Municipalities identify their receipts/income and expenditure budgets at function, functionary (department) and field level.

- **Funds** – Several State Governments legislated (like Karnataka, West Bengal for Kolkata Municipal Corporation) segregates the municipal fund into various sub-funds for ring-fencing the functions of the ULB. Receipts/ income and expenditure under these funds are to be identified and disclosed separately.

The NMAM covered the details of budgeting in ULBs in *Chapter 33 – Budgeting & MIS Reports* with specific reference to budgeting approach, process, and budgetary controls. It also provided the templates for presentation of the budget.

### **2.3. Need for Budget Preparation in a ULB**

Realistic budget estimate acts not only as a tool for financial planning and control, but also as the most significant instrument to steer the development of the ULB for achieving the aspirations of the people. The budget of the ULB can be used for effective management and promotion of accountability in service delivery and provision of infrastructure on the part of civic functionaries. ULB prepares a budget with the objectives of controlling, managing and planning the financial resources.

*Control:* As a control document, a budget defines the legal and policy constraints within which the managers of a ULB can operate. These constraints include determining:

- Permissible/maximum expenditure allowed by each ULB;
- Purposes for which expenditure can legally be made (such as salaries, maintenance, and loan charges); and
- Collection of tax resources and non-tax resources (i.e., revenue functions);

Control is a significant objective governing the preparation of budgets in ULBs, although several systemic weaknesses drastically impair its achievement. To achieve the objectives of control, the budget needs to be supported by effective accounting and auditing systems.

*Management:* As a management document, a budget sets targets that ensure the achievement of an efficient and effective delivery of urban services. To enable the budget to be a fully effective management tool, there must be a clear relationship between budgetary inputs (such as personnel and

equipment) and expected outputs, defined in ULB performance measures (such as the number of square metres of road to be repaired, etc.). Such a relationship enables departmental heads to use the budget as a device to manage their staff.

*Planning:* The preparation of a budget provides a major planning opportunity for a ULB, which wants to address its growth and development needs through judicious use of its limited financial and personnel resources. Each year, the budget defines the anticipated revenues of a ULB and outlines the blueprint for its expenditure.

## **2.4. Components of a ULB Budget**

The budget of a ULB is usually presented in three parts. However, this finally depends on the budget structure that the state or the union territory adopted for ULBs notified within the state or the union territory

- Revenue Budget,
- Capital Budget, and
- Extraordinary Budget.

### ***Revenue Budget***

The revenue budget consists of forecasted or estimated revenue receipts of the ULBs (revenues from tax and other sources) during a particular fiscal year and the operation and maintenance expenditure met from revenues during that fiscal year. Revenue receipts are divided into:

- Own Tax Revenue,
- Own Non-tax Revenue,
- Shared or Assigned Revenue from Government, and
- Borrowings.

**Own Tax Revenue** in case of ULBs, usually includes:

- *Property or Holding Tax* – it is generally levied on non-movable property like land and building. The taxation principle either follows annual rental value method or unit area method. It is the largest sources of revenue for most ULBs of India.

- *Water Tax, Sanitation Tax, and Lighting Tax* – it is generally levied at a percentage basis on the annual value of properties determined for levying property tax. This is linked to the capital development for water supply services, sanitation, and street lighting.
- *Taxes on Non-motorized Vehicles* – ULBs are allowed to levy taxes on non-motorized vehicles registered within the jurisdiction of a ULB. The rate of taxation is generally decided on a fixed basis linked to the category of the vehicle.
- *Toll Tax* – levied on certain vehicles when they drive through toll-roads constructed by ULBs. Which vehicle to be taxed and at what rate is decided by the respective ULBs.
- *Tax on Transfer of Property* – It is levied when the immovable property in area under the ULB jurisdiction changes the ownership (also known as mutation of property, where there is a property or land and there is the change of title ownership from one person to another person when a property is sold or transferred).

**Own Non-Tax Revenue:** Major sources of non-tax revenues for ULBs are –

- *License fee:* Earned by issuing trade licenses to conducting scheduled business, trade and industry, private markets, cinema houses, slaughterhouses, burial grounds, commercial animal stalls, etc.
- *Entry Fees:* Entry fees obtained from the highest bidder, who, in turn, regulates entry based on certain fees. Major sources of gate fees are public markets, public parking and halting places, public slaughterhouses, parks, fair grounds, etc.
- *Advertisement Fees* – It is levied on the advertisement put on the property within a ULB, but doesn't include advertise on newspaper, TV or radio. Primarily, it targets the banners / hoardings for advertisement.
- *Income from Property (Rent)* – Rent from buildings, lands, cloakrooms, comfort stations, etc.

- *Income from property other than rent* – Proceeds from sale of rights to collect river sand, sale of rights to fish, sale of usufructs, etc.
- *Permit fees* – These are of two kinds – fee for building permits and fee for permits for the construction, establishment or installation of factories, workshops or workplaces where electricity is used.
- *Registration fees* – Registration of hospitals and paramedical institutions, tutorials, births and deaths, contractors (only in Urban Local Governments), etc.
- *Service Charges* – Charges collected for the use of utilities and amenities provided by Local Governments. Charges are levied on the direct recipient of a service.

**Transfers from State Government:** Among the many provisions, the 74 CAA mandated provisions about the sharing of resources from the Consolidated Fund of Union and States Governments with their respective local governments. Broadly, all transfers from state governments to ULBs can be of two types –

- *Mandatory Shared Resources* – based on the recommendations of the specific finance commissions of states and union territories. It is generally the share in the divisible pool of resources raised by the respective states, where the divisible pool can be defined as per the state laws. Some states also share a portion of the tax collected on motor vehicles under the Motor Vehicle Tax for maintenance of roads under the ownership of ULBs. Some states share of the entertainment taxes that it collects with the ULB.
- *Discretionary Transfers/Grants-in-Aid* – ULBs receive such aid from State Governments. There is no specific system of grants-in-aid, and these depend on the policies of the government of the day. The grants can also be given either to pay salary and dearness allowance of municipal staff, to pay electricity dues with electricity companies of the State, incentivise tax efforts or to match the effort in the maintenance of services.

**Borrowings:** Like Centre and State Governments, ULBs can also raise resources by selling bonds in the open market and by accepting term loans from Banks and Financial Institutions. Some ULBs also accept sovereign loans from multi-lateral funding agencies like the World Bank, Asian Development Bank, and New Development Bank, from bi-lateral agencies like Japan International Cooperation Agency (JICA). Borrowing through the route of issue of municipal bonds is still a relatively underdeveloped area, as all ULBs does not have the required eligibility to approach the municipal bond market. ULBs having reasonably sufficient resources from own sources, having a pool of immovable assets and other credentials can raise resources through borrowing by municipal bonds.

**Revenue expenditure** is the payment incurred for the normal day-to-day running of ULB departments and various services that it offers to its citizens. The ULB also has other expenditure like servicing interest on its borrowings, loans, etc. Usually, expenditure that does not result in the creation of assets, and grants given to other parties are revenue expenditures.

The difference between revenue receipts and revenue expenditure, if negative (signifying means that the ULB spends more than it earns) is called the **revenue deficit**, and if positive (signifying means that the ULB earns more than it spends), is called the **revenue surplus**.

### ***Capital Budget***

It consists of capital receipts and payments. The main items of **capital receipts** are Scheme Funds, Earmarked Funds received from the superior governments, loans raised by Government from public, which are called Market Loans, borrowings by Government from Reserve Bank/Commercial Banks and other parties through sale of Treasury Bills, loans received from foreign Governments and bodies and recoveries of loans granted by superior government to subordinate governments and other parties.

**Capital payments** consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment, as also investments in shares, etc., and loans and advances granted to employees, and other parties like contractors (mobilization advances).

### ***Extraordinary Budget***

It is a part of the capital budget, but contains receipts and payments, which do not amount to income and expenditure for the ULBs. For example, deposit receipts and payments, advances given and adjusted, etc.

### **2.5. Sample Budget Statement of 3 Municipal Corporations of India**

Usually, all ULBs of India follow the following principles for preparing and presenting the budget on an annual basis:

- All ULBs prepare and present the budget while following the guidelines laid down in their respective state and union territories.
- The budget usually prepared in three parts – revenue budget, capital budget, and extraordinary budget.
- All ULBs usually follows the “Line-Item Budget” presentation.
- All ULBs usually prepare the budget on cash-basis i.e. budgeting for expected collections and proposed payments during the following fiscal year.
- The basis on which the estimates are mooted, or budget forecasting is done it is done using the incremental approach, meaning that last years’ actual figures or last years’ estimates are increased or decreased by an arbitrary percentage.
- The budget usually ends with a deficit meaning estimated or forecasted receipts are less than estimated or forecasted expenditure.
- Some ULBs follow the account and budget heads codification structure as specified by NMAM, and some others follow other code structures as specified in their own legislative framework.

The publication reviewed the latest budget statement (extracts only) as available in public domain for three randomly selected Municipal Corporations of India. However, the selection considered one factor – whether the ULBs are presenting the budget using the suggested NMAM codes or not. The budget statements are disclosed as public documents and hence, accessed from the respective websites of the three ULBs:

- **Jaipur Municipal Corporation** adopted the NMAM codification structure. The details accessed from:  
[http://jaipurmc.org/Presentation/AboutMcjaipur/MstPdfViewer.aspx?Pageid=4&PdfName=budget\\_2023\\_24.pdf&Header=Budget%2023-24](http://jaipurmc.org/Presentation/AboutMcjaipur/MstPdfViewer.aspx?Pageid=4&PdfName=budget_2023_24.pdf&Header=Budget%2023-24)
- **Bhubaneswar Municipal Corporation** follows the NMAM codification structure. The details accessed from:  
[https://cms.bhubaneswarone.in/uploadDocuments/content/Budget\\_2023-24\\_Final.pdf](https://cms.bhubaneswarone.in/uploadDocuments/content/Budget_2023-24_Final.pdf)
- **Kolkata Municipal Corporation** follows a self-designed and adopted codification structure. The details accessed from:  
[https://www.kmcgov.in/KMCPortal/downloads/Budget\\_Estimate\\_2024\\_2025.pdf](https://www.kmcgov.in/KMCPortal/downloads/Budget_Estimate_2024_2025.pdf)

The extracts of three sample ULBs are displayed in **Figure 3**, **Figure 4**, and **Figure 5** with the purpose to show the compliance of legislative framework to present their respective budget statements.

### Jaipur Municipal Corporation

**NAGAR NIGAM GREATER JAIPUR**  
**SUMMARY OF BUDGET FOR THE PERIOD 2023-2024**

In Lakh

Particulars	Actual for the previous year 2021-2022	Budget Estimates for the current year 2022-2023	Revised Estimates for the current year 2022-2023	Budget Estimates for the next year 2023-2024
OPENING BALANCE	7059.56	7059.56	18235.74	18235.74
REVENUE RECEIPTS	44020.55	64106.00	68602.00	76577.00
CAPITAL RECEIPTS	17185.94	25454.00	16498.00	24033.00
<b>TOTAL</b>	<b>61206.49</b>	<b>89560</b>	<b>85100</b>	<b>100610</b>
REVENUE EXPENDITURES	35689.68	49606.00	49685.00	55066.00
CAPITAL EXPENDITURES	14340.63	39954.00	35415.00	45544.00
<b>TOTAL</b>	<b>50030.31</b>	<b>89560</b>	<b>85100</b>	<b>100610</b>
CLOSING BALANCE	18235.74	7059.56	18235.74	18235.74

  
 वित्तीय अधिकारी  
 नगर निगम ग्रेटर जयपुर

  
 आयुक्त  
 नगर निगम जयपुर-मेट्रो

Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

**NAGAR NIGAM GREATER JAIPUR**  
**BUDGET ESTIMATE CONSOLIDATION 2023-2024**

In Lakh

Function / Functionary	Field	Head Of Account Description Of Item	Actual for the previous year 2021-2022	Budget Estimates for the current year 2022-2023	Revised Estimates for the current year 2022-2023	Budget Estimates for the next year 2023-2024
1	2	3	4	5	6	7
<b>TAX COLLECTION / INCOME FROM TAXES</b>						
<b>REVENUE RECEIPTS</b>						
		<b>Tax Revenue</b>				
	1101301	HOUSE TAX-हाउस टैक्स	78.12	100.00	80.00	100.00
	1101302	URBAN DEVELOPMENT TAX-अर्बन डेवलपमेंट टैक्स	4553.27	11400.00	8108.00	11792.00
	1105110	OCTROI COMPENSATION-ओक्ट्रॉई कंपनसेशन	24939.63	27500.00	27500.00	30000.00
		<b>Total REVENUE RECEIPTS</b>	<b>29571.02</b>	<b>39000.00</b>	<b>35688.00</b>	<b>41892.00</b>
		<b>Total</b>	<b>29571.02</b>	<b>39000.00</b>	<b>35688.00</b>	<b>41892.00</b>

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**NAGAR NIGAM GREATER JAIPUR**  
**BUDGET ESTIMATE CONSOLIDATION 2023-2024**

In Lakh

Function / Functionary	Field	Head Of Account Description Of Item	Actual for the previous year 2021-2022	Budget Estimates for the current year 2022-2023	Revised Estimates for the current year 2022-2023	Budget Estimates for the next year 2023-2024
1	2	3	4	5	6	7
<b>TAX COLLECTION / BY - LAWS</b>						
<b>REVENUE RECEIPTS</b>						
		<b>Assigned Revenues &amp; Compensations</b>				
	12010001	OTHER INCOME (MISC.)-अन्य इनकम (मिसेलेनियस इनकम )	1615.44	2000.00	2000.00	2000.00
		<b>Fees &amp; User Charges</b>				
	1401101	SLAUGHTER HOUSE LICENCE FEES-स्लाइटर हाउस लाइसेंस फीस	6.00	10.00	1.00	1.00
	1401104	CONSTRUCTION AND DEVELOPMENT WORK LICENCE FEES-कंस्ट्रक्शन एंड डेवलपमेंट वर्क लाइसेंस फीस	1267.04	1000.00	2000.00	1490.00
	1401301	COPY FEES-कॉपी फीस	131.88	150.00	100.00	150.00
	1404001	SIGN ADVERTISEMENT BOARD FEES-सिग्न एडवर्टीसमेंट बोर्ड फीस	2229.96	1300.00	3000.00	3000.00
	14060054	FAIR FEES-फेयर फीस	0.00	1.00	1.00	1.00
	1408008	INCOME FROM MARRIAGE PLACE REGISTRATION-इनकम फ्रॉम मैरिज प्लेस रेजिस्ट्रेशन	623.81	600.00	1100.00	1200.00
		<b>Income from Investments</b>				
	1701010	INCOME FROM MOBILE TOWER-इनकम फ्रॉम मोबाइल टॉवर	662.25	400.00	386.00	450.00
		<b>Total REVENUE RECEIPTS</b>	<b>6536.38</b>	<b>5461.00</b>	<b>8588.00</b>	<b>8292.00</b>
		<b>Total</b>	<b>6536.38</b>	<b>5461.00</b>	<b>8588.00</b>	<b>8292.00</b>

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**NAGAR NIGAM GREATER JAIPUR**  
**BUDGET ESTIMATE CONSOLIDATION 2023-2024**

In Lakh

Function / Functionary	Field	Head Of Account Description Of Item	Actual for the previous year 2021-2022	Budget Estimates for the current year 2022-2023	Revised Estimates for the current year 2022-2023	Budget Estimates for the next year 2023-2024
1	2	3	4	5	6	7
<b>TAX COLLECTION / DIFF.ACT/RULES</b>						
		<b>REVENUE RECEIPTS</b>				
		Fees & User Charges				
	1401408	INCOME FROM ROAD CUTTING-इन्कम फ्रॉम रोड कटिंग	1119.26	1200.00	800.00	1500.00
	1408002	INCOME FROM CATTLE HOUSE-इन्कम फ्रॉम कैटल हाउस	13.83	20.00	20.00	30.00
	1408003	INCOME UNDER OTHER ACTS & RULES-इन्कम अंडर अदर एक्ट एंड रूलस	9.41	35.00	25.00	37.00
		<b>Total REVENUE RECEIPTS</b>	<b>1142.50</b>	<b>1255.00</b>	<b>845.00</b>	<b>1567.00</b>
		<b>Total</b>	<b>1142.50</b>	<b>1255.00</b>	<b>845.00</b>	<b>1567.00</b>

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**NAGAR NIGAM GREATER JAIPUR**  
**BUDGET ESTIMATE CONSOLIDATION 2023-2024**

In Lakh

Function / Functionary	Field	Head Of Account Description Of Item	Actual for the previous year 2021-2022	Budget Estimates for the current year 2022-2023	Revised Estimates for the current year 2022-2023	Budget Estimates for the next year 2023-2024
1	2	3	4	5	6	7
<b>GENERAL ADMINISTRATION / GEN.ADMINISTRATION (OTHERS)</b>						
		<b>REVENUE EXPENDITURES</b>				
		Administrative Expenses				
	22011106	PAYMENT OF WATER BILLS.पानी के बिलों का भुगतान	14.89	30.00	20.00	30.00
	22011107	COURT EXP.-न्यायालय संबंधी व्यय	266.77	350.00	350.00	400.00
	22011108	ADVERTISEMENT EXP.-प्रचार विज्ञापन	207.78	265.00	230.00	250.00
	22011109	DRESS-अदी	11.56	15.00	150.00	150.00
	22011113	CORPORATE (PARSHAD) ALLOWANCE-पार्षद भता	82.25	136.00	136.00	136.00
	22011114	E GOVERNANCE EXP.-ई गवर्नंस भुगतान सैकण्ड फेज	519.37	700.00	900.00	1000.00
	22011115	ENCOURAGEMENT EXP. - प्रोत्साहन राशि	0.43	1.00	1.00	1.00
	22011116	ELECTION EXP.-चुनाव	0.00	1.50	1.00	1.00
	22011117	FESTIVAL & ENTERTAINMENT EXP.-उत्सव व मनोरंजन	16.39	40.00	40.00	40.00
	22011118	RECEPTION(SATKAR) EXP.-सत्कार	0.00	30.00	15.00	15.00
	22011119	GRANT TO AUTONOMOUS & OTHER INSTT.-संस्थाओं को सहायता	0.00	0.72	1.00	1.00
	22011139	CONTINGENCIES EXP.-आवस्यिक व्यय	469.70	750.00	550.00	600.00

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<b>NAGAR NIGAM GREATER JAIPUR</b>					
<b>BUDGET ESTIMATE CONSOLIDATION 2023-2024</b>					
				<b>In Lakh</b>	
22011141	CONTINGENCIES & AGREEMENT EXP.-कटि-जोड़ी मय अनुबन्धन व्यय (रुफान कटि-जोड़ी)	387.75	525.00	525.00	560.00
22020003	BOOKS & NEWSPAPER-पुस्तकें एवं समाचार पत्र	0.00	2.00	2.00	2.00
22021105	POSTAGE EXP.-डॉक, तार, टेलीफोन	86.08	115.00	100.00	115.00
22021106	STATIONERY & PRINTING-स्टेशनरी व छपाई	12.95	60.00	60.00	60.00
22030004	TRAVEL FOR STUDY-अध्ययन यात्रा व्यय	0.00	1.00	1.00	1.00
2205001	AUDIT FEES-ऑडिट फीस	0.00	20.00	20.00	20.00
22080011	EXP. ON SCHOLARSHIP FOR NIGAM SAFAI KARMCHARIS CHILD-निगम के सफाई कर्मचारियों के इमहर बच्चों को छात्रवृत्ति पर व्यय	0.00	0.00	0.00	20.00
22080012	EXP. ON ACCIDENT OF NIGAM EMPLOYEE-निगम कर्मचारियों को दुर्घटना में संलग्नता पर व्यय	0.00	0.00	0.00	20.00
<b>Establishment Expenses</b>					
21010004	SALARY & ALLOWANCE-वेतन और भत्ते	4750.68	3740.00	3900.00	4000.00
21020035	MEDICAL REIMBURSEMENT-चिकित्सा व्यय	44.40	35.00	2.00	1.00
21020036	TRAVELLING REIMBURSEMENT-यात्रा भत्ता	0.22	4.00	4.00	4.00
21030004	CONTRIBUTION-तीव्र पेयन कटौत/अदान	94.59	100.00	90.00	100.00
<b>Total REVENUE EXPENDITURES</b>		<b>6965.81</b>	<b>6921.22</b>	<b>7098.00</b>	<b>7527.00</b>
<b>Total</b>		<b>6965.81</b>	<b>6921.22</b>	<b>7098.00</b>	<b>7527.00</b>

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**Figure 3: Extract of Budget Statement of Jaipur Municipal Corporation**

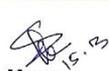
Municipalities of India – Understanding its Financial Management, Accounting,  
Fiscal Management, Auditing, and Compliances

**Bhubaneswar Municipal Corporation**

Budget For Year: 2023-24			
Budget Of Bhubaneswar Municipal Corporation			
Particulars	Amount (Rs.)	%of Total	Amount (Rs.)
Opening Balance as on 1st April 2023			5,69,38,11,272
Less- Liability towards EMD/SD/ISD/APS			56,93,81,127
<b>Projected Opening Balance for 2023-24 (A)</b>			<b>5,12,44,30,145</b>
<b>Budget Receipts</b>			
<b>Revenue Receipts</b>			
Tax Revenue	1,05,84,97,066	14.94%	
Assigned Revenue and Compensation	84,99,52,000	12.00%	
Rental Income from Municipal Properties	7,46,11,578	1.05%	
Fees and User Charges	1,06,96,08,737	15.10%	
Sale and Hire Charges	4,55,50,788	0.64%	
Income From Investment	17,09,81,427	2.41%	
Interest Earned	11,84,00,474	1.67%	
Other Income	3,30,85,336	0.47%	
Revenue Grants contributions and Subsidies	2,47,37,00,000	34.91%	
<b>Total Revenue Receipts(B)</b>	<b>5,89,43,87,407</b>	<b>83.19%</b>	
<b>Capital Receipts</b>			
Loan from OUIDF	5,00,00,000	0.71%	
Capital Grants	1,14,10,00,000	16.10%	
<b>Total Capital Receipt(C)</b>	<b>1,19,10,00,000</b>	<b>16.81%</b>	
<b>Total Receipt(D)=(B+C)</b>		<b>100%</b>	<b>7,08,53,87,407</b>
<b>Grand Total(E)=(A+D)</b>			<b>12,20,98,17,552</b>
<b>Budgeted Expenditure</b>			
<b>Revenue Expenses</b>			
Establishment Expenditure	95,15,18,074	13.79%	
Administrative Expenses	15,12,59,329	2.19%	
Operation and Maintenance	2,03,64,60,647	29.51%	
Interest and Finance Charges	3,62,08,019	0.52%	
Programme Expenses	4,77,10,397	0.69%	
Disbursement of Grants	56,25,00,000	8.15%	
Miscellaneous Expenses	21,53,85,270	3.12%	
<b>Total Revenue Payments(F)</b>	<b>4,00,10,41,736</b>	<b>57.98%</b>	
<b>Capital Payments</b>			
Acquisition and Purchase of Fixed Asset	2,89,91,56,204	42.02%	
<b>Total Capital Payments(G)</b>	<b>2,89,91,56,204</b>	<b>42.02%</b>	
<b>Total Payments (H)=(F+G)</b>		<b>100%</b>	<b>6,90,01,97,940</b>
<b>Closing Balance(I)</b>			<b>5,30,96,19,612</b>
<b>Grand Total(J)=(H+I)</b>			<b>12,20,98,17,552</b>

  
Commissioner  
Bhubaneswar Municipal Corporation

  
Chairman,  
Taxation, Finance &  
Accounts  
BMC

  
Mayor  
Bhubaneswar Municipal  
Corporation

Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

Budget Details for Year:2023-24							
Accounts Code	Head of Account- Description of Item	Actuals of the Previous Year (2021-22)	Budget Estimates of Current Year (2022-23)	Revised Estimates of Current Year (2022-23)	Budget Estimates For 2023-24		
					General	Urban Poor	Total
	<b>Revenue Receipts</b>						
	<b>Tax Revenue</b>						
	Consolidated property tax on land and building	60,47,49,481	81,58,43,883	81,58,43,883	93,82,20,466	-	93,82,20,466
1101101	Advertisement Tax - Pvt Land	2,88,14,419	5,00,70,750	2,65,93,492	4,00,56,600	-	4,00,56,600
1101110	Advertisement Tax - Govt land	6,30,00,000	10,02,75,000	7,97,94,837	8,02,20,000	-	8,02,20,000
	<b>Total</b>	<b>69,65,63,900</b>	<b>96,61,89,633</b>	<b>92,22,32,212</b>	<b>1,05,84,97,066</b>	<b>-</b>	<b>1,05,84,97,066</b>
	<b>Assigned Revenue and Compensation</b>						
1202001	Compensation in lieu of Octroi	78,37,55,000	82,29,43,800	82,29,43,800	84,99,52,000	-	84,99,52,000
	<b>Total</b>	<b>78,37,55,000</b>	<b>82,29,43,800</b>	<b>82,29,43,800</b>	<b>84,99,52,000</b>	<b>-</b>	<b>84,99,52,000</b>
	<b>Rental Income from Municipal Properties</b>						
1301001	Rent from Markets	2,02,38,498.00	1,76,81,040	2,97,50,424	3,39,15,483	-	3,39,15,483
1301002	Rent from Shopping Complexes	1,73,42,804.00	2,37,80,182	2,37,80,182	2,95,09,659	-	2,95,09,659
1301003	Rent from Community Halls	15,75,225	41,91,467	41,91,467	46,10,613	-	46,10,613
1301005	Rent from Yatri Niwas	2,81,500	4,94,285	4,94,285	14,31,771	-	14,31,771
1301006	Rent from Kalyan Mandap	43,23,700	59,08,923	59,08,923	50,15,177	-	50,15,177

Accounts Code	Head of Account- Description of Item	Actuals of the Previous Year (2021-22)	Budget Estimates of Current Year (2022-23)	Revised Estimates of Current Year (2022-23)	Budget Estimates For 2023-24		
					General	Urban Poor	Total
1302001	Rent from Office Building	1,21,380	1,24,617	1,24,617	1,24,119	-	1,24,119
1308002	Rent from Opofed/Omfed/Ground Rent	-	3,884	3,884	4,756	-	4,756
	<b>Total</b>	<b>4,38,83,107</b>	<b>5,21,84,398</b>	<b>6,42,53,781</b>	<b>7,46,11,578</b>	<b>-</b>	<b>7,46,11,578</b>
	<b>Fees and User Charges</b>						
1401101	Trade license fees	5,55,51,252.00	7,17,48,040	5,44,14,813	6,80,18,516	-	6,80,18,516
1401104	Licensing fees from hawkers (u/s 307)	22,94,778	30,86,301	30,86,301	35,49,246	-	35,49,246
1401110	Licensing fees from CESS Pool Vehicle		14,144	14,144	16,266	-	16,266
1401112	Licensing fees from pounding houses	1,11,600	1,13,229	1,13,229	1,30,213	-	1,30,213
1401119	Income from providers of telephony services	30,80,358	61,95,558	61,95,558	71,24,891	-	71,24,891
1401122	License fee on Row	4,98,50,258	1,22,34,822	1,22,34,822	1,40,70,045	-	1,40,70,045
1401123	Licensing Fee on Poles	49,35,955	23,35,223	23,35,223	26,85,506	-	26,85,506
1401201	Fees from sanction of building plans	33,80,76,770	6,46,42,394	4,33,44,678	31,42,48,916	-	31,42,48,916
1401202	Compounding Fees	28,40,73,252	20,69,51,320	23,84,82,185	29,81,02,731	-	29,81,02,731
1401302	Birth and Death Registration fees	2,496	6,486	6,486	7,459	-	7,459
1401401	Development Charges	67,68,792	63,82,497	1,64,86,830	1,89,59,855	-	1,89,59,855

## Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

Accounts Code	Head of Account- Description of Item	Actuals of the Previous Year (2021-22)	Budget Estimates of Current Year (2022-23)	Revised Estimates of Current Year (2022-23)	Budget Estimates For 2023-24		
					General	Urban Poor	Total
3202029	Road & Bridge - State Grant	2,51,52,000	1,00,00,000	2,00,00,000	2,00,00,000	-	2,00,00,000
3202060	4th State Finance Commission- Creation of Capital Asset	4,86,41,000	3,83,05,050	4,83,94,000	5,20,00,000	-	5,20,00,000
3202062	Grant for Urban Infrastructure Initiative(UNNATI)		2,00,00,000	-	10,00,00,000	-	10,00,00,000
3202073	Jaga Mission	2,96,80,000	50,00,000	-	1,00,00,000	-	1,00,00,000
3202075	Development of Crematorium Grant	-	40,00,000	40,00,000	40,00,000	-	40,00,000
3203010	Grant from Odisha Urban Infrastructure Development	80,00,000	5,00,00,000	3,79,65,000	5,00,00,000	-	5,00,00,000
3208022	Prime Minister Awas Yojana	-	10,00,000	10,00,000	-	-	-
	<b>Total</b>	<b>64,76,96,000</b>	<b>94,93,05,050</b>	<b>93,23,59,000</b>	<b>1,14,10,00,000</b>	<b>-</b>	<b>1,14,10,00,000</b>
	<b>Revenue Expenses</b>						
	<b>Establishment Expenditure</b>						
	<b>Salary of Deputationist</b>						
2101001	Pay & Grade Pay -Deputation	4,35,09,820	5,22,01,069	5,22,01,069	5,95,09,218	-	5,95,09,218
2101001	Dearness Allowance	81,07,560	1,14,84,235	1,14,84,235	2,02,33,134	-	2,02,33,134
2101001	House Rent Allowance	1,59,248	1,45,306	1,45,306	1,58,064	-	1,58,064
2101001	Other Allowance	15,42,028	14,81,917	14,81,917	16,47,891	-	16,47,891

Accounts Code	Head of Account- Description of Item	Actuals of the Previous Year (2021-22)	Budget Estimates of Current Year (2022-23)	Revised Estimates of Current Year (2022-23)	Budget Estimates For 2023-24		
					General	Urban Poor	Total
	<b>Total</b>	<b>5,33,18,656</b>	<b>6,53,12,527</b>	<b>6,53,12,527</b>	<b>8,15,48,308</b>	<b>-</b>	<b>8,15,48,308</b>
	<b>Salary of Regular Staff</b>						
2101002	Pay & Grade Pay - Staff	15,62,71,124	17,53,95,194	17,53,95,194	17,93,55,617	-	17,93,55,617
2101002	Dearness Allowance	2,58,81,628	3,85,86,943	3,85,86,943	6,09,80,910	-	6,09,80,910
2101002	House Rent Allowance	84,944	1,09,021	1,09,021	1,21,286	-	1,21,286
2101002	Other Allowance	11,81,080	16,44,694	16,44,694	18,29,722	-	18,29,722
	<b>Total</b>	<b>18,34,18,776</b>	<b>21,57,35,852</b>	<b>21,57,35,852</b>	<b>24,22,87,535</b>	<b>-</b>	<b>24,22,87,535</b>
	<b>Salary of Conservancy Regular Staff</b>						
2101002	Pay & Grade Pay - Conservancy Staff	12,09,92,664	13,03,67,608	13,03,67,608	13,33,06,746	-	13,33,06,746
2101002	Dearness Allowance	1,90,08,088	2,86,80,874	2,86,80,874	4,53,24,294	-	4,53,24,294
2101002	House Rent Allowance	-	3,36,863	3,36,863	1,49,904	-	1,49,904
2101002	Other Allowance	3,74,800	25,97,535	25,97,535	28,98,330	-	28,98,330
	<b>Total</b>	<b>14,03,75,552</b>	<b>16,19,82,880</b>	<b>16,19,82,880</b>	<b>18,16,79,273</b>	<b>-</b>	<b>18,16,79,273</b>
2101003	Wages-DLR & CLR	11,15,90,472	12,56,63,285	12,56,63,285	14,48,26,936	-	14,48,26,936

**Figure 4: Extract of Budget Statement of Bhubaneswar Municipal Corporation**

## Kolkata Municipal Corporation



# KOLKATA MUNICIPAL CORPORATION

MAYOR'S  
BUDGET ESTIMATE  
**2024-2025**  
**VOLUME - II**

Prepared and presented before the Corporation on 17th day of February, 2024  
Under Section 131 (5) of the Kolkata Municipal Corporation Act, 1980

KOLKATA  
2024

Municipalities of India – Understanding its Financial Management, Accounting,  
Fiscal Management, Auditing, and Compliances

**KOLKATA MUNICIPAL CORPORATION**  
**BUDGET EXTRACT ( BOROUGH I-XVI )**

ESTIMATE of REVENUE RECEIPT CLASSIFIED AND COMPARED WITH PREVIOUS YEARS

(₹ in lakh)

Receipt	Estimate for 2024-2025	Revised Estimate for 2023-2024	Original Estimate for 2023-2024	Pre-audited Actuals for 2022-2023
<b>I. REVENUE RECEIPT (INTERNAL SOURCES)</b>				
<b>(A) Tax Revenue</b>				
1 Property Tax inclg. Surcharge on Property Tax	152,000.00	121,002.00	140,000.00	106,819.28
2 Tax on Trade, Profession & Calling	2,800.00	2,200.00	2,400.00	1,479.53
3 Tax on Advertisement	-	15.00	-	26.78
4 Service Charges on Central Govt Properties	700.00	500.00	800.00	1,023.45
5 Tax on Carriages	3.00	2.00	6.00	2.43
6 Tax on Carts	2.00	-	5.00	41.54
<b>Total Tax Revenue</b>	<b>155,505.00</b>	<b>123,719.00</b>	<b>143,211.00</b>	<b>109,393.01</b>
<b>(B) Non Tax Revenue</b>				
1 Receipt from Water Supply	7,640.00	5,575.00	6,710.00	5,171.28
2 Receipt from Sale of Water to Ships	-	-	-	-
3 Receipt from Sewerage & Drainage	6,239.00	4,494.00	4,911.00	4,344.27
4 Receipt from Municipal Markets	4,121.00	2,707.50	5,927.00	4,703.87
5 Receipt from Land & Estates	2,410.00	1,854.00	1,610.00	879.28
6 Receipt from Building Department	26,602.00	19,708.00	21,582.00	17,687.35
7 Receipt from Licence Fees	7,797.00	5,384.00	7,044.00	4,126.81
8 Receipt from Solid Waste Management	5,884.00	4,460.00	1,835.00	1,336.69
9 Receipt from Health Service	403.00	229.00	747.00	292.79
10 Receipt from Amusement Fees	1,502.00	1,101.00	835.00	576.68
11 Receipt from Car Parking Fees	3,000.00	2,092.00	10,000.00	2,590.04
12 Receipt from Advertisement Fees	10,000.00	1,900.00	10,000.00	522.91
13 Receipt from Roads, Parks & Squares	9,670.00	6,050.00	9,920.00	8,731.78
14 Receipt from sale of condemned materials	850.00	500.00	920.00	702.39
15 Receipt from Interest on Fixed Deposit	680.00	625.00	900.00	587.48
16 Unclassified Receipts	7,499.00	5,171.00	6,927.00	5,844.33
<b>Total Non Tax Revenue</b>	<b>94,297.00</b>	<b>61,850.50</b>	<b>89,868.00</b>	<b>58,097.95</b>
<b>(C) Public Private Partnership</b>	<b>50.00</b>	<b>-</b>	<b>500.00</b>	<b>-</b>
<b>Total Revenue From Internal Sources (A+B+C)</b>	<b>249,852.00</b>	<b>185,569.50</b>	<b>233,579.00</b>	<b>167,490.96</b>
<b>II. GOVERNMENT GRANT</b>				
1 Grants for Dearness Allowance	14,000.00	6,000.00	6,000.00	2,438.93
2 Grants for increased cost of pay	120,000.00	95,000.00	100,000.00	69,102.93
3 Grants out of the proceeds of M.V. Tax	3,000.00	2,000.00	2,500.00	2,613.38
4 Other Grants	1,100.00	800.00	1,000.00	750.00
5 Special grant for CESC / WBSEDCL	50,000.00	50,000.00	50,000.00	39,851.82
6 Grants out of the proceeds of Entertainment Tax	2,500.00	1,800.00	2,500.00	1,672.44
7 Relief on Pension	55,000.00	40,000.00	50,000.00	30,294.28
8 Fixed Grant	10,000.00	6,000.00	8,500.00	5,124.11
9 Grant for pulse polio programme	-	-	-	82.19
10 Grant for River Front Beautification	-	-	-	-
11 Grant -in-Aid for WBMSC	-	-	-	-
<b>Total Government Grant</b>	<b>255,600.00</b>	<b>201,600.00</b>	<b>220,500.00</b>	<b>151,930.08</b>
<b>TOTAL REVENUE RECEIPT (I+II)</b>	<b>505,452.00</b>	<b>387,169.50</b>	<b>454,079.00</b>	<b>319,421.04</b>

# Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

## KOLKATA MUNICIPAL CORPORATION BUDGET EXTRACT (BOROUGH I-XVI)

ESTIMATE OF EXPENDITURE (REVENUE FUND) CLASSIFIED AND COMPARED WITH PREVIOUS YEARS

(₹ in lakh)

Expenditure	Estimate for 2024-2025	Revised Estimate for 2023-2024	Original Estimate for 2023-2024	Pre-audited Actuals for 2022-2023
EXPENDITURE (REVENUE FUND)	A	B	C	D
1 Water Supply	44,497.00	30,915.10	43,189.00	17,525.79
2 Water Supply to Ships	90.00	74.80	76.00	54.90
3 Sewerage & Drainage	33,569.00	23,693.20	30,672.00	18,680.10
4 Roadways	31,822.00	26,680.00	34,070.00	17,568.02
5 Parks & Squares and Urban Forestation	4,635.00	3,440.00	5,005.00	2,484.98
6 Lighting	16,445.00	11,331.20	15,812.00	7,584.45
7 Electricity	1,985.00	1,241.00	1,900.00	510.29
8 Solid Waste	66,666.50	55,386.90	64,455.00	50,615.10
9 Motor Vehicles	5,419.00	4,209.00	4,759.00	2,433.44
10 Commercial Services (Municipal Markets)	3,336.50	2,709.20	2,998.00	1,877.66
11 Education Services	5,212.00	4,228.60	5,132.00	3,420.53
12 Health Services	18,655.00	15,895.40	18,153.00	12,498.77
13 Bustee Service	23,269.80	12,501.00	20,694.00	9,551.21
14 S W & U P A	2,952.00	2,304.20	2,612.00	1,822.58
15 Administration & Support	47,656.20	32,069.10	40,864.00	26,345.47
16 Loan /Bank / Finance Charges/Refund	30.00	10.00	25.00	2.39
17 Electricity Charges	50,000.00	50,000.00	50,000.00	39,851.82
18 Security Arrangement	12,000.00	11,000.00	11,000.00	10,147.80
<b>SPECIAL PROGRAMMES</b>				
1 Councillors' Elaka Unnayan Prakaipa	3,600.00	3,600.00	3,600.00	3,281.52
2 Integrated Borough Scheme	2,160.00	2,160.00	2,160.00	1,840.53
3 Funds at the disposal of Mayor/Chairperson Board of Administrator	1,560.00	1,160.00	1,560.00	845.45
4 Funds at the disposal of Mpl. Commr.	270.00	214.00	270.00	38.74
5 Contribution to Pension Fund	1,28,000.00	98,200.00	1,00,000.00	92,237.60
6 Contribution from revenue for JNNURM	10.00	12.00	20.00	-
7 Restructuring of Mpl. Govt.	100.00	300.00	500.00	-
8 Contribution from revenue for Tolly Nallah Project	-	-	-	-
9 Contribution from revenue for KEIP	3,028.00	4,500.00	4,500.00	500.00
10 Waiver of HBL	60.00	50.00	50.00	37.86
11 Group Insurance	200.00	200.00	200.00	74.00
12 Leave Travel Concession	100.00	30.00	100.00	33.18
13 Promotion of Cultural Activities	50.00	30.00	100.00	-
14 Parks & Playground	20.00	12.00	20.00	-
15 Special development works	7,100.00	720.00	2,100.00	20.29
16 Grant to Charitable & Educational Institution etc.	125.00	110.00	110.00	112.97
17 Maintenance of Asset created out of MPLAD	55.00	43.00	55.00	1.90
18 Renovation & Improvement of Historical & other buildings of KMC	675.00	85.00	595.00	16.35
19 Promotion of Sports & Coaching	20.00	10.00	40.00	-
20 Cost for Special & Advisory Committee for implementation of KMC Act & Rule	6.00	5.00	5.00	1.47
21 Programmes on Environment	830.00	326.00	530.00	170.06
22 Prevention of mosquito borne diseases under section 496A	25.00	15.00	25.00	24.67
23 PPP (Capital Nature)	8.00	9.80	13.00	-
24 PPP (Revenue Nature)	30.00	18.00	30.00	-
25 Disaster Management Programme	340.00	230.00	550.00	66.52
26 Contribution to A M R U T	20.00	48.00	80.00	-
27 Contribution to Green City Mission	-	-	-	-
28 Contribution to Swachh Bharat Mission	20.00	30.00	50.00	-
<b>TOTAL EXPENDITURE (REVENUE FUND)</b>	<b>516,652.00</b>	<b>399,806.50</b>	<b>468,679.00</b>	<b>322,278.41</b>

# Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

## KOLKATA MUNICIPAL CORPORATION BUDGET EXTRACT ( BOROUGH I-XVI )

ESTIMATE of RECEIPT (SUSPENSE HEADS) CLASSIFIED AND COMPARED WITH PREVIOUS YEAR

(₹ in lakh)

Receipt	Estimate for 2024-2025	Revised Estimate for 2023-2024	Original Estimate for 2023-2024	Pre-audited Actuals for 2022-2023
<b>RECEIPT (SUSPENSE HEADS)</b>				
1 Basic Minimum Service	6,000.00	5,500.00	5,000.00	4,070.92
2 Housing for Urban poor	-	-	-	-
3 Special Development Programme	8,000.00	6,500.00	8,000.00	11,825.74
4 M P L A D Scheme	10,000.00	10,000.00	10,000.00	6,383.99
5 B E U P	1,300.00	1,300.00	1,300.00	374.32
6 NULM in PFMS portal	100.00	50.00	500.00	83.45
7 Rashtriya Swasthya Bima Yojana	10.00	5.00	30.00	6.25
8 Safe city women Safety Project (NIRBHAYA FUND)	10.00	5.00	10.00	68.96
9 Urban Primary Health Care Services	2,000.00	1,600.00	800.00	485.84
10 S J S R Y / N U L M	900.00	675.00	800.00	494.54
11 Ophthalmological Programme	20.00	15.00	20.00	-
12 Development of Municipal Area	11,000.00	12,138.00	8,500.00	9,951.73
13 Tolly Nallah Project	20.00	5.00	20.00	5.49
14 State Finance Commission	2,000.00	1,500.00	6,500.00	3,860.09
15 Miscellaneous Agencies	1,415.00	1,151.00	1,655.00	4,931.38
16 Ease of doing business	20.00	8.00	40.00	-
17 Other Misc. Schemes	460.00	345.00	770.00	405.80
18 West Bengal Urban Employment Scheme	13,500.00	11,100.00	12,350.00	9,050.95
19 Re-Development of Mpl. Market	10.00	-	20.00	13.27
20 J N N U R M	10.00	-	20.00	-
21 Anadadhara ( W. B. State Rural Livelihood Mission)	300.00	250.00	-	-
22 Solid Waste Management Mission	6,000.00	5,000.00	2,000.00	2,014.82
23 Bangla Sahayata Kendra	50.00	40.00	40.00	5.96
24 Maa Kitchen	10.00	-	12.00	-
25 Rashtriya Krishi Vikash Yojana	5.00	-	15.00	4.62
26 Duare Sarkar	600.00	550.00	200.00	130.87
27 Kamatirha	250.00	200.00	50.00	166.11
28 Jay Hind Bahini	5.00	-	10.00	63.13
29 Pulse Polio Programme	100.00	80.00	150.00	-
30 Toursim cell	10.00	-	10.00	-
31 Corpus fund	50.00	20.00	95.00	69.20
32 KMC Polusion Abatement Ganga - Garden reach .	200.00	150.00	-	-
33 STP at Keorapukur KMC	50.00	-	-	-
34 Multi Sectoral Plan for Development of Minorities	25.00	15.00	300.00	120.78
35 Disaster Risk Reduction Programme	3,000.00	2,500.00	2,500.00	560.94
36 13th Finance Commission	-	-	-	-
37 14th Finance Commission	50.00	30.00	-	61.36
38 K E I I P	20,760.00	72,066.00	42,000.00	35,596.17
39 Development of Refugee Colony	-	-	-	-
40 Swachh Bharat Mission	20.00	-	600.00	191.40
41 Jal Dharo Jal Bharo Prkalpa	-	-	-	-
42 A M R U T	40.00	-	1,030.00	1,422.71
43 Somobyathi Prkalpa	25.00	-	250.00	297.06
44 Green City Mission	125.00	110.00	1,000.00	1,021.15
45 Rupashree Prkalpa	3,961.00	1,850.00	3,205.00	2,492.31
46 Kanyashree Prkalpa	-	-	10.00	-
47 Pollution Control programme	12.00	10.00	8.00	0.50
48 W B M S C	150.00	120.00	350.00	185.40
49 Banglar Bari	90.00	75.00	150.00	94.09
50 Lakhmir Bhandar	10.00	5.00	80.00	24.74
51 XV Finance Commission Health grant	1,150.00	900.00	1,500.00	1,134.22
52 15th Finance Commission	75,000.00	65,000.00	43,000.00	18,868.64
<b>TOTAL RECEIPT (SUSPENSE HEADS)</b>	<b>168,823.00</b>	<b>200,868.00</b>	<b>154,900.00</b>	<b>116,538.90</b>
<b>TOTAL REVENUE RECEIPT</b>	<b>505,452.00</b>	<b>387,169.50</b>	<b>454,079.00</b>	<b>319,421.04</b>
<b>TOTAL RECEIPT (REVENUE+SUSPENSE)</b>	<b>674,275.00</b>	<b>588,037.50</b>	<b>608,979.00</b>	<b>435,959.94</b>
<b>RECEIPT ( CONTRA HEADS)**</b>				
A) Deposit & Advances to Corpn Employees	16,200.00	12,800.00	17,450.00	25,018.70
B) Deposit & Advances to Contractors	3,244.04	2,789.86	12,291.50	20,926.17
<b>TOTAL RECEIPT (CONTRA HEADS)</b>	<b>19,444.04</b>	<b>15,589.86</b>	<b>29,741.50</b>	<b>45,944.87</b>

\*\*Corporation employees/contractors' deposit/advance are not included in the Suspense Fund and shown separately

# Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

## KOLKATA MUNICIPAL CORPORATION BUDGET EXTRACT (BOROUGH I-XVI)

ESTIMATE of EXPENDITURE (SUSPENSE HEADS) CLASSIFIED AND COMPARED WITH PREVIOUS YEAR

(₹ in lakh)

Expenditure	Estimate for 2024-2025	Revised Estimate for 2023-2024	Original Estimate for 2023-2024	Pre-audited Actuals for 2022-2023
<b>EXPENDITURE (SUSPENSE HEADS)</b>				
1 Basic Minimum Service	6,000.00	4,300.00	5,000.00	4,258.54
2 Housing for Urban poor	-	3.00	-	1.48
3 Special Development Programme	8,000.00	5,000.00	8,000.00	7,852.68
4 M P L A D Scheme	10,000.00	500.00	10,000.00	6,734.77
5 B E U P	1,300.00	600.00	1,300.00	436.83
6 NULM in PFMS portal	100.00	-	500.00	78.83
7 Rashtriya Swasthya Bima Yojana	10.00	-	30.00	6.47
8 Safe city women Safety Project (NIRBHAYA FUND)	10.00	-	10.00	1.78
9 Urban Primary Health Care Services	2,000.00	-	800.00	402.89
10 S J S R Y / N U L M	900.00	-	800.00	358.62
11 Ophthalmological Programme	20.00	-	20.00	-
12 Development of Municipal Area	11,000.00	2,638.00	17,000.00	9,780.40
13 Tolly Nallah Project	20.00	-	20.00	5.49
14 State Finance Commission	2,000.00	1,600.00	6,500.00	7,853.49
15 Miscellaneous Agencies	1,415.00	707.00	1,655.00	1,837.04
16 Ease of doing business	20.00	-	40.00	-
17 Other Misc. Schemes	460.00	165.00	770.00	476.28
18 West Bengal Urban Employment Scheme	13,500.00	9,020.00	12,350.00	8,958.83
19 Re-Development of Mpl. Market	10.00	-	20.00	-
20 J N N U R M	10.00	18.00	20.00	9.75
21 Anadadhara ( W. B. State Rural Livelihood Mission)	300.00	150.00	-	-
22 Solid Waste Management Mission	6,000.00	5,500.00	2,000.00	1,770.69
23 Bangla Sahayata Kendra	50.00	8.00	40.00	14.10
24 Duare Sarkar	600.00	140.00	200.00	74.11
25 Maa Kitchan	10.00	-	12.00	-
26 Rashtriya Krishi Vikash Yojana	5.00	-	15.00	4.62
27 Karmarthra	250.00	150.00	150.00	152.00
28 Jay Hind Bahini	5.00	22.00	10.00	2.60
29 Pulse Polio Programme	100.00	80.00	150.00	-
30 Tourism	-	-	10.00	-
31 Corpus fund	50.00	50.00	95.00	47.93
32 KMC Pollution Abatement Ganga - Garden reach	600.00	410.00	-	-
33 STP at Keorapukur KMC	50.00	-	-	-
34 Multi Sectoral Plan for Development of Minorities	25.00	50.00	300.00	105.61
35 Disaster Risk Reduction Programme	3,000.00	1,500.00	2,500.00	1,418.49
36 13th Finance Commission	-	-	-	-
37 14th Finance Commission	50.00	640.00	-	3,008.93
38 K E I I P	20,760.00	72,066.00	42,000.00	7,094.36
39 Development of Refugee Colony	-	-	-	-
40 Swachh Bharat Mission	20.00	30.00	600.00	189.50
41 Jal Dhoro Jal Bhoro Pralkalpa	-	-	-	-
42 A M R U T	40.00	3.00	1,030.00	1,422.72
43 Somobayathi Pralkalpa	25.00	150.00	250.00	118.62
44 Green City Mission	125.00	2,090.00	1,000.00	1,056.03
45 Rupashree Pralkalpa	3,961.00	1,040.00	3,205.00	2,585.58
46 Karyashree Pralkalpa	-	-	10.00	3.15
47 Pollution Control programme	12.00	50.00	8.00	-
48 W B M S C	150.00	-	350.00	-
49 Banglar Bari	90.00	60.00	150.00	44.03
50 Lakhmir Bhandar	10.00	15.00	80.00	19.34
51 XV Finance Commission Health grant	1,150.00	570.00	1,500.00	176.93
52 15th Finance Commission	75,000.00	38,600.00	40,000.00	42,698.76
<b>EXPENDITURE (SUSPENSE HEADS)</b>	<b>169,228.00</b>	<b>147,925.00</b>	<b>152,000.00</b>	<b>111,062.27</b>
*Contribution from Revenue Fund for projects	3,078.00	4,590.00	4,650.00	500.00
<b>TOTAL EXPENDITURE (SUSPENSE HEADS)</b>	<b>166,150.00</b>	<b>143,335.00</b>	<b>147,350.00</b>	<b>110,562.27</b>
<b>TOTAL EXPENDITURE (REVENUE FUND)</b>	<b>516,652.00</b>	<b>399,806.50</b>	<b>468,679.00</b>	<b>322,278.41</b>
<b>TOTAL EXPENDITURE (REVENUE+SUSPENSE)</b>	<b>682,802.00</b>	<b>543,141.50</b>	<b>616,029.00</b>	<b>432,840.68</b>
<b>EXPENDITURE (CONTRA HEADS)**</b>				
A) Deposit & Advances to Corpn.Employees	16,200.00	13,420.00	17,450.00	24,391.67
B) Deposit & Advances to Contractors	3,244.04	2,779.00	12,291.50	16,471.44
<b>TOTAL EXPENDITURE (CONTRA HEADS)</b>	<b>19,444.04</b>	<b>16,199.00</b>	<b>29,741.50</b>	<b>40,863.11</b>

\*Contribution from KMC Revenue Fund for different schemes has been excluded from the total Suspense Fund

\*\*Corporation employees/contractors' deposit/advance are not included in the Suspense Fund and shown separately

# Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

## KOLKATA MUNICIPAL CORPORATION Budget Estimate for the year 2024-2025 BOROUGH I - XVI DETAILED HEAD OF ACCOUNTS & ALLOCATION OF FUNDS Items & Particulars

₹ in lakh

RECEIPT Particulars & B I Code	ERP Code								Estimate for 2024-2025	Revised Estimate for 2023-2024	Original Estimate for 2023-2024	Pre-audited Actuals for 2022-2023			
	Account	Dept. Code	Borough	Ward	Source	Fn. Ogn.	Natural A/C	Coast Centre							
<b>TAX REVENUE</b>															
<b>Assessment of Land &amp; Buildings (Kolkata Proper)</b>															
Property Tax inclg. surcharge on property tax															
Collection from PID Bills	00	2410	110			SEE ANNEXURE			115,000.00	95,000.00	97,500.00	78,238.08			
Collection from FIS Bills			130			SEE ANNEXURE			22,000.00	14,000.00	26,500.00	18,982.13			
Collection from Waiver Scheme			140			SEE ANNEXURE			-	2.00	-	5.73			
Collection from L.O.I			150			SEE ANNEXURE			15,000.00	12,000.00	16,000.00	9,593.34			
Service charges on Central Govt. properties			120			SEE ANNEXURE			700.00	500.00	800.00	1,023.45			
									<b>152,700.00</b>	<b>121,502.00</b>	<b>140,800.00</b>	<b>107,842.73</b>			
<b>Advertisement Dept.</b>															
Tax on Advertisement	00	2110	160	1	351	60	333	00	01	121	00000	-	15.00	-	26.78
License Dept.															
Tax on Professions, Trades & Callings	00	2670	140	1	342	60	333	00	01	117	00000	2,800.00	2,200.00	2,400.00	1,479.53
Tax on Carnages			151	1	342	60	333	00	01	115	00000	3.00	2.00	6.00	2.43
Tax on Carts			170	1	342	60	333	00	01	116	00000	2.00	-	5.00	41.54
									<b>2,805.00</b>	<b>2,202.00</b>	<b>2,411.00</b>	<b>1,523.50</b>			
									<b>Total Tax Revenue</b>	<b>155,505.00</b>	<b>123,719.00</b>	<b>143,211.00</b>	<b>109,393.01</b>		
<b>NON-TAX REVENUE</b>															
<b>Mpl. Secretary</b>															
Permission fees for Movie Shoot out	00	1210	215	1	121	00	333	00	04	162	00000	5.00	2.00	5.00	0.50
Tourism Cell			216	1	121	00	333	00	04	158	TOURC	1.00	0.50	1.00	0.03
									<b>Total Mpl. Secretary</b>	<b>6.00</b>	<b>2.50</b>	<b>6.00</b>	<b>0.53</b>		
<b>Information Technology</b>															
Disposal of e-Waste	00	1610	277	1	160	60	333	00	04	279	00000	15.00	4.00	10.00	2.00
<b>Law Administration</b>															
Miscellaneous receipts	00	1710	299	1	170	60	333	00	04	292	00000	20.00	8.00	40.00	17.30
<b>I &amp; P R</b>															
Receipts from advertisement	00	1830	211	1	130	60	333	00	02	174	00000	5.00	3.00	5.00	2.97
Sale of Tender Baria			251	1	130	60	333	00	04	271	00000	-	-	-	-
Sale of KMC Publications (Subscription etc.)			261	1	130	60	333	00	04	269	00000	8.00	6.00	8.00	4.72
Miscellaneous receipts			299	1	130	60	333	00	04	292	00000	-	-	-	-
									<b>Total I &amp; P R (1800)</b>	<b>13.00</b>	<b>9.00</b>	<b>13.00</b>	<b>7.69</b>		
<b>Advertisement</b>															
License fees on advertisement u/s 203	00	2100	214	1	351	60	333	00	02	174	00000	4,000.00	1,000.00	3,000.00	-
Permission fees for advertisement u/s 202			215	1	351	60	333	00	02	174	00000	1,000.00	100.00	200.00	28.47
Fees for advt. hoarding etc. on Corporation land			216	1	351	60	333	00	02	210	00000	3,000.00	600.00	3,800.00	494.44
Miscellaneous receipts			299	1	351	60	333	00	04	292	00000	2,000.00	200.00	3,000.00	-
									<b>Total Advertisement (2100)</b>	<b>10,000.00</b>	<b>1,900.00</b>	<b>10,000.00</b>	<b>522.91</b>		

# Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

₹ in lakh

RECEIPT Particulars & B I Code	ERP Code								Estimate for 2024-2025	Revised Estimate for 2023-2024	Original Estimate for 2023-2024	Pre-audited Actuals for 2022-2023			
	Account	Dept. Code	Borough	Ward	Source	Fn. Optn.	Natural A/C	Cost Centre							
<b>CAR PARKING</b>															
Car Parking Fees	00	2110	211	1	351	60	333	00	02	126	CP000	2,500.00	2,000.00	8,000.00	1,765.69
Various Fines /Penalties under Car Parking (New Code)		214	1	351	60	333	00	04	284		FINES	120.00	80.00	-	816.62
Fees for use of public space for private purpose - car parking		212	1	351	60	333	00	02	125		CP000	15.00	5.00	500.00	2.18
Miscellaneous receipts		299	1	351	60	333	00	04	292		CP000	365.00	7.00	1,500.00	5.55
<b>Total Car Parking (3620)</b>											<b>3,000.00</b>	<b>2,092.00</b>	<b>10,000.00</b>	<b>2,590.04</b>	
<b>Survey &amp; Maintenance of Land &amp; Buildings</b>															
Fees for copies of plans, alignments etc.	00	2220	213	1	221	60	333	00	02	133	00000	5.00	2.00	5.00	0.71
Rent of spare land & buildings		221	1	221	60	333	00	04	210		00000	1,500.00	1,100.00	800.00	257.93
Charges for Environmental Compensation		238	1	221	60	333	00	04	251		00000	5.00	2.00	5.00	0.40
Sale of grass, fruit etc.		261	1	221	60	333	00	04	275		00000	-	-	-	-
Miscellaneous receipts		299	1	221	60	333	00	04	292		00000	900.00	750.00	800.00	620.24
<b>Total Land &amp; Estate (2200)</b>											<b>2,410.00</b>	<b>1,854.00</b>	<b>1,610.00</b>	<b>879.28</b>	
<b>Building</b>															
Fees from licensed building surveyors	00	2310	211	1	230	60	333	00	02	152	00000	100.00	80.00	90.00	35.47
Fees from verandah & projected structures		212	1	230	60	333	00	02	152		00000	-	-	-	-
Fees for erection of Mobile Tower		213	1	230	00	333	0	04	134		00000	10.00	-	20.00	-
Fines under section 416		241	1	230	60	333	00	04	263		00000	650.00	400.00	600.00	336.69
Miscellaneous charges		299	1	230	60	333	00	02	292		00000	-	-	-	20.00
Fees for sanctioned plans	00	2320	211	1	231	60	333	00	02	131	00000	12,000.00	8,000.00	12,500.00	10,065.85
Add.sanction fees for special consideration		212	1	231	60	333	00	02	131		00000	200.00	150.00	5.00	-
Fees for copies of plans		213	1	231	60	333	00	02	133		00000	35.00	25.00	35.00	17.17
Fees for development of Water Supply Infrastructure during sanction of Plan.		215	1	231	60	333	00	2	131		IDWSF	1,800.00	1,400.00	50.00	-
Development fees		230	1	231	60	333	00	02	132		00000	500.00	350.00	150.00	83.85
Development charges for KMDA		232	1	231	60	333	00	02	132		00001	-	-	-	-
Stacking fees		240	1	231	60	333	00	02	188		00000	800.00	500.00	800.00	635.80
Recovery of cost of posting of guards	00	2330	231	1	232	60	333	00	04	240	00000	2.00	-	2.00	-
Charges for unauthorised construction		232	1	232	60	333	00	02	192		00000	3,000.00	2,500.00	2,500.00	2,219.73
Security Deposit Money for retention and/or change of use of unauthorized construction.		233	1	232	60	333	00	04	952		00000	4,000.00	3,000.00	1,500.00	1,428.64
Miscellaneous receipts		299	1	232	60	333	00	04	292		00000	3,500.00	3,300.00	3,300.00	2,834.73
Fees for proceeding before Building Tribunal	00	2350	211	1	233	60	333	00	02	142	00000	5.00	3.00	30.00	9.42
<b>Total Building (2300)</b>											<b>26,602.00</b>	<b>19,708.00</b>	<b>21,582.00</b>	<b>17,687.35</b>	
<b>Assessment-Collection</b>															
Fees for copies of Assessment Register	00	3110	213								SEE ANNEXURE	40.00	25.00	40.00	29.47
Mutation processing fees		216									SEE ANNEXURE	3.00	2.00	-	2.14
Miscellaneous receipts.		299									SEE ANNEXURE	1,100.00	800.00	1,000.00	868.53
Fees for proceedings before Assessment Tribunal	00	3150	211	1	315	60	333	00	02	141	00000	25.00	20.00	25.00	14.58
<b>Total</b>											<b>1,168.00</b>	<b>847.00</b>	<b>1,065.00</b>	<b>914.72</b>	

# Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

## KOLKATA MUNICIPAL CORPORATION Budget Estimate for the Year 2024-2025 EXPENDITURE (REVENUE FUND) BOROUGH I - XVI DETAILED HEAD OF ACCOUNTS & ALLOCATION OF FUNDS

*Items & Particulars*

*(₹ in lakh)*

EXPENDITURE Particulars & B I Code	E R P Code								Estimate for 2024-2025	Revised Estimate for 2023-2024	Original Estimate for 2023-2024	Pre-audited Actuals for 2022-2023			
	Account	Dept. Code	Borough	Ward	Source	Fr. Opn.	Natural A/C	Cost Centre							
<b>Municipal Authorities</b>	00	1111	300	1	104	60	333	00	24	300	MAA01	-	-	-	-
Admn.			400	1	104	60	333	00	27	800	MAA01	-	-	-	-
			600	1	104	60	333	00	25	600	MAA01	35.00	20.00	35.00	11.99
			800	1	104	60	333	01	60	800	MAA01	-	-	-	-
												<b>35.00</b>	<b>20.00</b>	<b>35.00</b>	<b>11.99</b>
Municipal Authorities	00	1112	300	1	104	60	333	00	24	300	MAO01	30.00	25.00	42.00	29.67
Office			400	1	104	60	333	00	27	800	MAO01	-	-	-	-
			600	1	104	60	333	00	25	600	MAO01	6.00	6.00	6.00	-
			800	1	104	60	333	01	60	800	MAO01	-	-	-	-
												<b>36.00</b>	<b>31.00</b>	<b>48.00</b>	<b>29.67</b>
Remuneration and facilities of Mayor / Dy. Mayor, Chairman, Members of the Mayor-in-council & other committees (u/s13)	00	1113	300	1	103	60	333	00	24	300	00000	-	-	-	-
			400	1	103	60	333	00	27	800	00000	-	-	-	-
			600	1	103	60	333	00	25	600	00000	400.00	400.00	400.00	336.81
			800	1	103	60	333	01	60	800	00000	-	-	-	-
												<b>400.00</b>	<b>400.00</b>	<b>400.00</b>	<b>336.81</b>
Mayor's Secretariat	00	1114	300	1	110	60	333	00	24	300	00000	50.00	40.00	18.00	16.86
			400	1	110	60	333	00	27	800	00000	-	-	-	-
			600	1	110	60	333	00	25	600	00000	20.00	10.00	10.00	16.50
			800	1	110	60	333	01	60	800	00000	-	-	-	-
												<b>70.00</b>	<b>50.00</b>	<b>28.00</b>	<b>33.36</b>
Mpl. Commissioner	00	1121	300	1	111	60	333	00	24	300	MCA01	80.00	60.00	42.00	35.27
Admn.			400	1	111	60	333	00	27	800	MCA01	-	-	-	-
			600	1	111	60	333	00	25	600	MCA01	15.00	20.00	25.00	-
			800	1	111	60	333	01	60	800	MCA01	-	-	-	-
												<b>95.00</b>	<b>80.00</b>	<b>67.00</b>	<b>35.27</b>
Mpl. Commissioner	00	1122	300	1	111	60	333	00	24	300	MCO01	65.00	55.00	42.00	36.31
Office			400	1	111	60	333	00	27	800	MCO01	-	-	-	-
			600	1	111	60	333	00	25	600	MCO01	28.00	30.00	30.00	24.28
			800	1	111	60	333	01	60	800	MCO01	-	-	-	-
												<b>93.00</b>	<b>85.00</b>	<b>72.00</b>	<b>60.59</b>
Jt. Mpl. Commissioner (PSR.)	00	1123	300	1	112	60	333	00	24	300	JMCA1	30.00	3.00	35.00	10.52
Admn.			400	1	112	60	333	00	27	800	JMCA1	-	-	-	-
			600	1	112	60	333	00	25	600	JMCA1	20.00	15.00	15.00	7.04
			800	1	112	60	333	01	60	800	JMCA1	-	-	-	-
												<b>50.00</b>	<b>18.00</b>	<b>50.00</b>	<b>17.56</b>

• 300 Establishment • 400 Maintenance • 500 Supplies • 600 Miscellaneous • 700 Finance Charges • 800 Capital Exp.

## Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

₹ in lakh

EXPENDITURE Particulars & B1 Code	E R P Code								Estimate for 2024-2025	Revised Estimate for 2023-2024	Original Estimate for 2023-2024	Pre-audited Actuals for 2022-2023			
	Account	Dept. Code	Borough	Ward	Source	Fn. Opn.	Natural/A/C	Cost Centre							
Spl. Mpl. Commissioner (Dev.) Office	00	1124	300	1	112	60	333	00	24	300	JMCD1	65.00	55.00	42.00	36.84
			400	1	112	60	333	00	27	800	JMCD1	-	-	-	-
			600	1	112	60	333	00	25	600	JMCD1	5.00	5.00	5.00	0.90
			800	1	112	60	333	01	60	800	JMCD1	-	-	-	-
											<b>70.00</b>	<b>60.00</b>	<b>47.00</b>	<b>37.74</b>	
Addl. Mpl. Commissioner (Rev.) Admn.	00	1127	300	1	112	60	333	00	24	300	JMCR1	40.00	33.00	33.00	26.34
			400	1	112	60	333	00	27	800	JMCR1	-	-	-	-
			600	1	112	60	333	00	25	600	JMCR1	10.00	7.00	7.00	5.44
			800	1	112	60	333	01	60	800	JMCR1	-	-	-	-
											<b>50.00</b>	<b>40.00</b>	<b>40.00</b>	<b>31.78</b>	
Controller of Mpl. Finance & Accounts Admn.	00	1134	300	1	113	60	333	00	24	300	00000	35.00	25.00	25.00	20.06
			400	1	113	60	333	00	27	800	00000	-	-	-	-
			600	1	113	60	333	00	25	600	00000	10.00	6.00	6.00	2.90
			800	1	113	60	333	01	60	800	00000	-	-	-	-
											<b>45.00</b>	<b>31.00</b>	<b>31.00</b>	<b>22.96</b>	
Chief Municipal Auditor Admn.	00	1138	300	1	114	60	333	00	24	300	CMAA1	25.00	18.00	18.00	13.56
			400	1	114	60	333	00	27	800	CMAA1	-	-	-	-
			600	1	114	60	333	00	25	600	CMAA1	5.00	4.00	4.00	2.05
			800	1	114	60	333	01	60	800	CMAA1	-	-	-	-
											<b>30.00</b>	<b>22.00</b>	<b>22.00</b>	<b>15.61</b>	
Chief Municipal Auditor Office	00	1139	300	1	114	60	333	00	24	300	CMAO1	115.00	105.00	105.00	87.03
			400	1	114	60	333	00	27	800	CMAO1	-	-	-	-
			600	1	114	60	333	00	25	600	CMAO1	5.00	5.00	5.00	-
			800	1	114	60	333	01	60	800	CMAO1	3.00	1.80	3.00	-
											<b>123.00</b>	<b>111.80</b>	<b>113.00</b>	<b>87.03</b>	
Chief Municipal Engineer (SWM) Admn.	00	1142	300	1	115	60	333	00	24	300	CMAO1	30.00	23.00	23.00	17.71
			400	1	115	60	333	00	27	800	CMAO1	-	-	-	-
			600	1	115	60	333	00	25	600	CMAO1	7.00	6.00	6.00	-
			800	1	115	60	333	01	60	800	CMAO1	-	-	-	-
											<b>37.00</b>	<b>29.00</b>	<b>29.00</b>	<b>17.71</b>	
Dy.Mpl.Commissioner (Finance) Admn.	00	1152	300	1	116	60	333	00	24	300	DMCF1	25.00	16.00	16.00	10.26
			400	1	116	60	333	00	27	800	DMCF1	-	-	-	-
			600	1	116	60	333	00	25	600	DMCF1	-	-	-	-
			800	1	116	60	333	01	60	800	DMCF1	-	-	-	-
											<b>25.00</b>	<b>16.00</b>	<b>16.00</b>	<b>10.26</b>	
Ch.Mpl.Health Officer Admn.	00	1161	300	1	119	60	333	00	24	300	00000	20.00	3.00	20.00	-
			400	1	119	60	333	00	27	800	00000	-	-	-	-
			600	1	119	60	333	00	25	600	00000	5.00	2.00	2.00	2.00
			800	1	119	60	333	01	60	800	00000	-	-	-	-
											<b>25.00</b>	<b>5.00</b>	<b>22.00</b>	<b>2.00</b>	

• 300 Establishment • 400 Maintenance • 500 Supplies • 600 Miscellaneous • 700 Finance Charges • 800 Capital Exp.

**Figure 5: Extract of Budget Statement of Kolkata Municipal Corporation**

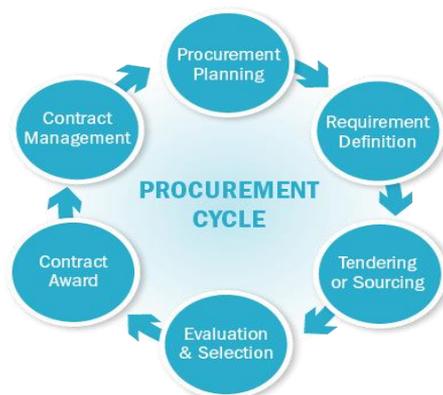
### 3. Procurement

Since municipal revenue is scarce to meet expenditure, public money in custody of ULBs must be managed carefully to ensure sustainability for the medium- and long-term. Therefore, robust public financial management systems are essential at all stages of the budget cycle – from formulation to execution, including procurement, financial management and control, and internal audit. Furthermore, the existence of an independent and efficient audit to exercise professional scrutiny of the executive's management of public funds is a crucial feature of any democratic financial accountability system.

Good and effective public procurement requires a regulatory framework that contains policies and procedures to guide the work of contracting authorities and helps ensure economy, efficiency, transparency, accountability, and access to justice in public procurement. In addition, effective public procurement also requires proper institutional structures, operational capacities and market conditions needed for the effective implementation of the regulatory framework of procurement. Sound and efficient public procurement operations which deliver value for money.

Procurement means the act of obtaining or buying goods, works, and services. The procurement process includes preparation and processing of a demand as well as the end receipt and approval of payment. Usually, procurement cycle includes the following activities:

- a. Procurement Planning,
- b. Standards Determination,
- c. Specifications Development,
- d. Supplier Research,
- e. Value Analysis,
- f. Financing,
- g. Price Negotiation,
- h. Making the Purchase,
- i. Supply Contract Administration,
- j. Inventory Control and Stores, and
- k. Disposals and other related functions



### 3.1. General Regulatory Framework for Procurement

There is no single or uniform legislation governing public procurement (works, goods, and services) in India for application in ULBs of India. However, public procurement in India is governed by a regulatory framework involving constitutional provisions, central and state legislations and guidelines contained in various policies, rules and manuals enacted by the Central Government and the State Governments which are updated from time to time. In addition, various judgements of the Hon'ble Supreme Court of India and various Hon'ble High Courts also provide guidelines to public procurement in ULBs.

Procurement Bill 2012 presented by the Government of India defines procurement as acquisition by purchase, lease, license or otherwise of goods, works or services or any combination thereof, including award of Public Private Partnership projects, by a procuring entity, whether directly or through an agency with which a contract for procurement services is entered into, but does not include any acquisition of goods, works or services without consideration, and the term “procure” or “procured” shall be construed accordingly. Actions undertaken to carry out procurement are defined as procurement activities, which include all actions from planning and forecasting, identification of needs, sourcing and solicitation of offers, evaluation of offers, review and award of contracts, contracting and all phases of contract administration until delivery of the goods, the end of a contract, or the useful life of an asset.

The Procurement Bill 2012 defined,

- “*goods*” includes all articles, material, commodity, livestock, furniture, fixtures, raw material, spares, instruments, machinery, equipment, industrial plant, vehicles, aircraft, ships, railway rolling stock or such other category of goods purchased or otherwise acquired by a procuring entity and includes services which are incidental or consequential to the supply of such goods, such as, transportation, insurance, installation, commissioning, training and maintenance.
- “*service*” means any subject matter of procurement other than goods or works, except those incidental or consequential to the service, and includes physical, maintenance, professional, intellectual, consultancy and

advisory services or any other service classified or declared as such by a procuring entity but does not include appointment of an individual made under any law, rules, regulations or order issued in this behalf.

- “works” includes all works associated with site preparation, construction, reconstruction, demolition, repair, maintenance, or renovation of -
  - i. buildings, installations or other structures,
  - ii. railways, roads, highways, ports, airports or other infrastructures,
  - iii. any construction project or any construction work relating to excavation, drilling, installation of equipment and materials;
  - iv. services incidental or consequential to the works.

The most important set of rules in connection with public procurement in India are contained in the General Financial Rules, 2017 (GFR 2017). The General Financial Rules (GFR) are a compilation of rules and orders of Government of India to be followed while dealing with matters involving public finances. These rules and orders are treated as executive instructions to be observed by all Departments and Organisations under the Government and specified Bodies except otherwise provided for in these Rules. General Financial Rules were issued for the first time in 1947 bringing together in one place all existing orders and instructions pertaining to financial matters. These have subsequently been modified and issued as GFR 1963, GFR 2005 and GFR 2017.

Chapter No. 6 of the GFR 2017 deals with Procurement of Goods and Services and is applicable to all Ministries or Departments, of Government of India regarding procurement of goods required for use in the public service. As per Rule 1 of GFR 2017 mentions that the GFR 2017 is applicable to all Central Government Ministries/Departments, attached and subordinate bodies. The provisions contained in GFRs are deemed to be applicable to Autonomous Bodies except to the extent the byelaws of an Autonomous Body provide for separate Financial Rules which have been approved by the Government.

Some of the other important legislations legislated by the Union of India, that apply to procurement activities of the Central Government and the various State Governments are:

- The Competition Act, 2002 which has established the Competition Commission of India to prevent practices having adverse effect on competition in the markets in India.
- The Prevention of Corruption Act 1988 which is the principal anti-graft legislation in India with severe penal consequences for violators.
- The Contract Act 1872 and the Sale of Goods Act 1930 which are the principal legislations governing commercial agreements in India.
- The Right to Information Act, 2005 provides timely response to a citizen's requests for government information and is extensively used to obtain information pertaining to tenders and assessment of tender bids.
- There are various other guidelines framed from time to time by the Central and State Vigilance Commissions/authorities.

The Department of Expenditure, Ministry of Finance, Government of India issued three manuals in June 2022:

- Manual for Procurement of Works.
- Manual for Procurement of Goods.
- Manual for Procurement of Consultancy & Other Services.

The procurement manuals above-mentioned have been published after extensive revision since the earlier versions in keeping with GFR 2017 and in consonance with the fundamental principles of transparency, fairness, competition, economy, efficiency and accountability.

It is pertinent to mention that all laws and regulations, guidelines and manuals on procurement published by the Union of India are not always implemented at the State and Union Territories of India and in ULBs as ULBs are governed by the State Laws. These mandates of Union of India are often taken as

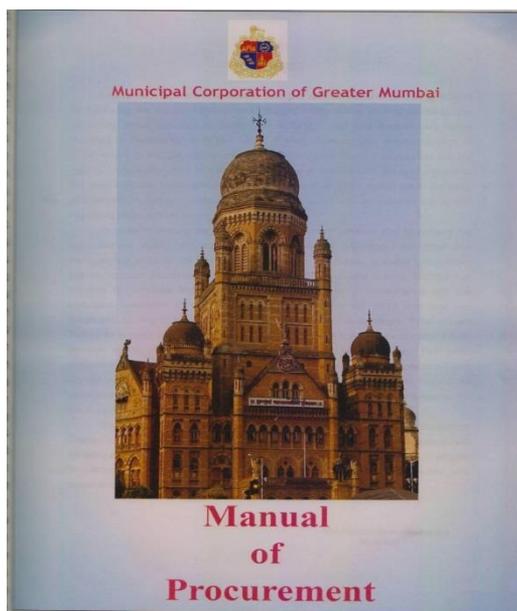
guidelines to be adopted by the legislature of the State and the Union Territory. This is in accordance with the federal structure of our governance system of India. Hence, to understand the procurement laws that ULBs of India are following, it is important to note the laws of the State and the Union Territory.

### **3.2. Regulatory Framework for Procurement in States and ULBs of India**

As above-mentioned that in addition to the central legislations, certain State Legislative Assemblies in India have codified the procedures for inviting and accepting tenders to maintain transparency in the procurements undertaken by the respective State Governments. ULBs of the State are supposed to follow the state legislations. ULBs of States are also required to follow the State-specific financial rules where applicable. Some of the state-level procurement laws are referred to here below:

- The State of Tamil Nadu enacted the Tamil Nadu Transparency in Tenders Act, 1998 which contains broad guidelines for regulation of procurement by the State Government of Tamil Nadu.
- The State of Karnataka enacted The Karnataka Transparency in Public Procurements Act, 1999.
- The State of Rajasthan have similar legislations called “Rajasthan Transparency in Public Procurement Act, 2012.
- The State of Uttarakhand adopted The Uttarakhand Procurement Rules, 2017.
- The State of Assam published The Assam Public Procurement Act, 2017 and The Assam Public Procurement Rules, 2020.
- The State of West Bengal follows the West Bengal Financial Rules, 1979 for all matters of procurement.
- The State of Bihar adopted the Bihar Financial Rule, 2005.
- The State of Kerala follows The Kerala Financial Code.

As observed, Municipal Corporation of Greater Mumbai (MCGM), drafted a Manual of Procurement for all procurements by the ULB.<sup>26</sup> In the preamble to the Manual, the ULB mentioned that, “in order to restore the credibility of procurement process and to achieve the principles of public procurement such as ensure efficiency, economy and transparency, provide fair and equitable treatment to bidders, promote



competition, prevent corrupt practices & reasonableness of price with quality, MCGM has decided to formulate improved procurement procedure, in consonance with the principles contained in the Draft Public Procurement Bill 2012 and tool kits developed by World Bank, Transparency International.” The Manual further states the reason for MCGM to develop a separate set of manuals for the ULB specifically. It states that, “It was observed that present system of procurement in MCGM comes under frequent criticism for various reasons like bid rigging, cartelization, lack of complete disclosure of the need for the procurement or the specifications, methodology of procurement, large scale variations in contract, deficiencies in contract management etc.”

It ostensibly observed that not many ULBs of India could develop a separate set of procurement guidelines or manual like what MCGM did. Instead, all ULBs rely on the procurement principles either mandated by any legislation, guidelines or manual of the State or Union Territory.

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<sup>26</sup> The same can be accessed from:

<https://www.mcgm.gov.in/irj/go/km/docs/documents/Tenders/Tender%20Manuals/User%20Manual%20for%20Procurement%20Manual.pdf>

### 3.3. Procurements financed by Loans/Grants from International Agencies

For procurements of ULBs out of finances in form of Loans/Grants extended by International Agencies like the World Bank, the Asian Development Bank, the New Development Bank, etc., the Articles of Agreement with the International Agencies, like the World Bank, Asian Development Bank, etc. stipulate specific procurement procedures to be followed by the borrowers (primary borrower is usually the Government of India and then the same extended to the State Governments and ULBs on a back-to-back on-lending arrangement). The procurement procedures, as finalized and incorporated in the Loan, Grant, and Project Agreements are after consideration and approval of the Ministry of Finance and are to be followed accordingly. The procurement principles usually followed by these international agencies are not always the same as being adopted by the Union of India and other State Governments. In these cases, the procurement principles as laid down by these international agencies and approved by the Ministry of Finance, Government of India would prevail.

A set of standard bidding documents (SBD) are compulsorily available for procurement under externally aided projects (EAP) through these multilateral development banks (MDB) where the employer uses the SBD to tender for works, goods, and services and award contracts. Many of the clauses in these SBD for works under EAP follow internationally accepted clauses set by International Federation of Consulting Engineers (FIDIC, in short). These SBDs allow international competitive bidding involving global contractors, suppliers, and service providers.

All public entities including the local bodies, must ensure that the basic aim of public procurement is to achieve the right balance between costs and requirements so to maximize utilization of scarce financial resources and maximize economic benefits. All entities must adhere to the following five parameters called the *Five R's of Procurement*. The entire process of procurement (from the time the need for an item, facility or services is identified till the need is satisfied) is designed to achieve such a **right** balance so to ensure value for money and achieve better financial management. The word "**right**" is used in the sense of "**optimal balance**".

- **Right Quality:** Procurement aims to buy just the right quality that will suit the needs. Quality traditionally referred

to the quality of the product or service ordered and the standards required.

- **Right Quantity:** There are extra costs and systemic overheads involved with both procuring a requirement too frequently in small quantities or with buying large quantities for prolonged use. Hence, the right quantity should be procured which balances extra costs associated with larger and smaller quantities.
- **Right Price:** It is not correct to aim at the cheapest materials/facilities/services available. Price is important to everyone and not least to procurement. Therefore, the aim must be for a competitive price.
- **Right Time:** Time and money are often considered together and in the present context this is no exception. Right time considers the opportune moment to procure to maximize both economic and financial benefits. In addition, time must also be utilized judiciously to order, to negotiate, to discuss with suppliers, and to do proper due diligence before the procurement process.
- **Right Place:** Place no longer only applies to the delivery of materials and products. The concept of right place must be judged in the context of origin of supplier entity, the destination of the receiving entity, and other alternative sources in the supply chain.



## Chapter 5:

# Municipal Accounting and MIS

Municipal bodies in India during the last three decades – since the era of globalization – are facing an unprecedented growth in the demand for urban infrastructure and civic services to meet the growing aspirations of the citizens of India. A strong trend of urbanization started pushing more people with higher expectations and aspirations into the cities and towns of India. *According to 2011 Census, urban population grew to 377 million showing a growth rate of 2.76 percent per annum during 2001-2011 and the level of urbanisation at the country as a whole increased from 27.7 percent in 2001 to 31.1 percent in 2011 – thus showing an increase of 3.3 percentage points during 2001-2011 compared to an increase of 2.1 percentage points during 1991-2001. The declining trend in the urban population growth rate observed during 1980s and 1990s was reversed at the national level, and the level of urbanization increased faster during 2001-2011. The urban population grew from 286 million in 2001 to 377 million in 2011 – an increment of 91 million, which is larger than the rural population increment of 90.5 million for the first time since independence. A substantial increase in urban population is contributed by net rural-urban classification and rural to urban migration. A huge number of new towns emerged during the last decade contributing significantly to the speeding up of urbanisation.*<sup>27</sup>

Providing basic services (e.g., water supply, sewerage, urban transport) to households and build amenities in cities, which will improve the quality of life for all, especially the poor and the disadvantaged is a national priority. The High-Powered Expert Committee (HPEC) made an estimate of the funds required over a 20-year period, at 2009-10 prices, during 2011. The Committee estimated that Rs. 39.2 lakh crore was required for creation of urban infrastructure, including Rs. 17.3 lakh crore for urban roads and Rs. 8 lakh crores for services, such as water supply, sewerage, solid waste management and storm water drains. Moreover, the requirement for Operation and Maintenance (O&M) was separately estimated to be Rs. 19.9 lakh crore.

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<sup>27</sup> *Urbanisation in India: Trend, Pattern, and Policy Issues*, R. B. Bhagat, IIPS Working Paper No. 17, International Institute for Population Sciences, May 2018.

Urbanization and the pace of urbanization has increased tremendously in the last few decades all over the world. Cities are growing very fast, in terms of population as well as size, spreading beyond municipal jurisdiction. More and more towns are now getting converted into cities. *More than half of World's population lives in cities*<sup>28</sup>. Urbanization trend is seen all over the world but is becoming most dominant in Asia. In India, the problem of urbanization is aggravated by the concentration of economic opportunity in few cities. This creates the problem of extreme concentration and thus the creation of a few very large cities. By 2025, 22% of the urban population will be living in about 9-12 large cities of India. Such large concentrations would create pressure on facilities such as transportation, housing, and other products required by the population. As such, there is a need for good planning and policy framework for the cities to grow sustainably.

Urbanization is an integral part of economic development. It has many effects on the city structure. Rapid economic growth and urbanization in India have led to problem of congestion, traffic jams, load on infrastructure, pollution, etc. Along with these, rapidly growing population has very large effect on the housing in the city. Increasing population must be accommodated in the city, so the problems of slums, unauthorized construction and haphazard development of fringe areas are observed in most of the Indian cities. A sustainable strategy is required to maintain economic growth and alleviate the problems arising due to the growth. Sustainable development can be defined as “*any social and economic development that does not harm the environment*”<sup>29</sup>.

Constraints on the availability of financial resources to augment the level of urban infrastructure and services, has become a compelling reason to generate funds by enhancing its own revenue sources (such as through effective municipal tax administration) and creating conditions for the involvement of other social institutions to contribute to the development needs of the city. The Government of India (GOI) has replaced the erstwhile Planning Commission with NITI Aayog, a body for strategic thinking. The closure of the Planning Commission signifies that planning would no longer

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<sup>28</sup> *United Nations Population Fund Agency (UNPFA) 2008, Linking population, poverty and development, accessed from*  
<http://www.unpfa.org/pds/urbanization.htm>

<sup>29</sup> *Newman, P and Kenworthy, J. Sustainability and Cities: Overcoming automobile dependence. s.l.: Island Press, 1999*

be top-down but a bottom-up approach. Therefore, the role of local institutions, agencies, and bodies will become prominent in future.

A fundamental component of infrastructure development is the financing aspect. In addition, the revenues of states from their own sources are typically insufficient. Considering the pace of urbanisation and the infrastructure necessities, financing requirements appear to be enormous in the coming years and accordingly an important focus area is how to meet the financial requirements of the urban areas.

The 74 CAA have been the most noteworthy milestones in strengthening of local governance in urban areas in India. The amendments aimed at strengthening municipal bodies are recognized as key steps in providing essential services to citizens. Until the amendments, local governments were under the State Governments' direct control in an 'ultra vires' fashion, without legislative provisions. To improve performance, accountability, and credibility of local bodies, an attempt was made by the amendment to include important functions like devolution of financial and administrative responsibilities, to the third tier of governance, therefore, making path for fiscal 'federalism'.

In general, financial resources of ULBs are scarce, and unable to meet the expenditure requirements, and therefore the dependence on the other two upper tiers of government is substantial. The Constitution of India specifies the taxes to be divided between the Union and State governments but does not specify the revenue base for urban and local bodies. Even the 74 CAA was not specific about the type of taxes that urban local bodies should have. The resource base of ULBs typically consists of their own sources, state revenue, government grants, loans from state governments, and market borrowings. **The urban local bodies are sometimes not even aware of the opportunities and avenues of generating revenues through taxes and non-tax charges. Even if they are aware, they do not have the skill to optimize tax collection. The urban bodies, especially the smaller ones, find it difficult to demonstrate their credit worthiness and therefore would require help and assistance in designing financial instruments for mobilizing resources from the market.**

All these paradigm shifts also triggered the need for proper financial reporting by local bodies as they are managing a large chunk of the public finances

now. Accounting of financial transactions by ULBs for appropriate financial reporting is an integral part of good governance and this can be achieved by providing timely, accurate financial information to the public. Structured accounting information leads to the fundamental considerations of public financial management framework in ULBs like,

- Reporting correctly and accurately the receipt of public money and utilization of the public money for public purposes.
- Valuation of municipal services.
- Adequacy of the revenues to cover the cost of operating public services.
- Improving services without raising taxes and charges but upon rationalization of levies.
- Efficient utilisation of assets – mostly those are remaining unutilized or underutilized for years.

Municipal accounting or accounting in ULBs of India was not much talked about prior to the 1990s and very few study or research was conducted to understand the intricacies of the municipal accounting system. This is primarily because ULBs of India was never considered as a separate body or institution outside the existing state government set-up and systems. Hence, ULBs of India followed the accounting systems as guided/mandated by the state government and union territories. Reforms to strengthen the municipal accounting function were taken up in very isolated manner (*please refer to the section on reforms later in this Chapter*) and had very little impact on improvement as the reforms had very specific agenda with a few municipalities of India.

## 1. Government Accounting System

The Government Accounting Rules, 1990 (GAR 1990) includes the general principles and basic rules of government accounting as laid down by the Comptroller and Auditor General (C&AG) for the guidance of Government Departments. In exercise of the powers conferred by **Article 150** of the Constitution, the President of India on the advice of the C&AG, hereby notified the GAR 1990 relating to the form of accounts of the Union and States. Under Rule 2 (j), “*Government*”, means the Central (Union) Government or a State Government, or a Union Territory Government, or all the three, as the context may imply. Therefore, GAR 1990 which specifically provides the form of

government accounting and accounting principles is applicable for the Union, States, and Union Territories and it mandates a uniform accounting form across the first two levels of Government in India. The third-tier level of government, i.e. the local government level was not covered by GAR 1990, and it was left to the States and Union Territories to decide the accounting principles and forms to mandate it in the state or union territory specific legislation for the local governments.

According to Article 150 of the Constitution, the form in which the accounts of the Union and of the states shall be kept is to be prescribed by the President on the advice of the C&AG. This function is exercised by the Controller General of Accounts, Ministry of Finance (Department of Expenditure) on behalf of the President of India. The duties assigned to the Controller General of Accounts (CGA) are part of GAR 1990. The duties and powers of the CAG are contained in the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act of 1971 (No. 56 of 1971) Sections 10, 11 and 22 of the Act (as amended from time to time). The orders issued by the President of India in exercise of the powers conferred by the first proviso to sub-section (1) of section 10 and first proviso to section 11 of the said Act after consultation with the CAG.

According to Rule 4 of the GAR 1990, *“Every year, from the accounts compiled by the authorities authorised to maintain the accounts of Central Government, State Governments and Union Territory Governments, accounts showing under the respective heads the annual receipts and disbursements for the purpose of Union of each State and of each Union Territory having a Legislative Assembly (including Appropriation Accounts) are to be prepared and got certified by the Comptroller and Auditor General of India. The reports of the Comptroller and Auditor General relating to these accounts shall be submitted to the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, who shall cause them to be laid before the Houses of Parliament, Legislatures of the States and of Union Territories respectively”.*

The accounts of Government are kept in three parts: -

- i. Part I – Consolidated Fund of India/of State,
- ii. Part II – Contingency Fund of India/of State, and
- iii. Part III – Public Account.

### **1.1. Consolidated Fund of India/of State**

All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs, GST and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted under Article 266 (1) of the Constitution of India – in case of the Union Government, it is the Consolidated Fund of India and in case of the State, it is the Consolidated Fund of the State. Similarly, all loans raised by the Government by issue of public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no moneys out of the Consolidated Fund of India, or the Consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in this Constitution.

### **1.2. Contingency Fund of India/of State**

The Contingency Fund of India records the transactions connected with Contingency Fund set by the Government of India under Article 267(1) of the Constitution of India. The Contingency Fund of State records the transactions connected with Contingency Fund set by the Government of State under Article 267(2) of the Constitution of India. The funds under the Contingency Fund of India shall be placed at the disposal of the President of India to enable advances to be made by him out of such Fund for the purposes of meeting unforeseen expenditure pending authorisation of such expenditure by Parliament by law under Article 115 or Article 116. The funds under the Contingency Fund of State shall be placed at the disposal of the Governor of State to enable advances to be made by him out of such Fund for the purposes of meeting unforeseen expenditure pending authorisation of such expenditure by the Legislature of the State by law under Article 205 or Article 206.

### **1.3. Public Account**

In the Public Account constituted under Article 266 (2) of the Constitution, the transactions relate to debt other than those included in the Consolidated Fund of India or the Consolidated Fund of State as the case may be. The transactions under debt, deposits and advances in this part are those in respect of which Government incurs a liability to repay the money received

or has a claim to recover the amounts paid. The transactions relating to “Remittance” and “Suspense” shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary or legislative authorization for payments from the Public Account is therefore not required.

#### 1.4. Accounting System of Union and State Government

According to Rule 19 of GAR 1990, “**The accounts of Government are based, in the main, on the single entry system** and the double entry system will be applied only in regard to the maintenance of a set of technical accounts called the Journal, Ledger and Trial Balance Sheet. The main purpose of the Journal and Ledger is to bring out by a scientific method, the balances of accounts in regard to which Government acts as a banker, or remitter or borrower or lender. Though such balances are worked out in the regular Government accounts, their accuracy can be guaranteed only by a periodical verification with balances brought out in the double entry system. In the case of the Central Government, the various Accounts Officers shall prepare Ledger and summary of balances in accordance with the procedure separately prescribed for the purpose by the Controller General of Accounts. State Accountants General will maintain separate Journal and Ledger for all transactions of the State Government, from which the annual summary of Balances or Trial Balance Sheet is prepared by them.”

Thus, by the virtue of the provisions of the GAR 1990, Government accounts are maintained under the single-entry accounting system. (Refer to **Box 2**) Financial performance cannot be ascertained as there is no system of preparation of year-end financial statements like Profit & Loss Account or Income & Expenditure Account and only a statement of affairs

*Single entry system, in that records are maintained through several registers rather than the double entry system of Debits and Credits. Single entry accounting system of bookkeeping, which as a rule maintain records of cash and personal accounts only and as such is always an incomplete set of records. Accuracy of transactions cannot be verified since all transactions are recorded on single entry basis and no Trial Balance is prepared.*

**Box 2**

is prepared which does not give the true and fair state of affairs. As the GAR 1990 primarily considered accounting for receipts and disbursements, government follows the single-entry accounting system as it is simple to understand and follow. The other accepted system of accounting is double-entry accounting system (please refer to the explanation and discussion later).

### 1.5. Accounting Method or Basis of Union and State Government

According to Rule 21 of the GAR 1990, “*With the exception of such book adjustments as may be authorised by these rules or by any general or special orders issued by the Central Government on the advice of the Comptroller and Auditor General of India, the transactions in Government accounts **shall represent the actual cash receipts and disbursements** during a financial year as distinguished from amounts due to or by Government during the same period*”.

GAR 1990 specifically provides that government accounts would record the actual cash receipts and disbursements. (Refer to **Box 3**). Thus, meaning that government accounts follow the cash-basis accounting method, meaning that the recognition of transactions is at the point of when receipts and disbursements take place. The output of cash basis of accounting is Receipts & Payments that classifies cash receipts and cash payments under different heads. Thus, the complete picture of assets and liabilities is not available from the financial statements. The other accepted method of accounting is accrual-basis of accounting (please refer to the explanation and discussion later).

*Cash-based accounting methods, which records cash receipts and cash payments only. Accounting takes place only at the point of receipt and payment. Usually, no records maintained for the event, which was the cause of such receipt and payment. Thus, receivables, payables, non-cash items of expenditure, provisions etc. are not considered in the accounts because of which the real financial picture of the entity remains obscure.*

**Box 3**

## **1.6. Accounting Period and Currency**

Rule 20 of the GAR 1990, concerns “Period of Accounts”. The Rule states, “*The annual accounts of the Central, State and Union Territory Governments shall record transactions which take place during a financial year running from 1st April to 31st March*”. Therefore, the government accounts are also aligned with the financial year period that have been accepted and followed for the purpose of taxation, accounting, and financial reporting of all commercial and non-commercial and non-government enterprises registered in India.

Rule 22 of the GAR 1990, concerns “Currency in which Accounts are kept”. The Rule states that, “*The accounts of Government shall be maintained in Indian currency i.e. rupees. All transactions of the Central and State Governments taking place in other countries shall be passed on monthly by the Indian Embassies/Missions to India and brought to account finally in the Indian books after they have been converted into rupees*”. Therefore, government’s financial accounting and reporting will be in Indian Rupees. All commercial and non-commercial and non-government enterprises registered in India also maintains and prepares its financial report in Indian Rupees.



सत्यमेव जयते

भारत सरकार

GOVERNMENT OF INDIA

केन्द्रीय सरकार  
का  
2024-2025  
का  
वार्षिक वित्तीय विवरण  
ANNUAL FINANCIAL STATEMENT  
OF THE  
CENTRAL GOVERNMENT  
FOR  
2024-2025

(जैसा संसद में प्रस्तुत किया गया)

(As laid before Parliament)

नई दिल्ली, 23 जुलाई, 2024

New Delhi, July 23, 2024

निर्मला सीतारामन

वित्त मंत्री

Nirmala Sitharaman

Minister of Finance

विषय सूची

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# Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

1

*विवरण I - भारत की समेकित निधि - राजस्व खाता - प्राप्ति*

**STATEMENT I - CONSOLIDATED FUND OF INDIA - REVENUE ACCOUNT - RECEIPTS**

		मुख्य शीर्ष Major Head	वास्तविक Actuals 2022-2023	बजट अनुमान Budget Estimates 2023-2024	संशोधित अनुमान Revised Estimates 2023-2024	बजट अनुमान Budget Estimates 2024-2025
			(₹ करोड़ में)			(In ₹ crores)
<b>क. कर राजस्व</b>	<b>A. TAX REVENUE</b>					
<b>(क) वस्तु और सेवा कर</b>	<b>(a) Goods and Services Tax</b>		<b>853900.57</b>	<b>960535.00</b>	<b>960930.00</b>	<b>1066799.00</b>
केंद्रीय वस्तु और सेवा कर (सीजीएसटी)	Central Goods and Services Tax (CGST)	0005	718521.75	811600.00	811600.00	910890.00
संघ राज्य क्षेत्र वस्तु और सेवा कर (यूटीजीएसटी)	Union Territory Goods and Services Tax (UTGST)	0007	4768.12	3935.00	4330.00	4900.00
एकीकृत वस्तु और सेवा कर (आईजीएसटी)	Integrated Goods and Services Tax (IGST)	0008	4748.29	...	...	...
वस्तु और सेवा कर क्षतिपूर्ति उपकर	Goods and Services Tax Compensation Cess	0009	125862.41	145000.00	145000.00	151009.00
<b>(ख) आय तथा व्यय पर कर</b>	<b>(b) Taxes on Income and Expenditure</b>		<b>1634008.03</b>	<b>1795625.00</b>	<b>1913000.00</b>	<b>2170000.00</b>
निगम कर	Corporation Tax	0020	825833.64	922675.00	922675.00	1020000.00
निगम कर को छोड़कर अन्य आय पर कर	Taxes on Income Other Than Corporation Tax	0021	808221.32	872950.00	990325.00	1150000.00
होटल प्राप्ति पर कर	Hotel Receipts Tax	0023	0.66	...	...	...
ब्याज कर	Interest Tax	0024	8.46	...	...	...
अनुभूगी लाभ कर	Fringe Benefit Tax	0026	-74.56	...	...	...
आय और व्यय पर अन्य कर	Other Taxes on Income and Expenditure	0028	18.51	...	...	...
<b>(ग) संपत्ति और पूंजी लेन-देनों पर कर</b>	<b>(c) Taxes on Property and Capital Transactions</b>		<b>25076.35</b>	<b>27625.00</b>	<b>32000.00</b>	<b>37000.00</b>
स्टाम्प और पूंजीकरण शुल्क	Stamps and Registration Fees	0030	0.20	...	...	...
संपदा शुल्क	Estate Duty	0031	1.06	...	...	...
संपत्ति कर	Taxes on Wealth	0032	-10.28	...	...	...
प्रतिभूति संयवहार कर	Securities Transaction Tax	0034	25085.37	27625.00	32000.00	37000.00
<b>(घ) वस्तु और सेवा कर के अलावा अन्य जिंसों और सेवाओं पर कर</b>	<b>(d) Taxes on Commodities and Services other than Goods and Services Tax</b>		<b>537263.62</b>	<b>572600.00</b>	<b>527280.00</b>	<b>561845.00</b>
बैंकिंग नकद संयवहार कर	Banking Cash Transaction Tax	0036	736.30	...	...	...
सीमा शुल्क	Customs	0037	213372.09	233100.00	218680.00	237745.00
केंद्रीय उत्पाद शुल्क	Union Excise Duties	0038	319001.11	339000.00	303600.00	319000.00
बिक्री कर	Sales Tax	0040	...	...	...	...
सेवा कर	Service Tax	0044	430.77	500.00	500.00	100.00
पथ और सेवाओं पर अन्य कर और शुल्क	Other Taxes and Duties on Commodities and Services	0045	3724.25	...	4500.00	5000.00
<b>(ङ) विधानमंडल रहित संघ राज्य क्षेत्रों के कर</b>	<b>(e) Taxes of Union Territories without Legislature</b>		<b>3943.17</b>	<b>4473.44</b>	<b>4001.34</b>	<b>4526.40</b>
<b>सकत कर राजस्व समेकित निधि में शामिल न किये गए राज्यों का भाग</b>	<b>GROSS TAX REVENUE</b>		<b>3054191.64</b>	<b>3360858.44</b>	<b>3437211.34</b>	<b>3840170.40</b>
<b>केंद्र सरकार का कर राजस्व</b>	<b>State's share excluded from the Consolidated Fund</b>		<b>948405.82</b>	<b>1021447.91</b>	<b>1104493.71</b>	<b>1247211.28</b>
	<b>Tax Revenue of the Central Government</b>		<b>2105785.82</b>	<b>2339410.53</b>	<b>2332717.63</b>	<b>2592959.12</b>
<b>ख. कर-भिन्न राजस्व</b>	<b>B. NON-TAX REVENUE</b>					
<b>(क) राजकोषीय सेवाएं</b>	<b>(a) Fiscal Services</b>		<b>1127.65</b>	<b>1431.00</b>	<b>1769.59</b>	<b>1834.41</b>
मुद्रा, सिक्का निर्माण और टकसाल	Currency, Coinage and Mint	0046	443.36	1331.00	400.00	180.00
अन्य राजकोषीय सेवाएं	Other Fiscal Services	0047	684.29	100.00	1369.59	1654.41
<b>(ख) ब्याज प्राप्ति, लाभों तथा लाभ</b>	<b>(b) Interest Receipts, Dividends and Profits</b>		<b>159464.25</b>	<b>137370.12</b>	<b>224911.85</b>	<b>359358.00</b>
ब्याज प्राप्ति	Interest Receipts	0049	59550.54	46370.12	70504.85	70224.00
राज्य और संघ राज्य क्षेत्र की सरकारों से ब्याज	Interest from State and Union Territory Governments		9702.26	9846.09	11642.00	14575.00
अन्य ब्याज प्राप्ति	Other Interest Receipts		49848.15	36524.03	58862.85	55649.00
लाभों और लाभ	Dividends and Profits	0050	99913.84	91000.00	154407.00	289134.00
<b>(ग) अन्य कर-भिन्न राजस्व</b>	<b>(c) Other NonTax Revenue</b>		<b>445002.37</b>	<b>499653.82</b>	<b>498144.77</b>	<b>549139.19</b>
<b>(i) सामान्य सेवाएं</b>	<b>(i) General Services</b>		<b>56303.68</b>	<b>55568.01</b>	<b>59679.93</b>	<b>58025.75</b>
लोक सेवा आयोग	Public Service Commission	0051	158.71	102.00	121.50	122.00
पुरिस	Police	0055	12069.40	12286.10	12672.85	12673.10
जेल	Jails	0056	0.01	...	...	...
आपूर्ति और निपटान	Supplies and Disposals	0057	0.14	...	...	...
लेखन सामग्री और मुद्रण	Stationery and Printing	0058	26.99	8.15	10.86	10.99
लोक निर्माण कार्य	Public Works	0059	562.62	490.32	519.81	536.73
अन्य प्रशासनिक सेवाएं	Other Administrative Services	0070	6571.05	6329.34	6265.23	5882.76
पेंशन और अन्य सेवानिवृत्ति लाभों के संबंध में अंशदान और वसूलियां	Contributions and Recoveries Towards Pension and Other Retirement Benefits	0071	2719.62	2423.96	2676.62	2689.57
विभिन्न सामान्य सेवाएं	Miscellaneous General Services	0075	26145.67	27078.83	30242.59	29337.13
<b>रक्षा सेवाएं</b>	<b>Defence Services</b>		<b>8049.47</b>	<b>6840.11</b>	<b>7170.47</b>	<b>6773.47</b>
रक्षा सेवाएं - थल सेना	Defence Services - Army	0076	4634.59	4483.11	4415.47	4415.47
रक्षा सेवाएं - नौ सेना	Defence Services - Navy	0077	1301.19	750.00	750.00	750.00
रक्षा सेवाएं - वायु सेना	Defence Services - Air Force	0078	1788.40	1300.00	1700.00	1300.00

**Figure 6: Extract of Annual Financial Statement of Union of India**



ਸਾਲਾਨਾ ਵਿੱਤੀ ਵੇਰਵਾ ਪੱਤਰ

ANNUAL FINANCIAL STATEMENT

ਅਤੇ

AND

ਵਿਆਖਿਆਤਮਕ ਮੈਮੋਰੈਂਡਮ

EXPLANATORY MEMORANDUM

ON THE BUDGET OF THE

ਬਜਟ

ਪੰਜਾਬ ਸਰਕਾਰ ਸਾਲ 2023-2024

GOVERNMENT OF PUNJAB FOR THE YEAR

2023-2024

ਮਾਰਚ, 2023

March, 2023

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DEPARTMENT OF FINANCE, PUNJAB

# Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

7

## I-CONSOLIDATED FUND OF PUNJAB-REVENUE ACCOUNT-RECEIPTS 1- ਪੰਜਾਬ ਦਾ ਸੰਚਿਤ ਫੰਡ - ਮਾਲ ਲੇਵਾ - ਪ੍ਰਾਪਤੀਆਂ

(₹ in thousands)  
(₹ ਹਜ਼ਾਰਾਂ ਵਿੱਚ)

Major Head Number ਮੁੱਖ ਮੋਟ ਨੰਬਰ	Major Head ਮੁੱਖ ਮੋਟ	ਲੇਖੇ Accounts 2021-2022	ਬਜਟ ਅਨੁਮਾਨ Budget Estimates 2022-2023	ਸੋਧੇ ਅਨੁਮਾਨ Revised Estimates 2022-2023	ਬਜਟ ਅਨੁਮਾਨ Budeget Estimates 2023-2024
1	2	3	4	5	6
	<b>A-Tax Revenue ਏ-ਟੈਕਸ ਮਾਲੀਆ</b>				
	<b>(a) Taxes on Income and Expenditure (ਏ) ਆਮਦਨ ਅਤੇ ਖਰਚ ਤੋਂ ਕਰ</b>				
0005	Central Goods and Services Tax (CGST) ਸੈਂਟਰਲ ਗੂਡਜ਼ ਐਂਡ ਸਰਵਿਸਜ਼ ਟੈਕਸ (ਸੀ ਜੀ ਐਸ ਟੀ)	45,80,49,00	48,45,43,00	55,16,49,00	59,68,31,00
0006	State Goods and Services Tax (SGST) ਸਟੇਟ ਗੂਡਜ਼ ਐਂਡ ਸਰਵਿਸਜ਼ ਟੈਕਸ (ਐਸ ਜੀ ਐਸ ਟੀ)	1,55,41,59,03	2,05,50,00,00	1,90,00,00,00	2,30,00,00,00
0020	Corporation Tax ਕਾਰਪੋਰੇਸ਼ਨ ਟੈਕਸ	41,61,71,00	46,07,65,00	55,43,78,00	59,07,64,00
0021	Taxes on Income other than Corporation Tax ਕਾਰਪੋਰੇਸ਼ਨ ਟੈਕਸ ਤੋਂ ਇਲਾਵਾ ਆਮਦਨੀ ਉੱਤੇ ਟੈਕਸ	47,14,62,00	44,50,02,00	53,86,10,00	57,47,33,00
0028	Other Taxes on Income and Expenditure ਆਮਦਨੀ ਅਤੇ ਖਰਚੇ ਉੱਤੇ ਹੋਰ ਟੈਕਸ	1,55,92,75	2,65,00,00	2,50,00,00	3,00,00,00
	<b>Total(a) Taxes on Income and Expenditure ਜੋੜ (ਏ) ਆਮਦਨ ਅਤੇ ਖਰਚ ਤੋਂ ਕਰ</b>	<b>2,91,54,33,78</b>	<b>3,47,18,10,00</b>	<b>3,56,96,37,00</b>	<b>4,09,23,28,00</b>
	<b>(b) Taxes on Property and Capital Transactions (ਬੀ) ਜਾਇਦਾਦ ਤੇ ਮੁੰਜੀਬਤ ਲੈਣ ਦੇਣ ਤੋਂ ਕਰ</b>				
0029	Land Revenue ਭੋ ਮਾਲੀਆ	83,53,79	1,50,30,01	92,91,32	2,00,48,67
0030	Stamp and Registration ਅਸਟਾਮ ਅਤੇ ਰਜਿਸਟਰੇਸ਼ਨ	33,08,34,53	36,00,00,00	39,50,00,00	47,50,00,00
0032	Taxes on Wealth ਆਮਦਨ ਤੋਂ ਕਰ	81,00	-16,00	-16,00	-15,00
	<b>Total(b) Taxes on Property and Capital Transactions ਜੋੜ (ਬੀ) ਜਾਇਦਾਦ ਤੇ ਮੁੰਜੀਬਤ ਲੈਣ ਦੇਣ ਤੋਂ ਕਰ</b>	<b>33,92,69,32</b>	<b>37,50,14,01</b>	<b>40,42,75,32</b>	<b>49,50,33,67</b>
	<b>(c) Taxes on Commodities and Services (ਸੀ) ਵਸਤਾਂ ਤੇ ਸੇਵਾਵਾਂ ਤੋਂ ਕਰ</b>				
0037	Customs ਕਸਟਮਜ਼	10,91,09,00	6,39,81,00	4,73,17,00	5,85,51,00
0038	Union Excise Duties ਕੇਂਦਰੀ ਆਬਕਾਰੀ ਤੋਂ ਕਰ	5,57,39,00	1,99,29,00	2,36,87,00	2,45,23,00
0039	State Excise ਰਾਜ ਆਬਕਾਰੀ	61,57,28,42	96,47,87,00	88,96,95,00	97,85,00,00
0040	Taxes on Sales, Trade etc. ਵਿਕਰੀ ਵਪਾਰ ਤੋਂ ਕਰ ਆਦਿ	68,69,30,68	62,50,00,00	64,00,00,00	76,00,00,00
0041	Taxes on Vehicles ਗੱਡੀਆਂ ਤੋਂ ਕਰ	23,58,95,80	25,75,00,00	26,50,00,00	34,50,00,00
0042	Taxes on Goods and Passengers ਸਮਾਨ ਤੇ ਯਾਤਰੀਆਂ ਤੋਂ ਕਰ	26,37	30	0	0
0043	Taxes and Duties on Electricity ਬਿਜਲੀ ਤੇ ਡਿਊਟੀ ਅਤੇ ਕਰ	28,51,63,42	25,50,00,00	29,00,00,00	27,50,00,00
0044	Services Tax ਸੇਵਾਵਾਂ ਕਰ	1,66,80,00	14,82,00	7,60,25	3,70,00
0045	Other Taxes and Duties on Commodities and Services ਵਸਤਾਂ ਅਤੇ ਸੇਵਾਵਾਂ ਉੱਤੇ ਹੋਰ ਟੈਕਸ ਅਤੇ ਡਿਊਟੀਆਂ	16,15,64	0	0	0
	<b>Total(c) Taxes on Commodities and Services ਜੋੜ (ਸੀ) ਵਸਤਾਂ ਤੇ ਸੇਵਾਵਾਂ ਤੋਂ ਕਰ</b>	<b>2,00,68,62,22</b>	<b>2,18,76,79,30</b>	<b>2,15,64,39,25</b>	<b>2,44,19,44,00</b>
	<b>Total A-Tax Revenue ਜੋੜ ਏ-ਟੈਕਸ ਮਾਲੀਆ</b>	<b>5,26,15,65,32</b>	<b>6,03,45,03,31</b>	<b>6,13,03,51,57</b>	<b>7,02,93,05,67</b>
	<b>B-Non-Tax Revenue ਬੀ-ਨੋਨ-ਟੈਕਸ ਮਾਲੀਆ</b>				

**Figure 7: Extract of Annual Financial Statement of State of Punjab**

### 1.7. Annual Financial Statements of Union and States

Article 112 of the Constitution concerns preparation and presentation of Annual Financial Statements of the Union. The Annual Financial Statement (AFS) of the Union is usually referred to as the Union Budget. An extract of the format of the AFS of the Union is shown in **Figure 6**. The AFS is presented for the twelve-month period of the financial year and includes (a) “Actuals of the Previous Financial Year”, (b) “Budget Estimates of the Current Fiscal Year”, (c) “Revised Budget Estimates of the Current Fiscal Year”, and (d) “Budget Estimates of the Next Fiscal Year”. The provisions of Article 112 may be summarised as below:

- The President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year.
- The estimates of expenditure embodied in the annual financial statement shall include separately the sums required to meet expenditure described and allowed under the Constitution as expenditure charged upon the Consolidated Fund of India and other sums required to meet other expenditure proposed to be made from the Consolidated Fund of India.
- There shall be distinction of expenditure on revenue account from other expenditure.

Article 202 of the Constitution concerns preparation and presentation of Annual Financial Statements of the State. The Annual Financial Statement (AFS) of the State is usually referred to as the State Budget. An extract of the format of the AFS of a sample State (*State of Punjab had been selected randomly*) is shown in **Figure 7**. The AFS is presented for the twelve-month period of the financial year and includes (a) “Actuals of the Previous Financial Year”, (b) “Budget Estimates of the Current Fiscal Year”, (c) “Revised Budget Estimates of the Current Fiscal Year”, and (d) “Budget Estimates of the Next Fiscal Year”. The provisions of Article 112 may be summarised as below:

- The Governor shall in respect of every financial year cause to be laid before the House or Houses of Legislature of State a statement of the estimated receipts and expenditure of the State for that year.

- The estimates of expenditure embodied in the annual financial statement shall include separately the sums required to meet expenditure described and allowed under the Constitution as expenditure charged upon the Consolidated Fund of State and other sums required to meet other expenditure proposed to be made from the Consolidated Fund of State.
- There shall be distinction of expenditure on revenue account from other expenditure.

## **2. Municipal Accounting System**

To reiterate and to carry forward the discussion on municipal accounting, it is pertinent to confirm again, that local bodies (both PRIs and ULBs) are not supposed to adhere to GAR 1990 and instead the respective State Governments and Union Territories would frame appropriate legislation to regulate finance and accounting in ULBs within the State or Union Territory. Prior to 74 CAA, when ULBs were not assigned the constitutional status separately and the matter of local bodies was restricted to Entry 5 of List II – State List only, respective State Governments and Union Territories mandated the method of accounting and financial management in the ULBs of the State and Union Territories. Each legislation enacted by State Government and Union Territory were different and hence, the mandate of the method of accounting and financial management in ULBs of each State Government and Union Territory were also different. There was no uniformity in the maintenance of accounts in ULBs across India prior to the enactment of the 74 CAA.

### **2.1. System Prior to 74 CAA**

ULBs of India followed the traditional government accounting system that adopted the single-entry system and cash-based accounting methods. This was more of a traditional approach being introduced and followed since the Colonial Era. The ULBs worked predominantly with manual method of book-keeping, multiplicity of registers and limited capacity of staff resulted in a situation where traditional systems became embedded and there was no need to consider anything different. Thus, accounts of several ULBs were not prepared and audited for years together. Further, since the registers are not linked through a system of checks and balances, their reconciliation was hardly taken up.

As mentioned earlier, in states where single entry system of accounting is prescribed, there were no need to prepare any financial statements, and the only reporting mechanism included the budget document that usually presented for the twelve-month period of the financial year and includes actuals of the previous financial year, budget estimates of the current fiscal year, revised budget estimates of the current fiscal year, and budget estimates of the next fiscal year. ULBs of the State thus presented a similar annual financial statement presentation which was usually referred to as the Municipal Budget for the year. Apart from this, the other reporting documents are the Annual Administrative Report and the Audit Report. The Annual Administrative Reports in almost all states comprise function-wise information about the various activities undertaken, results achieved and other happenings. The ULBs followed the cash-based method of accounting in tune with the practices of the state government that governed the ULBs within the State.

The phases of municipal accounting reforms in India commenced during the period between 1981 and 1991 can be termed the first phase of municipal accounting reforms in India. This was prior to the enactment of the 74 CAA. There were only two instances of reform in this period, located in the metro cities of Mumbai and Chennai. Both cities were experimenting with the introduction of double entry accrual-based accounting system at the instance of The World Bank. In Mumbai the scope of reform was limited to the water supply and sewerage system whereas in Chennai an attempt was made to apply accounting reforms to all its accounting operations. It did improve quality of accounting data and operations, but as complete conversion was not achieved, the outcome was very limited in all respects.<sup>30</sup>

The intent to change the traditional accounting system of ULBs of India started in a very limited manner in two ULBs of India. There was no existing legal and institutional framework to make the reforms sustainable. Nevertheless, the effort to migrate the single-entry system of accounting to double-entry system and convert the cash-based accounting method to accrual-based accounting commenced.

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<sup>30</sup> *Status of Municipal Accounting Systems in Selected Urban Local Bodies of India, Indo-US AID Financial Institutions Reform and Expansion Project- (FIRE-D) and National Institute of Urban Affairs, August 2010.*

## 2.2. System After 74 CAA and Up to 2001

Upon the enactment of the 74 CAA, the matter of accounting and audit in municipalities was embedded by a specific constitutional provision vide the provisions of **Article 243Z** of the Constitution which stated that “*the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts*”.

The 74 CAA was enacted and became effective from 01 June 1993. The States took time to incorporate the modifications within their existing legislations, however, some States and Union Territories incorporated the modifications soon after the effectiveness of the 74 CAA. The provisions for accounting and auditing in the legislations modified by the States did not change much from what was before as the provisions of Article 243Z did not specify any specific method or system of maintenance of municipal accounts and any other specifics of auditing of the municipal accounts.

The usual provision in most of the State legislation concerning municipal accounts was similar (*albeit with some modifications*), “*Within three months of the close of a year, a financial statement for the preceding year in respect of a municipality shall be prepared in the form and manner prescribed and presented before a meeting of the Municipality.....*”. This was quite understandable, as there had been no concerted effort at the Union or at any States or Union Territories level to adopt any different accounting system and accounting methods than what was traditionally followed until then.

Therefore, most of the ULBs continued to follow the single-entry accounting system and cash-based accounting method. But some more reforms were initiated in a very isolated manner to strengthen the municipal accounting function of some ULBs. The World Bank as a part of its financial assistance to Gujarat Urban Development Project, in the year 1985 (IDA Credit 1643-IN), advocated on the introduction of accrual-based accounting in the credit recipient municipal corporations (six in number - Ahmedabad, Vadodara, Surat, Rajkot, Bhavanagar, Jamnagar) and a municipal body (Anand). The work of municipal accounting reforms started in the 1990, after the World Bank finalized consultants for this job and the work of consultants continued till 1995 in the selected municipal bodies of Gujarat and achieved some degree of success, but most importantly the reforms were not sustainable as

again the legislative and appropriate institutional framework was not in place and the efforts remained more consultants driven.

But most importantly, the deficiencies of the prevailing municipal accounting framework started receiving more attention. The deficiencies identified<sup>31</sup>:

- The existing system is primarily focussed on inputs, almost at the exclusion of outputs and outcomes, and cannot therefore be utilised as an effective tool for measuring accountability for performance.
- Only those transactions where cash has been paid or received are recorded by the system. Transactions where no cash has been paid or received are not recorded, even if value has been received or a liability been contracted.
- Accounting records reflect transactions for the current year only. Past transactions relating to assets and liabilities, are not an integral part of the accounts.
- The accounting system tends to understate liabilities and commitments of the Government, leading to issues of inter-generational equity and lack of transparency. In many countries, this has been an important reason for accounting reforms towards an accrual-based system.
- Inability of Government to keep track of assets, which results in relatively poor stewardship, is a big lacuna in the accounting system today.
- Decision-makers (including the local body itself) are unable to look ahead to estimate whether they can continue to afford the services they currently deliver, or whether they can afford new services (as they do not have information of full costs or indebtedness).

As most ULBs of India continued to follow existing single-entry accounting system and a cash-based method of accounting wherein cognizance is not given to the timing of event and no distinction is made between revenue and capital items. Revenue transactions are recognized only when cash is received, irrespective of the timing when the revenue was accrued. Similarly, expenditure items are recognized only when cash is paid, irrespective of the

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<sup>31</sup> *Ibid*

timing when the expenditure is incurred. As a result, accounting principles ignored the timing of the event of the transaction. The whole focus is on cash management to match and comply with budgetary and legislative guidelines. The shortcomings of the existing system as pointed below were discussed in various forums and a consensus building commenced to modify the system on a more holistic approach covering the entire country. The shortcomings that were highlighted are:

- Financial statements that the ULBs were preparing were mostly the budget statements (as the Union and State Governments were presenting) and they lacked and failed to reflect the complete and comprehensive financial position of the ULB with relation to fixed assets, capital work-in-progress, current assets, current liabilities, depreciation for replacement of assets, etc.
- Ring-fenced and separate revenue and cost allocations are not ascertainable for the different utilities and services provided by the ULBs, specifically the eighteen functions that have been considered for devolution by the 74 CAA.
- There were no efforts to match the expenses during a specific period against the revenues from the same period, which was important consideration to manage the public money.
- There was no disclosure possible about contingent assets and contingent liabilities that may turn into committed ones on account of guarantees given, letter of comfort/credit issued, or litigation lost by the ULB.
- There was no provision to maintain fixed assets records for the purpose of accounting.
- There was no system to determine the cost of services to levy the appropriate tariffs for providing the services.

Therefore, there is a strong need felt at various forums and by various authorities to move toward a double entry accrual-based accounting system (DEAAS) to overcome the above problems and to maintain the accounts and present the financial status of the ULBs in more comprehensive and consolidated manner.

### 2.3. System After 2001

From 1998 onwards gradually and more specifically after 2001, there was a bug push and larger consensus towards introducing double entry accrual-based accounting system (DEAAS) in the ULBs of India. Therefore, the reforms that was being envisaged were at two fronts. First was migration from single-entry accounting system to double-entry accounting system. (Refer to Box 4).

*Double-entry accounting system is the more acceptable accounting system across the world obliges all the accepted accounting conventions. Double entry is a bookkeeping and accounting method, which states that every financial transaction has two effect and one equal and opposite effects in at least two different accounts. It is used to satisfy the accounting equation: Assets = Liabilities + Equity. In the double-entry system, transactions are recorded in terms of debits and credits. Double-entry bookkeeping was developed in the mercantile period of Europe to help rationalize commercial transactions and make trade more efficient.*

Box 4

The double-entry accounting system includes preparation of detailed accounting framework with use of personal, real and nominal accounts. All the three golden rules of accounting are being adhered to when this system is used.

- Rule One: “Debit what comes in - credit what goes out.”
- Rule Two: “Credit the giver and Debit the Receiver.”
- Rule Three: “Credit all income and debit all expenses.”

As all transactions or financial events are recorded based on double entry system of bookkeeping, and a “Trial Balance” is prepared to check the arithmetical accuracy of the transactions. While using this system, financial performance of an entity can be ascertained as preparation of year-end financial statements are compulsory. Preparation of a Balance Sheet on a “going-concern basis”, which gives a

*Under the accrual-based method of accounting, financial transactions are recorded, when they occur, even though actual receipts (inflow of cash and cash equivalents) or payments (outflow of cash and cash equivalents) of money may not have taken place at that point and deferred.*

Box 5

true and fair picture of financial status is possible. This system of accounting is well accepted by the Financial Institutions, lending agencies and all accounting bodies of the world.

The second and the simultaneous reform was to convert the cash-based accounting method to accrual-based accounting. (Refer to **Box 5**). Under accrual basis of accounting entries are made on the dates when revenue or expenses fall due and not on the date, when they are paid or received. Accrual basis of accounting is a scientific system for reporting income and expenditure and for preparation of financial statements. Under this method, financial performance and financial results are obtained from two important financial statements as mentioned below:

- Income & Expenditure Statement (that determines the financial performance of an organization), and
- Balance Sheet (that assesses the financial status of an organization)

The major difference between accrual accounting and cash accounting is in timing of recognition of revenues, expenses, gains and losses.

The two layered accounting reform thus considered as introduction of Double Entry Accrual-Based Accounting Systems (DEAAS) in ULBs of India.<sup>32</sup> [To summarize, accrual-based accounting is a method of recording transactions in which revenues, costs, assets, and liabilities are reflected in the books of accounts of the period in which they accrue and arise, irrespective of actual receipt or payment taking place during the period. The basic feature of a double entry accrual-based accounting system is that it considers timing of each event and makes a distinction between capital and revenue items. Therefore accrual-based accounting helps in accurately determining the financial performance and financial status of a ULB for any period and on any date. This system of accounts provides the following benefits:

- Under the accrual system, revenue is recognized when it is earned and the claim of the entity in respect of which such revenue is recognized becomes reasonably

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<sup>32</sup> *An entity can theoretically adopt a cash-based double-entry accounting system also. But a single-entry system adopting accrual-based methods is not theoretically possible to implement.*

enforceable. Thus, an item of income constitutes revenue even if cash was not received against it.

- Expenditure is recognized when the liability for payment arises even if the payment is not made at that time.
- The system matches expenditures for a particular year with the income earned in that year, thus providing a basis for a correct understanding of the true operating performance of a ULB in a particular year.
- Accrual-based accounting clearly distinguishes between items of a revenue nature and items of a capital nature, which helps in the correct presentation of financial statements of income and expenditure account and balance sheet.
- Under the accrual system of accounting, costs, which are not charged to income and expenditure account, are carried forward and kept under continuous review.
- Any cost that appears to have lost its utility or its power to generate future revenue is written off.
- The surplus or deficit as shown at the year-end under the accrual accounting system represents the true and correct financial position of the ULB, which is based on the transactions of the year.
- Information available through accrual-based accounting assists in proper financial analysis and reporting and better financial management.
- The statement of assets and liabilities prepared by a ULB under the accrual system of accounting presents a proper picture of what it owns and what it owes.
- Accrual-based accounting facilitates better knowledge of the “full” cost of services and helps in identifying the financial viability of rendering services. With accrual-based accounting, the cost incurred for providing specified services is more readily available and ascertainable, thereby enabling decision makers to identify the subsidy granted and the extent of recovery of cost.]<sup>33</sup>

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<sup>33</sup> *Municipal Accounting Reforms in India, An Implementation Guide, ADB South Asia Working Paper Series No. 20, C.T. Abraham, October 2013.*

The benefits of accrual-based accounting promise a superior method of tracking the resources of ULBs as compared to cash-based accounting. The relevance, objectivity, timeliness, completeness, and comparability of the accounting records and statements are enhanced in an accrual-based accounting system because records of transactions and events takes place whenever a transaction occurs, even if no cash is received or disbursed. A double entry accrual-based accounting system is the foundation of good urban management as it provides decision makers with a complete financial picture of the city, rather than the simple cash flow balances of a cash-based accounting system. Under this system, the municipal assets and financial transactions can be verified and managed more efficiently. The true cost of services can be determined, cost-recovery tariffs can be set, and realistic budgets can be created and monitored. The introduction of a new system requires in-depth training for accounting staff and for other departments that need to utilize the improved information. The new accounting and financial reporting systems also require legislative changes at the state and city levels.<sup>34</sup>

An example to understand the difference between cash-basis and accrual-basis concerning a transaction of a ULB of India. Accounting for Income from Property Tax by a ULB, say for the accounting year 2023-24.

- i. Demand Raised (current year) – INR 120,000
- ii. Collection made during the current year
  - INR 10,000 (Arrears out of INR 40,000)
  - INR 50,000 (Out of current demand)

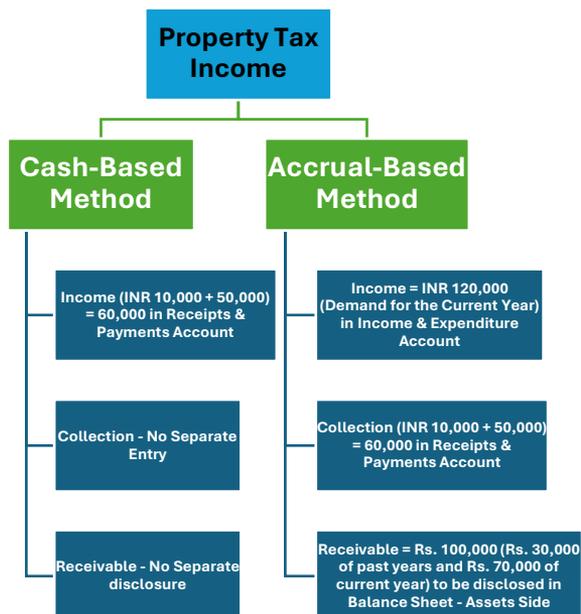
The accounting under two different methods of accounting shown in **Figure 8**.

The Tamil Nadu' accounting reform initiatives that started from 1997 is one of the most successful examples of the municipal reforms implementation in India's urban sector. The Tamil Nadu Urban Development Fund (TNUDF) conceived and initiated the process/project of introduction of modern

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<sup>34</sup> *Ibid.*

accounting system in the municipal bodies of Tamil Nadu by submitting a proposal to this effect to the Government of Tamil Nadu in late 1997. The State Government also wished for an introduction of a double entry accrual accounting system because it wanted to be able to present acceptable information to funding agencies on the financial position and performance of municipal bodies.



**Figure 8: Example of Accounting Effects under Cash-based and Accrual-based Accounting**

The Tamil Nadu Municipal Accounting Reforms process formally started with the appointment of the three members committee to prepare an Accounting Manual in January 1998. The committee prepared Accounting Manual for introducing double entry accrual accounting system in the municipal bodies within six months and submitted its first draft to the State Government in June 1998. The Accounting Manual and the project to introduce accounting reforms in municipal bodies received government clearance (Department of Municipal Administration and Water Supply) in January 1999. Immediately TNUDF commenced training to the officers/employees of the selected

municipal bodies. The opinion building workshops, conferences were conducted for all the key personnel, government officers. Training was provided even to the local fund auditors who audit the accounts of the municipal bodies. In all 12 municipal bodies were selected (2 municipal corporations and 10 municipal bodies) as pilot or demonstration cities for introducing accounting reforms. New accounting system as per the revised accounting manual commenced in these 12 municipal bodies with effect from 1 April 1999.

To leverage the accounting reforms process during the early 2000, the **Institute of Chartered Accountants of India (ICAI)** felt the need of local bodies and brought a publication under the title, “*Technical Guide on Accounting and Financial Reporting by Urban Local Bodies in India*” in 2000. This publication provided a broad framework for reforming the accounting systems to provide the guidance for switching to double entry accrual system in these bodies. The USAID through Financial Institutions Reform and Expansion Programme (FIRE-D) supported ICAI to prepare the technical guide. In the technical guide published by ICAI, the Financial Reporting Objectives have been spelt out as below:

- to develop a comprehensive framework for financial reporting,
- to provide the relevant information that the “users” or the various “interest groups” require,
- to enable the users to assess the performance of the local body on the basis of different yardsticks, as follows, so as to develop a comprehensive framework for financial reporting:
  - i. revenue generating capacity vis-a-vis the expenses incurred
  - ii. creation of non-revenue producing assets/infrastructural facilities in a particular period
  - iii. non-financial parameters as may be defined,
- to provide relevant financial information in respect of each major but distinct activity separately.

Another important event took place during the period between 1999 and 2001, that pushed the thought and need to introduce DEAAAS in ULBs of India. The Hon'ble Supreme Court of India passed the judgement in the famous case of Union of India vs Almitra H Patel (2001) which directed the Government of India to improvise the financial reporting system by developing guidelines for accrual-based accounting system and ULBs were asked to take necessary steps for the conversion of prevailing cash based single entry accounting system to accrual based double entry accounting system.<sup>35</sup> The decision of the Hon'ble Supreme Court of India in the Writ Petition (C). 888 of 1996, Union of India vs Almitra H Patel (2001) was an important direction that triggered the need to reform the existing municipal accounting system<sup>36</sup>.

In 2001, another trigger came from the recommendations of the Eleventh Finance Commission recommendations (*the exact recommendations of the Eleventh Finance Commission and other succeeding Finance Commissions concerning municipal accounting discussed in detail in the subsequent sections of the publication*) and the deliberations of a National Seminar on Municipal Accounting Reforms organized by the Ministry of Urban Development and Poverty Alleviation, National Institute of Urban Affairs and FIRE-D project on 9 January 2002, the Comptroller and Auditor General (C&AG) constituted a Task Force to evolve appropriate accounting formats

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<sup>35</sup> *Status Paper on Accounting Reforms in Local Bodies in India and Role of Chartered Accountants, ICAI, 2009*

<sup>36</sup> *By an order dated 16th January 1998 the Hon'ble Supreme Court constituted a Committee headed by Mr. Asim Burman, IAS (as the Municipal Commissioner, Calcutta Municipal Corporation) to look into all aspects of urban solid waste management and in particular to the following four areas: - (1). Examine the existing practices and to suggest hygienic processing and waste disposal practices and proven technologies on the basis of economic feasibility and safety which the Corporations/Government may directly or indirectly adopt or sponsor: (2). Examine and suggest ways to improve conditions in the formal and informal sector for promoting eco-friendly sorting, collection, transportation, disposal, recycling, and reuse. (3). **To review Municipal byelaws and the powers of local bodies and regional planning authorities and suggest necessary modifications to ensure effective budgeting, financing, administration, monitoring and compliance.** (4). Examine and formulate standards and regulations for management of urban solid waste and set time frame within which the authorities shall be bound to implement the same. After a preliminary and then the final report of the said committee was received, notices were issued to all the States who were required to file their responses to the report of the committee. None of the States really opposed the recommendations made by the committee and it was noticed that the responses of the States were in fact positive.*

for the ULBs. The Task Force submitted its report on Accounting and Budget Formats for Urban Local Bodies to the Ministry of Urban Development and Poverty Alleviation in December 2002. The Report of the Task Force has been accepted by the Government of India and thereafter forwarded to the State Governments for implementation of the accounting and budget formats as specified by the Task Force, keeping in view the local requirements. The Task Force has suggested/recommended the following:

- Formats of Receipts and Payments Accounts, Income & Expenditure Accounts and Balance Sheets for all ULBs to follow uniformly the suggested formats for presentation of annual financial statements.
- A model of significant accounting policies regarding revenue recognition and treatment of expenditure during construction period.
- A three-tier codification and classification of the budget, accounting and costing formats for determining the cost of important utilities and services like Water Supply, Primary Schools, and Hospitals.
- Further recommended that the costing formats should also bear the same code for the purpose of uniformity and for proper management information system.
- The approach that urban local bodies need to initiate steps for smooth switch over to the new system of accounting.
- The following major transitional issues have also been discussed in the Report that were required for switching over from the existing cash-based accounting system to accrual-based accounting system in urban local bodies:
  - i. policy decisions by the State Governments on adoption of the Task Force Report on accrual system of municipal accounting,
  - ii. constitution of State Level Steering Committees,
  - iii. review of legislative framework,
  - iv. development of accounting manual,**
  - v. manpower, training and implementation support,**

- vi. **verification and valuation of assets and liabilities,**
- vii. parallel run of old and new accounting system, and
- viii. computerization of budget and accounts.

To provide a generic framework for municipal accounting across all ULBs of India and a simplified tool kit to the ULBs for recording the accounting entries, the Ministry of Urban Development (*MoUD, and now the Ministry of Housing & Urban Affairs*), Government of India initiated the formulation of **National Municipal Accounts Manual** (NMAM), based on the recommendations of the C&AG Task Force Report in November 2004. C&AG has facilitated and overseen the development of this Manual. The purpose of publishing the National Municipal Accounts Manual was to facilitate and assist State Governments in drafting their state specific municipal accounts manuals. The NMAM comprehensively detailed the accounting policies, procedures, guidelines designed to ensure correct, complete and timely recording of municipal transactions and produce accurate and relevant financial reports.

When the initiatives at the Government of India level were ongoing during this period after 2001, there had been various other efforts initiated at State and ULB specific level in India with various funding sources (*like the World Bank, Asian Development Bank (ADB), Department for International Development (DfID), U.S. Agency for International Development (USAID)*) to reform and strengthen the municipal accounting system. Some of the initiatives (as reported in many earlier reports and publications) are listed below (*may not be exactly in a chronological manner*).<sup>37</sup>

- From January 2000, Tamil Nadu Urban Development Program II prepared itself to implement accrual-based double entry accounting in the remaining 95 municipal bodies.
- Introduction of improved accounting systems in Anand (Gujarat), Jaipur (Rajasthan) and Tumkur (Karnataka) under ADB TA No. 3209-IND in 2000-01.

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<sup>37</sup> *There may be more initiatives that were not reported anywhere, and not re-listed here. But these efforts were also important in the process of strengthening the municipal accounting system of India.*

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- In 2001, Municipal Accounting and Financial Reporting System reforms commenced in Karnataka. Thereafter reforms support was implemented under the ADB funded Nirmala Nagara Programme and subsequently by the World Bank through the Karnataka Municipal Reforms Project.
- In the year 2001, the State of Maharashtra initiated reforms with the support of World Bank's Technical Assistance.
- Accounting reforms in Mirzapur (Uttar Pradesh) under the Ganga Action Plan.
- Under a World Bank TA, ICAI-Accounting Research Foundation assisted Municipal Corporation of Delhi (MCD) to switch to the accrual-based double-entry accounting system and in accounting, financial, and management reforms in 2003-04.
- Under DfID funding's Andhra Pradesh Urban Services for Poor (APUSP) program in 2004 for 32 ULB of Andhra Pradesh.
- Under DfID funding's Capacity Building Program in Kolkata Municipal Corporation in 2004-05 assisted by ICAI-Accounting Research Foundation.
- The Gujarat Municipal Accounting Reforms Project (GMARP) began in November 2005 and the focus of the project was on municipalities and not on Municipal Corporations.
- In 2006-07 ADB funded TA No. 4497 – IND: Capacity Building for Municipal Services in Kerala for 5 municipal corporations.
- Under USAID funding, Improved Financial Management of Bhubaneswar Municipal Corporation in 2006-07.
- Under DfID funding efforts initiated in Kolkata Urban Services for Poor program for 115 ULBs of West Bengal.
- Under DfID funded Madhya Pradesh Urban Services for Poor (MPUSP) program initially the municipal corporations of Bhopal, Indore, Gwalior, and Jabalpur and then the remaining 10 municipal corporation of Madhya Pradesh during 2007-2010.

- Under DfID funded Support Program for Urban Reforms (SPUR) 28 municipalities (all corporation and some councils) of Bihar between 2009 and 2012.
- 5 municipal councils of North-east States (Agartala, Aizawl, Gangtok, Shillong, and Kohima) under ADB LOAN No. 2528-IND, ADB LOAN No 2834 and ADB LOAN 3337-IND, North Eastern Region Capital Cities Development Investment Programme (NERCCDIP) between 2010 and 2015.
- Most other Indian States initiated the municipal finance and accounting reforms in the past or are in the process of implementing them now. For instance, States like Haryana, Jammu & Kashmir, Madhya Pradesh, Bihar, Odisha, Uttarakhand, Uttar Pradesh, and Assam have either initiated reforms for the remaining ULBs not covered during the earlier implementation or started afresh even covering ULBs where initiatives were taken up before.

#### 2.4. Central Finance Commission on Municipal Accounting & Finance

Starting from the Eleventh Central Finance Commission, all subsequent commissions recommended about municipal accounting. The **Table 3** below provides the gist of finance commission recommendations.

**Table 3: Central Finance Commission Recommendations on Municipal Accounting and Finance**

Finance Commission	Narrative and Recommendations <sup>38</sup>
Eleventh Finance Commission (2000-2005)	Article 243J and 243Z of the Constitution expect the States to make provisions by way of legislation for maintenance of accounts by the panchayats and the municipalities and for the audit of such accounts. Following this, most States' legislation does make general provisions for these

<sup>38</sup> As extracted from the Finance Commission Reports. For full version of the narratives and recommendation, please refer to the respective Finance Commission Reports.

**Finance  
Commission**

**Narrative and Recommendations<sup>38</sup>**

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purposes, but detailed guidelines or rules have not been laid down, in several cases. In many States, the formats and procedures for maintenance of accounts by these bodies prescribed decades ago, are continued without making any improvements to take into account the manifold increase in their powers, resources, and responsibilities.

The C&AG should prescribe the format for the preparation of budgets and for keeping of accounts for the local bodies. Such formats should be amenable to computerisation in a networked environment.

Twelfth Finance  
Commission  
(2005-2010)

Most states do not have accurate information on the finances of their local bodies. A proper accounting system has to be put in place at the grassroots level to facilitate realistic assessment of the needs of the panchayats and municipalities for basic civic and developmental functions. It is, therefore, imperative that high priority should be accorded to creation of database and maintenance of accounts at the grass-roots level. Some of the modern methods like GIS (Geographic Information Systems) for mapping of properties in urban areas and computerization for switching over to a modern system of financial management would go a long way in creating strong local governments, fulfilling the spirit of the 73rd and 74th constitutional amendments. It is, therefore, recommended that besides expenditure on the O & M costs of water supply and sanitation in rural areas and on the schemes of solid waste management in urban areas, as indicated in paras 8.41 and 8.42 above, PRIs and municipalities should give high priority to expenditure on creation of database and maintenance of accounts through the use of modern technology and management systems, wherever possible.

Thirteenth  
Finance  
Commission  
(2010-2015)

The C&AG had set up a task force in February 2002 to recommend appropriate accounting and budget formats for ULBs. Based on the report of the task force, the National Municipal Accounts Manual was prepared by the Ministry of

Urban Development and circulated to all the State Governments in December 2004. The National Municipal Accounts Manual provides for a codified structure that facilitates the capture of all financial information within an urban local body. This framework, based upon accrual accounting, has been agreed to by almost all the states. They are in the process of customising and adapting the NMAM to meet their individual requirements.

The codification and classification system for ULBs has been suggested in Chapter 4 of the National Municipal Accounts Manual which covers all 18 functions of the ULBs as given in Schedule XII of the Constitution.

As per instructions issued by the C&AG in the year 2002, assistance given by the State Governments to the municipal corporations, municipalities, and nagar panchayats is to be shown separately under the minor heads 191, 192 and 193 respectively in the budget and finance accounts. None of the State Governments comply fully with these instructions. A few State Governments operate the minor heads 191 and 192 for the first two classes of ULBs. Other State Governments club assistance to all three categories of ULBs in one minor head, i.e., 191, which makes it very difficult to ascertain the end-use of the assistance given by them. For the purposes of enhanced transparency, it is desirable that:

- i) All states comply with the instructions of Controller General of Accounts (CGA) and show assistance to all categories of ULBs separately under the minor heads 191, 192, and 193 below the respective major heads of accounts in the budget documents as well as in the finance accounts.
- ii) As mentioned in Para 10.110 of the 13 FC Report, a supplement to the budget documents needs to be prepared by State Governments. This supplement should show the details of plan and non-plan classification of transfers to all categories of ULBs and all tiers of PRIs from major head to object head which have been depicted in the main budget under the minor heads 191, 192 and 193. The supplement

should aim to provide details of the spatial distribution of the allocations, at least up to district level.

The states should implement in all urban local bodies an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual.

For the years 2011-2012, 2012-13, 2013-14 and 2014-15, a State Government will be eligible to draw down its share of the general performance grant shown in Annex 10.15b of the 13 FC Report only if it complies with the following *nine* conditions. These conditions must be met by the end of a fiscal year (31 March) for the state to be eligible to draw down its performance grant for the succeeding fiscal year. [Out of the 9 conditions, the following are relevant to mention here:]

- The State Government must put in place a supplement to the budget documents for local bodies (separately for PRIs and ULBs) furnishing the details (other than those relating to Finance Accounts) indicated in Para 10.110. They should require the PRIs to maintain accounts as specified in paras 10.111 and 10.112. They should also require urban local bodies to maintain accounts as provided in Para 10.116 of 13 FC Report. [Para 10.116 of 13 FC Report states, “the states should implement in all urban local bodies an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual.] To demonstrate compliance with this condition, a State Government should: (a) submit the relevant supplement to the budget documents and (b) certify that the accounting systems as recommended have been introduced in all rural and urban local bodies.

- The State Government must put in place an audit system for all local bodies (all categories of ULBs and all tiers of PRIs) as indicated in Para 10.121 above. The C&AG must be given TG&S over the audit of all the local bodies in a state at every tier/category and his Annual Technical Inspection Report as well as the Annual Report of the Director of Local Fund Audit must be placed before the state legislature. Certification from the C&AG will demonstrate compliance with this condition.

Fourteenth  
Finance  
Commission  
(2015-2020)

We were informed that one of the conditions of the FC-XIII for rural local bodies and municipalities to avail the performance grant was that they should maintain accounts based on the accounting framework and codification pattern consistent with the Model Panchayati Raj Accounting System and the National Municipal Accounts Manual respectively. While most States had self-certified the adoption of the accounting framework, the C&AG informed that the actual maintenance of accounts still needed improvement.

We were informed that the C&AG is now providing technical guidance and support to primary auditors in twenty-six states. The audit reports were being submitted to the State Government or State Legislature in twenty-one states, while the first audit report was under preparation in another five. Seventeen states had entrusted technical guidance and support to the C&AG or enhanced the scope of entrustment of this during 2011-13. The C&AG informed that in most of the States, system improvement regarding audit of local bodies by the primary auditor with technical guidance and support of C&AG was slowly gaining momentum and, over a period of time, its effectiveness is going to bear fruit.

We are of the opinion that proper accounts are the starting point for financial accountability. Non-maintenance or delayed compilation of annual accounts means compromised accountability. It also implies that reliable

financial data for determining the need for resources for local bodies is not available. We observe that it has been more than twenty years that municipalities and panchayats were sought to be empowered, through a Constitutional amendment, to act as institutions of local self-governance and also to provide certain basic services to citizens. It is inconceivable, and certainly not desirable, that local bodies seek an ever increasing share of public moneys and yet continue to keep themselves beyond the ambit of accountability and responsibility for the public money placed with them.

We also note that on account of the efforts of the past Finance Commissions, there has been progress in the keeping of accounts and audit under the technical guidance and support of the C&AG. We also note the fact that further progress in this regard is needed. We, therefore, are of the opinion that it is necessary to continue the efforts initiated by past Finance Commissions for improving the maintenance of accounts, their audit and disclosure. For this, we have built suitable incentives in our performance grants. **We recommend that the books of accounts prepared by the local bodies should distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from the Finance Commission and grants for any agency functions assigned by the Union and State Governments. In addition to the above, we also recommend that the technical guidance and support arrangements by the C&AG should be continued and the States should take action to facilitate local bodies to compile accounts and have them audited in time.**

*On Performance Grants*

A common issue raised by most SFCs is that their work was hampered by lack of reliable data on receipts and expenditure at the local body level. The studies commissioned by us on panchayats and municipal finances

faced similar problems. We note that despite the last three Finance Commissions raising the issue of reliable data and accounts and providing grants to address the issue, not much has happened. In our opinion, this is not a satisfactory state of affairs. **Therefore, we are providing performance grants to address the following issues: (i) making available reliable data on local bodies' receipt and expenditure through audited accounts; and (ii) improvement in own revenues. In addition, the urban local bodies will have to measure and publish service level benchmarks for basic services. These performance grants will be disbursed from the second year of our award period, that is, 2016-17 onwards, so as to enable sufficient time to State Governments and the local bodies to put in place a scheme and mechanism for implementation. The details of the performance grants are given in the paragraphs that follow.**

*Performance grant - Urban*

As in the case of the performance grant for gram panchayats, **a detailed procedure for the disbursement of the performance grant to urban local bodies would have to be designed by the State Government concerned, subject to certain eligibility criteria. To be eligible, the urban local body will have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which it seeks to claim the performance grant. It will also have to show an increase in own revenues over the preceding year, as reflected in these audited accounts. In addition, it must publish the service level benchmarks relating to basic urban services each year for the period of the award and make it publicly available. The service level benchmarks of the Ministry of Urban Development may be used for this purpose. The improvement in revenues will be determined on the basis of these audited accounts and**

**on no other basis. For computing the increase in own revenues in a particular year, the proceeds from octroi and entry tax must be excluded. In case some amount of the performance grant remains after disbursement to the eligible urban local bodies, the undisbursed amount should be distributed on an equitable basis among all the eligible urban local bodies that had fulfilled the conditions for getting the performance grant.**

Fifteenth  
Finance  
Commission  
(2020-2021)  
(2021-2026)

*Note: Because of the COVID19 pandemic, the Commission reported in two parts.*

### **Report for 2020-2021**

The importance of mobilisation of own revenues by self-governing local bodies cannot be overemphasised. It leads to better ownership and account ability. Internationally, property tax is one of the most effective instruments for revenue mobilisation by local bodies. For historic reasons as well as because of vested interests, property tax yields remain negligible in India. We recommend that to qualify for any grants for urban local bodies in 2021-22, States will have to appropriately notify floor rates and thereafter show consistent improvement in collection in tandem with the growth rate of State's own GSDP.

The timely availability of audited accounts – separately at the local body level and jointly at the State and all-India level – continues to be a persistent problem despite the emphasis laid by previous Commissions. We consider such availability of accounts online, both before and after audit, of individual local bodies and at the State and all-India level a critical reform agenda. With the help of modern digital infrastructure, a receipt or expenditure can have the necessary characterisation at the input stage itself. This will enable appropriate processing of data to produce the various required reports.

For urban local bodies, the National Municipal Accounts Manual (NMAM) developed by the MoHUA required all State Governments to draft State-specific municipal accounts manuals. Thus, at present urban local bodies are following

NMAM or State-specific manuals based on NMAM. Each urban local body needs to generate online accounts by taking advantage of IFMIS/PFMS after it is duly integrated by using appropriate IT tools. The MoHUA shall put these online accounts on a common platform, thus having consolidated accounts, both before and after audit, at the State and all-India levels.

In view of above, this process shall be in two stages. First, the integration of the PRIASoft and NMAM systems with the State-level IFMIS and, subsequently, with PFMS to achieve complete integration. In 2020-21, under the guidance of the Comptroller and Auditor General (CAG), the concerned ministries and CGA shall develop an integrated account maintenance system as stated above on trial basis by the States before 31 March 2021, and ready for full roll-out from 1 April 2021.

#### **Report for 2021-2026**

As earlier mentioned, auditing of accounts and their availability online continues to be a pending problem. A new trend, however, is evolving with a few States experimenting by involving external agents like chartered accountants for audit and certification of accounts (Table 7.7 of the 15 FC Report 2021-2026). This is an encouraging practice and more efforts in this direction are required across all State Governments.

Over the last decade, there has been progress in digitising financial transactions, for example, through PFMS for the Union Government, and IFMIS for the States. However, the usability of all the data is restricted by its generation and collection by different government agencies and departments across all tiers of government in separate and disparate databases primarily for their own purposes. Data is difficult to link, compare and analyse across government entities due to lack of common data standards. A metadata catalogue or common data dictionary is not operational. Ambiguities in definition and discretionary classifications

impede meaningful comparison and/or consolidation across levels and entities.

While the country has made considerable progress in moving from a manual system of accounts to a digital system, the full benefits of such a move have not been reaped because of a lack of business process re-engineering. Digitisation is much more than putting in numbers in a computer that would have been manually recorded on a piece of paper otherwise. If transactions, like payments, are done in electronic mode, all the necessary details – the purpose, to whom, from where, when and how much – can be captured right at the time of data entry.

Since auditing is necessary to ascertain the transparency and accountability of public funds and this has remained an unfinished task so far, **we recommend the online availability of both provisional accounts of the previous year and audited accounts of the year before previous as entry level condition to avail of the grants.**

As in the case of the rural local bodies, in order to be eligible for grants, **the urban local bodies too have to mandatorily prepare and make available online in the public domain annual accounts of the previous year and the duly audited accounts of the year before previous. Such audited accounts should include the minimum of a) balance sheet; b) income and expenditure statement; c) cash flow statement; and d) schedules to balance sheet, income and expenditure statement and cash flow statement.**

Given the pandemic and the complexities involved in the task for auditing of accounts, in the first and second year of the award period (2021-22 and 2022-23), States need to ensure that at least 25 per cent of the urban local bodies have both their provisional accounts for the previous year and audited accounts for the year before the previous available online in the public domain in order for them to avail of the full grants in that year. From the third year (2023-

24) onwards, States will receive total grants due to the urban local bodies having both provisional accounts of the previous year and audited accounts for the year before previous and making these available online.

## **2.5. National Municipal Accounts Manual, November 2004**

As mentioned earlier, in terms of the Eleventh Finance Commission recommendations and the Guidelines issued by the Ministry of Finance, Government of India, C&AG constituted a Task Force to recommend budget and accounting formats for ULBs of India. The C&AG Task Force issued a “Report on Accounting and Budget Formats for ULBs” suggesting accrual basis of accounting and budget and accounting formats, significant accounting policies, cost of important utilities and services and MIS reports. Ministry of Urban Development, Government of India published National Municipal Accounts Manual (NMAM) in November 2004, based on the TASK Force Report. The NMAM comprehensively detailed the accounting policies, procedures, guidelines designed to ensure correct, complete and timely recording of municipal transactions and produce accurate and relevant financial reports. The Ministry directed that the manual may be adopted and followed by the various State Governments while drafting their state specific municipal accounts manuals.<sup>39</sup>

### *Chapter Structure of NMAM*

The structure of the NMAM is divided into four parts and thirty-four chapters. The details of the chapter structure are as below:

#### Part I - General

- Introduction
- Definitions, Accounting Concepts, & Accounting Conventions
- Significant Accounting Principles

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<sup>39</sup> Reader of this publication may refer to the complete version of the NMAM for detailed understanding.

Municipalities of India – Understanding its Financial Management, Accounting, Fiscal Management, Auditing, and Compliances

- Codification Structure & Chart of Accounts
- General Accounting Procedures

Part II - Accounting for Transactions

- Property & Other Taxes
- Octroi
- Cess
- Water Supply
- Assigned Revenues
- Rentals, Fees & Other Incomes
- Public Works
- Stores
- Employee Related Transactions
- Health & Sanitation
- Other Revenue Expenditures
- Grants
- Borrowings (Loans Received)
- Special Funds
- Investments
- Fixed Assets
- Lease & Hire Purchase
- Loans & Advances
- Special Transactions
- Addition/Merger of Local Bodies
- Inter-Unit transactions
- Transactions relating to Municipal School Board
- Transactions relating to Transport Undertaking

Part III - Period-end Requirements

- Period-end Procedures
- Reconciliation Procedures
- Financial Statements
- Audit Report

Part IV - Others

- Budgeting & MIS reports
- Guidelines for preparation of Opening Balance Sheet

Also included are formats of various forms and registers.

*Basic Accounting Philosophy of NMAM*

NMAM primarily focussed on the concept of accrual basis of accounting and recommended for uniform application in the ULB. It was also proposed that States would develop accounting principles placed in the state level manual based on this to suit their requirements. However, the principles laid down in this manual should be complied with. Similarly, the manual provides for integrating the budgeting and accounting systems to enable better control.

*Concept of Single-Fund and Multiple-Fund Accounting*

NMAM supported both single-fund and multiple-fund accounting systems. Many ULBs vide compliance of their State-specific legislation maintain a single fund usually called Municipal Fund. Some State-specific laws follow multiple-fund under the Municipal Fund. A sample distinction between single-fund and multiple-fund as provided under two different state-specific legislations are provided in **Table 4** below:

**Table 4: Concept of Single-Fund and Multiple-Fund Accounting**

<b>Concept of Single-Fund under The Telangana Municipalities Act, 2019 (Telangana State Act No. 11 of 2019)</b>	<b>Concept of Multi-Fund under Kolkata Municipal Corporation Act, 1980 (West Bengal Act No. Act, No. 29 of 1980)</b>
<b>Section 106. Definition of Municipal Fund:</b> (1) All the moneys received by the Municipality shall constitute a fund, which shall be called the Municipal Fund, and shall be applied and disposed of, subject to the provisions of the Act or other laws as prescribed by the	<b>Section 119. Municipal Fund:</b> (1) There shall be a fund to be called the Municipal Fund to be held by the Corporation in trust for the purposes of this Act and all moneys realised or realisable under this Act and all moneys otherwise received by the

<b>Concept of Single-Fund under The Telangana Municipalities Act, 2019 (Telangana State Act No. 11 of 2019)</b>	<b>Concept of Multi-Fund under Kolkata Municipal Corporation Act, 1980 (West Bengal Act No. Act, No. 29 of 1980)</b>
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Government. The Municipal fund consists of,-

- (a) all moneys received;
- (b) all proceeds of the disposal of Municipal property;
- (c) all rents on the Municipal property;
- (d) taxes, cess, fees and fines collected;
- (e) compensation on account of compounding offences;
- (f) moneys received from Government or public bodies, or private individuals as Grant, donations, gift or deposit;
- (g) interests and profits from banking transactions and any other transactions;
- (h) loans, bonds etc., raised by the Municipality;
- (i) accumulated fund in the Municipality standing to the credit before the commencement of this Act.

Corporation shall be credited thereto.

(2) The Municipal Fund shall be maintained in the following six accounts namely:

- (a) the water supply, sewerage and drainage account,
- (b) the road development and maintenance account,
- (c) the bustee service account,
- (d) the commercial project account,
- (e) the solid waste account, and
- (f) the general account which shall relate to all moneys received by or on behalf of the Corporation other than those specified in clause (a), clause (b), clause (c), clause (d), or clause (e).

Explanation:- For the purpose of this section, "commercial projects" shall include municipal markets, market development projects, property development projects, and such projects of a commercial nature as may be specified by the Corporation from time to time.

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Funds are instituted for achieving certain objectives. Dedicated multiple funds or separate accounts under the Municipal Fund as shown above serves as ring-fenced accounts and all incomes from the services (taxes and charges) and related to the fund is kept in this fund and expenditure are also met out of the fund. The concept of funds brings accountability and better transparency. Such types of funds are normally treated as a separate

accounting entity and separate books are maintained for the same. Hence, separate financial statements are usually prepared for each fund and then consolidation happens at the municipal fund level. In such a case each fund shall follow the principles and procedures given in NMAM. A ULB may also be able to create separate account codes for the same. The treatment for fund accounting is provided in the NMAM.

### *Accounting for Separate Undertakings*

Some municipal laws provide and allow ULBs to operate special undertakings like schools, transportation facilities on a commercial basis. Like Chapter XX of The Maharashtra Municipal Corporations Act (Act No. LIX of 1949) (*earlier, The Bombay Provincial Municipal Corporation Act, 1949*) provided that ULBs can acquire, establish, and operate a transport undertaking. The recommendations of NMAM will also be applicable to such undertakings, if constituted by the ULB.

Many ULBs recently invested in Smart City Companies (formed under the Companies Act, 2013) for implementation of projects under the National Smart Cities Mission of Government of India (2015-2025). Since, these companies are incorporated as special purpose vehicles under the Companies Act, 2013 their financial management are guided by the provisions of Companies Act, 2013. ULBs investing in these companies will record their investments and transactions in the books of accounts of the ULB and disclose such investments in its financial statements following the NMAM or the state-specific manuals. The Smart City Companies are not supposed to follow the principles of NMAM.

### *Definitions, Concepts, and Conventions*

The definitions provided in the NMAM are referred to in from (a) “A Dictionary for Accountants” by Eric L. Kohler, (b) “Guidance Note on Terms used in Financial Statements” issued by the Institute of Chartered Accountants of India (ICAI), and (c) as suggested by the consulting team that were responsible for the drafting of the NMAM. The list of definitions covers various accounting aspects, events, and terms.

Accounting concepts are the basic assumptions on which accounting operates. The guidelines that are followed to prepare financial statements are called accounting conventions. Financial accounting is related to the

recording of financial transactions, summarising and interpreting them, and communicating the results to the interested parties. Accounting information is understandable in a better manner if prepared with the following set of accounting concepts and conventions uniformly. The accounting concepts and accounting conventions have been developed over the years from experience, reason, usage and necessity and are generally accepted for accounting of transactions and preparation of Financial Statements. Accounting concepts and conventions are developed to facilitate communication of the accounting and financial information to all the readers of the Financial Statements, so that all readers interpret the statements in the same meaning and context.

NMAM suggested the following accounting concepts to be followed for municipal accounting are as follows:

- Entity Concept,
- Dual Aspect or Accounting Equivalence Concept,
- Going Concern Concept,
- Money Measurement Concept,
- Cost Concept,
- Accounting Period Concept,
- Accrual Concept,
- Periodic Matching of Cost and Revenue Concept, and
- Realisation Concept.

NMAM suggested the following accounting conventions to be adopted by ULBs to make financial statements clear and meaningful:

- Convention of Disclosure,
- Convention of Materiality,
- Convention of Consistency, and
- Convention of Conservatism.

*Recommended Significant Accounting Principles by NMAM*

NMAM provided a detailed list and explanation of Significant Accounting Principles that ULBs need to adopt and disclose in its financial statements as notes to accounts in respect of important accounting principles adopted in preparing and presenting such information. The Significant Accounting Principles as mentioned in NMAM and as adopted by the ULB shall be followed consistently each year. NMAM further mentions that where any of the accounting principles adopted by the ULB while preparing its annual financial statements are not in conformity with the principles prescribed in the NMAM and the effect of deviation from the accounting principles is material, the particulars of the deviation shall be disclosed, together with the reasons and the financial effect thereof, except where such effect is not ascertainable. In case the financial effect thereof is not ascertainable, either wholly or in part, the fact that it is not so ascertainable shall be indicated.

Hence, it was expected that, the state-specific manual would adopt the Significant Accounting Principles as mentioned in NMAM. In addition, any change in the accounting principles which has no material effect on the annual financial statements for the current period, but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the financial statements of the period in which the change is adopted.

#### *NMAM recommended Chart of Accounts and the Codification Structure*

Chart of Accounts as defined in the NMAM is, “a systematically arranged list of accounts applicable to a specific concern, giving account names and numbers, if any.” (Kohler). Therefore, a chart of accounts (COA) is an index of all the head of financial accounts that would be used in a concern's general ledger. In short, it is an organizational tool that lists by category and detailed items of the head of accounts that would be used for the financial transactions that the concern will conduct during a specific accounting period.

NMAM recommended the COA to not only fulfil the accounting requirements but also to meet the budgeting and MIS requirements. NMAM kept the COA flexible enough to consolidate and collapse to facilitate generation of various information reports. The structure suggested in NMAM, have been developed based on the recommendations of C&AG Task Force Report with certain modifications. NMAM suggested a multi-grouped or multi-layered codification structure. NMAM kept some groups/layers as mandatory or compulsory (C) that all States and Union Territories while developing their own state-specific

manuals to adhere and some groups/layers as optional (O) for States and Union Territories to suggest in their state-specific manual for the ULBs to adopt.

The mandatory or compulsory groups for all ULBs to adopt and follow are:

- Functions, and
- Account Heads

Functions shall represent the various functions or services carried out by the ULB in accordance with the State-specific municipal legislation. Some functions are obligatory functions, and some are discretionary functions. Moreover, the Twelfth Schedule to the Constitution (read with Article 243W) required that eighteen specific functions should be provided by all ULBs of India. The list of eighteen functions as per the Twelfth Schedule are provided earlier and may be referred to. The list of broad functions that are listed by NMAM are:

- General Administration
- Planning & Regulations
- Public Works
- Health
- Sanitation and Solid Waste Management
- Civic Amenities
- Urban Forestry
- Urban Poverty Alleviation & Social Welfare
- Other Services
- Revenues

A ULB is expected to provide the above functions to serve the purposes of the legislation. These functions are provided by certain departments, wings, or sections of the ULB. NMAM had grouped these departments, wings, or sections as Functionaries. Functionaries are explained later. A ULB will also prepare its budgets as according to its functions and account for income and expenditure in relation to the functions.

Account Heads as explained in NMAM represent the name of the accounting head groups and detailed accounting heads which are used to account the

financial transactions of the ULB. A few of the sample broad groups of account head includes the following:

*Income Account Heads (illustrative samples of broad groups of accounts)*

- Tax Revenue
- Assigned Revenues & Compensations
- Rental Income from Municipal Properties

*Expenditure Account Heads (illustrative samples of broad groups of accounts)*

- Establishment Expenses
- Administrative Expenses
- Operations & Maintenance

*Liability Account Heads (illustrative samples of broad groups of accounts)*

- Municipal (General) Fund
- Earmarked Funds
- Reserves

*Asset Account Heads (illustrative samples of broad groups of accounts)*

- Fixed Assets
- Capital Work-in-progress
- Investments - General Fund

The optional groups that the State/Union Territory and ULBs may adopt, and follow are:

- Functionary/ies (Responsibility centre/department)
- Field (Geographical centre)
- Funds

*Functionary*, as explained above the functions of the ULB would be discharged by the department, wings, and sections that becomes the responsibility centre for the assigned functions. These department, wings, and sections are grouped into functionary/ies. Each sub-level/layer within this group typically can represent the organisational structure within the ULB. This level is used only for the internal control of the ULB.

Field represents the way the ULBs are aligned geographically into municipal wards. Municipal wards are the lowest level administrative unit of a municipality and of the governance structure in our entire country in relation to urban geography.<sup>40</sup>

Funds as explained earlier, represents the way the municipal fund is segregated into single-fund or multiple-fund to ring-fence the purpose of the functions. When funds are introduced, the accounting and annual financial statements would be prepared fund wise.

For every group or layer, NMAM suggested multiple levels and assigned a numeric code for easy recognition and use of the heads for the purpose of budgeting, accounting, and MIS reporting.

Numeric Codification for Function Head of the ULB can have three levels within it. First level under this group can represent various functions both obligatory and discretionary. Second Level in function could represent the particular type of service under a function and third level can represent a particular cost center, which provides the service. The first level of Functions/codes is mandatory for all ULBs.

Numeric Codification for Account Heads can be divided into two levels: Primary and Secondary. Primary account code represents the subject of the income, expenditure, liability, and asset.

- Primary Account Codes: The Code of an Account head as recommended by NMAM shall be numeric and shall be 7 digits. A 7-digit code is suggested to give flexibility to add new codes and for each State to define certain of its unique requirements. The code is structured into:
  - i. Major Head Code (3-digits),
  - ii. Minor Head Code (2-digits), and
  - iii. Detailed Head Code (2-digits).

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<sup>40</sup> For a rural geography, the Gram Sabha is the body consisting of all the people registered in the electoral rolls who belong to a village comprised within the area of the Panchayat at the village level. Gram Sabha is the smallest and the only permanent unit in the Panchayati Raj system.

- Secondary Account codes: NMAM suggested this to be optional and would depend on requirements of a local body. These would typically represent the subsidiary ledgers and other analysis ledgers. For example, contractors control account can be maintained contractor wise at this level. This level is needed only for the internal control of the ULB.

It is pertinent to note that as NMAM had suggested, the first digit of the 3-digit Major Head Code shall indicate the nature or type of the account. The first digit shall be assigned one of the following numbers depending on the nature of the account:

- “1”, shall denote an account relating to “Revenue Income”
- “2”, shall denote an account relating to “Revenue Expenditures”
- “3”, shall denote an account relating to “Capital Receipts & Liabilities”
- “4”, shall denote an account relating to “Capital Expenditures & Assets”

The next 2 digits of the 3-digit Major Head Code shall denote the group codes for the various head of accounts. The 2-digit Minor Head Code is a subset of the Major Head Code. Thus, it shall be necessary to refer the Minor Head Code in conjunction with the associated Major Head Code. The Detailed Head Code shall also be of 2 digits, and it shall be a subset of the Minor Head Code. Thus, it shall be necessary to refer the Detailed Head Code in conjunction with the associated Minor Head Code and the linked Major Head Code.

The sample codification structure for the function and primary account codes as proposed by the NMAM is shown in **Figure 9** below by way of snapshots from the original version of the NMAM. This is only to help the reader relate the discussion above with what provided in NMAM.

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**Functions Listing**

Function Group Code	Function - Group	Function Code	Function Description	Illustrative List of Other functions possible grouping
<b>00</b>	<b>General Administration</b>			
		01	Municipal Body	General Body, All Committees, Mayor / Council Members office, Secretariat
		02	Administration	General Admin, Public Relations, IT, Legal, Vigilance
		03	Finance, Accounts, Audit	
		04	Election	
		05	Record Room	
		06	Estate	
		07	Stores & Purchase	
		08	Workshop	
		09	Census	
<b>10</b>	<b>Planning &amp; Regulations</b>			
		11	City and Town Planning	
		12	Building Regulation	
		13	Economic Planning	
		14	Encroachment Removal	
		15	Trade License / Regulations	
<b>20</b>	<b>Public Works</b>			
		21	Roads and Pavement	
		22	Bridges and Fly overs	
		23	Subways & Causeways	
		24	Street Lighting	
		25	Storm water Drains	
		26	Traffic Signals	
		27	Guest Houses	

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**CoA Listing – Income**

Major Code	Major Head Description	Minor Code	Minor Head Description	Detailed Heads	Remarks
<b>110</b>	<b>Tax Revenue</b>				
		01	Property Tax	Residential, Commercial, Land, Service Charges	
		02	Water Tax		
		03	Sewerage Tax		
		04	Conservancy Tax		
		05	Lighting Tax		
		06	Education Tax		
		07	Vehicle Tax		
		08	Tax on Animals		
		09	Electricity Tax		
		10	Professional Tax		
		11	Advertisement Tax	Land hoarding, Bus Shelters, Traffic signals	
		12	Pilgrimage Tax		
		51	Octroi & Toll	Octroi, Toll, Provisional Octroi, Account current Importers	
		52	Cess	Gross Cess, Net Cess	
		80	Others Taxes		
		90	Tax Remission & Refund	All Types of Taxes	
<b>120</b>	<b>Assigned Revenues &amp; Compensations</b>				
		10	Taxes and Duties collected by others	Entertainment Tax, Duty on Transfer of Properties	
		20	Compensation in lieu of Taxes / duties	Compensation in lieu of Octroi, Octroi in lieu of Electricity	
		30	Compensations in lieu of Concessions	Property Tax compensations due to concessions certain set of tax payers	

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**CoA Listing – Expense**

Major Code	Major Head Description	Minor Code	Minor Head Description	Detailed Heads	Remarks
<b>210</b>	<b>Establishment Expenses</b>				
		10	Salaries, Wages and Bonus	Salaries & Allowances- Officers, staff, Wages, Exgratia, bonus, Octroi Performance Bonus	
		20	Benefits and Allowances	Overtime Allowance, LTC, Medical Reimbursement, Tuition Fees, Education Allowance, Uniform to staff, Compensation to staff, Honorarium to Corporators, Officers and Staff, Training, staff welfare expenses, HRD activities,	
		30	Pension	Pension, Family Pension, Pension contribution, Pension Fund Deficit Contribution, Contribution to other funds	
		40	Other Terminal & Retirement Benefits	Leave encashment, Death cum Retirement gratuity, Contribution to PF or other Funds. Leave Salary contribution	
<b>220</b>	<b>Administrative Expenses</b>				
		10	Rent, Rates and Taxes		
		11	Office maintenance	Electricity, Water, Security expenses	
		12	Communication Expenses	Telephone, Mobile, Fax	
		20	Books & Periodicals	Magazines, Newspapers, Journals,	

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**CoA Listing – Liability**

Major Code	Major Head Description	Minor Code	Minor Head Description	Detailed Heads	Remarks
<b>310</b>	<b>Municipal (General) Fund</b>				
		10	Municipal Fund	Closing Balance, Adjustments to Opening balance sheet	
		90	Excess of Income and Expenditure		
<b>311</b>	<b>Earmarked Funds</b>				
		10- 49	Special Funds (Specify each Fund name)	All developmental funds and special purpose funds. E.g.. Examples Road Fund, Water Supply Fund, City Development Fund etc)	0 - Opening Balance, 1- 9 Additions to Grants during the period, 11 - 29 Revenue
		50 - 69	Sinking Funds (Specify each Fund Name)	All Borrowing repayments funds, Asset Replacement Funds	Income earned, 30- 49 Capital
		70-99	Trust or Agency Funds (Specify each Fund Name)	Examples, all employee related funds like PF, Pension etc.	Income earned, 50- 69 Revenue Expenses payments, 70-89 capital expenses payments

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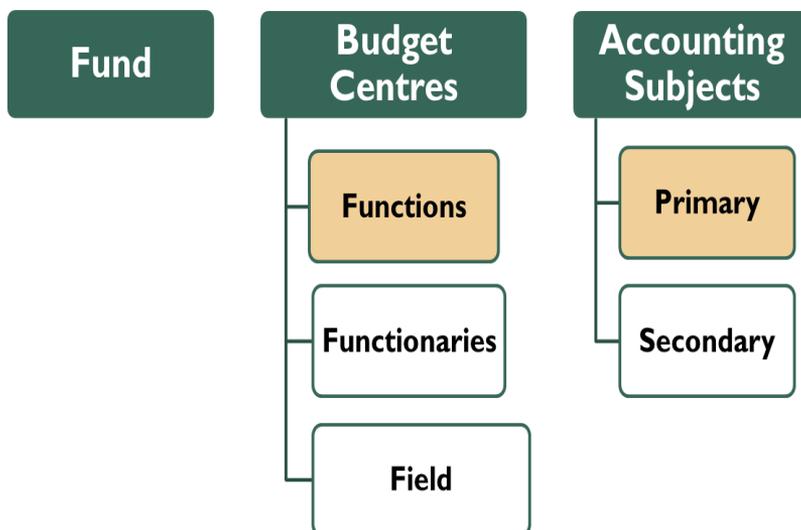
**CoA Listing - Asset**

Major Code	Major Head Description	Minor Code	Minor Head Description	Detailed Heads	Remarks
<b>410</b>	<b>Fixed Assets</b>				
		10	Land	Grounds, Open markets, Parks, Gardens	
		20	Buildings		
		30	Roads & Bridges	Concrete , Black Topped, Others	
		31	Sewerage and Drainage	Open, Underground,	
		32	Waterways	Borewells, Open wells, Reservoirs	
		33	Public Lighting	Lamp posts, Transformers	
		40	Plant & Machinery		
		50	Vehicles	Ambulance, Buses, Cars, Jeeps, Cranes, Trucks, Tankers	
		60	Office & Other Equipments	Air conditioners, Computers, Faxes, Photocopiers, Refrigerators	
		70	Furniture, Fixtures, Fittings and Electrical Appliances	Cabinets, Cupboards, Chairs, Fans, Electrical Fittings	
		80	Other Fixed Assets		
		90	Assets under Disposal		Note: This account will not have balance at the year end

**Figure 9: Snapshots of Suggested Codification in NMAM**

NMAM had also suggested codification structure for ULB Codes and State-District Category Code. In addition to this to facilitate state level or national level aggregation, NMAM suggested that each ULB can be assigned a code. This could represent the state to which it is attached, and the unique code assigned by the State. While state code can be assigned at the national level, the state governments shall prescribe a code for each Municipal body related to the category (e.g. Corporations, Municipality etc.).

If a ULB adopts the NMAM suggested codification structure the codification outline would be as follows in **Figure 10**.



**Figure 10: NMAM Suggested Codification Grouping**

#### *Chart of Accounts and the Codification Structure adopted in State Manuals*

Based on the suggested codification structure many states have either adopted the same structure exactly as suggested by NMAM and provided codes for all levels that were left by the NMAM to be done by States. Some states have modified the structure to some extent to fit in their state-specific requirements. Let us see the structure adopted by two states – one exactly keeping the structure as suggested by NMAM and the other modifying it as per the state's requirements. The two state manuals taken up for explanation are:

- **Tripura** – Tripura Municipal Accounting Manual, followed the structure as suggested by NMAM.
- **Bihar** – Bihar Municipal Accounting Manual (BMAM), where certain modifications considered vis-à-vis the NMAM suggested codes.

#### *Tripura Municipal Accounting Manual*

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Tripura Municipal Accounting Manual (TMAM) adopted fund-based accounting and adopted the following codification structure. The snapshots provided in **Figure 11**:

- Municipality Code,
- Fund Code,
- Field Code (Zones and Ward),
- Function-Functionary Codes (Budget Centres), and
- Account Head.

*TMAM Municipality Code - Snapshot*

Name of the ULB	ULB Code
Agartala Municipal Council	<b>B01</b>
Amarpur Nagar Panchayat	<b>C01</b>
Belonia Nagar Panchayat	<b>C02</b>
Dharmanagar Nagar Panchayat	<b>C03</b>
Kailashahar Nagar Panchayat	<b>C04</b>
Kamalpur Nagar Panchayat	<b>C05</b>
Khowai Nagar Panchayat	<b>C06</b>
Kumarghat Nagar Panchayat	<b>C07</b>

*TMAM Fund Code - Snapshot*

Fund Codes [Code Length = 4 (Four)]				
Major Fund Code	Description	Minor Fund Code	Description	Remarks
10	Municipal Fund	01	Administrative Fund	To consider all transaction that concerns general administration of the ULB
		02	Basic Services to Urban Poor Fund	To consider all transaction that concerns providing specific services to Urban Poor Settlements
		03	Water Supply and Sanitation Fund	To consider all transaction that concerns provision of water and sanitation facilities for the entire ULB
		04	Solid Waste Management Fund	To consider all transaction that concerns provision of SWM services for the entire ULB
		05	City Transport Fund	To consider all transaction that concerns provision of city transport facilities for the entire ULB
		06	City Development/Capital Works Fund	To consider all transaction that concerns provision of development works (other than that covered above) for the entire ULB, e.g. Roads, Flyovers, UGD, Parks, Plantations, Street Lights, etc.

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*TMAM Field Code - Snapshot*

<b>Field Codes</b> [Code Length = 4 (Four)]				
Major Field Code	Zone Description	Minor Field Code	Ward Description	Remarks
01	Head Office	00	<i>For the entire ULB</i>	<i>To record all financial transactions that concerns the entire city under the ULB and not specific to any Zone and/or Ward</i>
02	Zone 1	00	<i>Entire Zone 1</i>	<i>To record all financial transactions that concerns the entire Zone and not specific to any ward</i>
		09	<i>Ward XX</i>	<i>To record all financial transactions that concerns the specific ward</i>
		10	<i>Ward XX</i>	<i>To record all financial transactions that concerns the specific ward</i>
		11	<i>Ward XX</i>	<i>To record all financial transactions that concerns the specific ward</i>
		12	<i>Ward XX</i>	<i>To record all financial transactions that concerns the specific ward</i>

*TMAM Function-Functionary Code - Snapshot*

<b>Function and Functionary</b> [Code Length = 6 (Six)]						
Function Group Code	Function Group Description	Function Head Code	Function Head Description	Functionary Code	Functionary Description	Remarks
00	<i>General Administration</i>	00		00	<i>Consolidated - General Administration</i>	<i>System Code</i>
		01	<i>Municipal Authorities</i>	00	<i>Consolidated - Municipal Authorities</i>	<i>System Code</i>

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				01	Chairpersons' Office	
				02	Ward Councillors' and Ward Affairs Offices	
				03	Zone Committees	
				04	Ward Committees	
				05	Blank	
				06	Blank	
		02	Administration	00	Consolidated - Administration	System Code
				01	Municipal Administration Wing	
				02	Legal Cell	
				03	Personnel, Training, and Capacity Development Cell	
				04	Confidential, Public Grievance, and RTI Cell	
				05	General Receive and Dispatch Cell	
				06	Establishment and Housekeeping Cell	
				07	Public Relation, Publicity, Press, & Information Cell	
				08	Blank	
				09	Blank	
		03	Finance, Accounts & Audit	00	Consolidated - Finance, Accounts, & Audit	System Code
				01	Budget & Accounts Cell	
				02	Billing Cell	
				03	Cash Collection and Disbursement Cell	
				04	Pension and Provident Fund Cell	
				05	Internal Audit Cell	
				06	Blank	
				07	Blank	

TMAM Account Code - Snapshot

Account Heads - Revenue Income								
[Code Length = 7 (Seven)]								
Major Heads			Minor Heads			Detailed Heads		Remarks
Primary Code	Description	Secondary Code	Description	Code	Description	Code	Description	
1	Revenue Income	10	Tax Revenue	00		00	Consolidated Tax Revenue	System Code
				01	Property Tax	00	Consolidated Property Tax	System Code
						01	Property Tax on Residential Properties	
						02	Property Tax on Commercial Properties	
						03	Property Tax on Vacant Land	
						04	Service Charges in Lieu of Property Tax	
						05	Town Development Cess	
						06	Education Cess	
						07	Blank	

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<b>Account Heads - Revenue Expenditure</b>								
[Code Length = 7 (Seven)]								
Major Heads				Minor Heads		Detailed Heads		Remarks
Primary Code	Description	Secondary Code	Description	Code	Description	Code	Description	
2	Revenue Expenditure	10	Establishment Expenses	00		00	Consolidated Establishment Expenses	System Code
				10	Salaries, Wages and Bonus	00	Consolidated Salaries, Wages and Bonus	System Code
						01	Salaries & Allowances - Officers	
						02	Salaries & Allowances - Staff	
						03	Wages	
						04	Bonus & Ex-Gratia	
						05	Honorarium	
						06	Arrear and Supplementary Pay	

<b>Account Heads - Capital Receipts &amp; Liabilities</b>								
[Code Length = 7 (Seven)]								
Major Heads				Minor Heads		Detailed Heads		Remarks
Primary Code	Description	Secondary Code	Description	Code	Description	Code	Description	
3	Capital Receipts & Liabilities	10	Accumulated Fund	00		00	Consolidated Accumulated Fund	System Code
				10	Municipal Fund	00	Consolidated Municipal Fund	System Code
						01	Previous Year Closing Balance	
						02	Adjustments to Opening Balance Sheet	
						03	Current Year Closing Balance	
				20	Pension Fund	00	Consolidated Pension Fund	System Code
						01	Previous Year Closing Balance	
						02	Adjustments to Opening Balance Sheet	
						03	Current Year Closing Balance	

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Account Heads - Capital Expenditure & Assets (Code Length = 7 (Seven))								
Major Heads				Minor Heads		Detailed Heads		Remarks
Primary Code	Description	Secondary Code	Description	Code	Description	Code	Description	
4	Capital Expenditure & Assets	10	Fixed Assets	00		00	Consolidated Fixed Assets	System Code
				10	Land	00	Consolidated Land	System Code
						01	Vacant Land (Freehold)	
						02	Vacant Land (Leasehold)	
						03	Vacant Land (Encroached)	
						04	Vacant Land (Available for PPP)	
						05	Play Grounds / Fair Grounds	
						06	Parks & Gardens	
						07	Stadiums	
						08	Burial Ground	
						09	Dumping Ground and Land Fill Sites	
				20	Buildings	00	Consolidated Building	System Code
						01	Office Buildings	
						02	Community Building	
						03	Market Building	
						04	Hospital Building	
						05	Building attached to Treatment Plants	
						06	Building attached to Civic Amenities	
						07	School Buildings	
						08	Burning Ghat	
						09	Open Theatre	

**Figure 11: Snapshots of Codified COA in Tripura Municipal Accounting Manual**

A sample codification structure (the full code string) as adopted by TMAM for its ULBs can be found in **Figure 12** as below. It concerns the demand for property tax on residential properties:

Property Tax Demand Generation on Residential Properties of ULB's Ward 09 of Zone 1 by Property Tax Department		
Code Type	Code	Description
Fund	10-01	<b>Municipal Fund - Administrative Fund</b>
Field	01-09	Zone 1 - Ward 09
Function and Functionary	90-91-01	Revenues - Property Tax - Property Tax Assessment Cell
Account Code	110-01-01	Property Tax on Residential Properties

**Figure 12: Sample Code String from Tripura Municipal Accounting Manual**

*Bihar Municipal Accounting Manual*

The coding structure for ULBs of Bihar was recommended in Bihar Municipal Accounting Manual (BMAM) to contain of the following groups, viz.

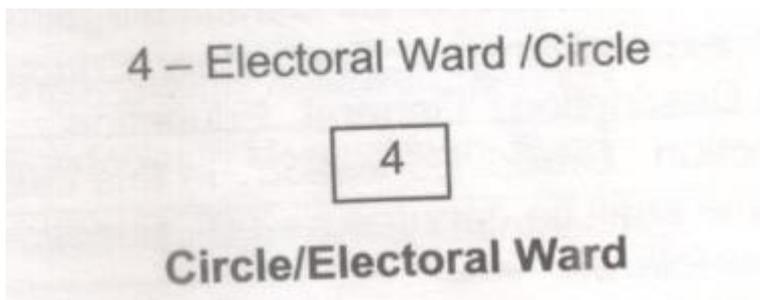
- Fund,
- Function,
- Field, and
- Account Head.

The snapshots provided in **Figure 13**.

*BMAM Fund Code - Snapshot*

Major Fund Cod	Fund
1	Municipal General Fund
2	Basic service for Urban Poor
3	Water Supply & Sewerage Fund
4	Solid Waste Management Fund
5	Road Development & Maintenance
6	Enterprise Fund

*BMAM Field Code - Snapshot*



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*BMAM Function Code - Snapshot*

Function Codes						
Function Group Code		Function Code		Sub Function Code		Description
0	0	0	0	0	0	General Administration
0	0	0	1	0	0	Municipal Body
0	0	0	2	0	0	Administration
0	0	0	3	0	0	Finance, Accounts, Audit
0	0	0	3	0	1	Accounts
0	0	0	4	0	0	Election
0	0	0	5	0	0	Record Room
0	0	0	6	0	0	Estate
0	0	0	7	0	0	Stores & Purchase
0	0	0	8	0	0	Workshop
0	0	0	9	0	0	Census

*BMAM Account Code - Snapshot*

Accounting Code											
Account Head – Income-1											
Major Head	Major head Descriptions	Minor Head	Minor head description	Detail Head Code	Detail head Description	Sub Detailed head	Sub Detail head Description	Major Head	Minor Head	Detailed head	Sub Detailed head
0	0	0		0	0	0		0	0	0	0
1	1	0	Tax Revenue	0	0	0		1	1	0	0
1	1	0		0	1	0	Holding Tax	0	0	0	0
1	1	0		0	2	0	Water Tax	0	0	2	0
1	1	0		0	3	0	Latrine Tax	0	0	3	0
1	1	0		0	4	0	Sanitation Tax	0	0	4	0
1	1	0		0	5	0	Lighting Tax	0	0	5	0
1	1	0		0	6	0	Education Tax	0	0	6	0
1	1	0		0	7	0	Vehicle Tax	0	0	7	0
1	1	0		0	8	0	Animal Tax	0	0	8	0

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**Accounting Head-Expenditure -2**

2	1	0	Establishment Expenses	0	0	0	0	0	0	2	1	0	0	0	0	0	0	0			
2	1	0		1	0	Salaries, Wages and bonus	0	0		2	1	0	1	0	0	0	0	0			
2	1	0		1	0		0	1	Salaries & Allowances	0	0		2	1	0	1	0	0	1	0	0
2	1	0		1	0		0	1		0	1	Salaries & Allowances – Chief municipal officer	2	1	0	1	0	0	1	0	1
2	1	0		1	0		0	1		0	2	Salaries & Allowances-Permanent	2	1	0	1	0	0	1	0	2

**LIABILITIES & CAPITAL**

3	1	0	Municipal (General) Fund	0	0	0	0	0	0	3	1	0	0	0	0	0	0	0			
3	1	0		1	0	Municipal Fund	0	0		3	1	0	1	0	0	0	0	0			
3	1	0		1	0		0	1	General Fund	0	0		3	1	0	1	0	0	1	0	0
3	1	0		1	0		0	2	Basic Service for Urban Poor	0	0		3	1	0	1	0	0	2	0	0
3	1	0		1	0		0	3	Water Supply Fund	0	0		3	1	0	1	0	0	3	0	0
3	1	0		1	0		0	4	Drainage & Sewerage Fund	0	0		3	1	0	1	0	0	4	0	0

**Asset**

4	1	0	Fixed Assets	0	0	0	0	0	0	4	1	0	0	0	0	0	0	0			
4	1	0		1	0	Land	0	0		4	1	0	1	0	0	0	0	0			
4	1	0		1	0		0	1	Land- Municipality	0	0		4	1	0	1	0	0	1	0	0

**Figure 13: Snapshots of Codified COA in Bihar Municipal Accounting Manual**

*NMAM recommended General Accounting Procedures*

NMAM provided in detail the general accounting procedures that the ULBs may adopt while migrating to DEAAS. The forms, formats, and registers that NMAM suggested all supports to migrate to DEAAS. NMAM suggested the following primary Books of Accounts that shall be maintained at the ULB to follow DEAAS:

- Cash Book (Form GEN-1) for transactions in cash and cash equivalents,
- Journal Book (Form GEN-2) for non-cash or non-cash equivalent transactions,
- Ledger (Form GEN-3) for compilation of account-specific transactions.

NMAM suggested various types of vouchers to be prepared by the ULBs that shall form the base documents for recording the transactions in the primary Books of Accounts. The vouchers are:

- Cash/Bank Receipt Voucher (Form GEN-4)
- Cash/Bank Payment Voucher (Form GEN-5)
- Contra Voucher (Form GEN-6)
- Journal Voucher (Form GEN-7)

In addition, NMAM suggested many types of registers like Receipt Register, Statement on Status of Cheques Received, Collection Register, Summary of Daily Collection, Register of Bills for Payment, etc.

NMAM did not specifically suggest for computerized accounting **but** ensured that the forms, formats, registers, and account codification suggested are compatible with computerized accounting. But this left a huge vacuum for the States and ULBs to understand the process of migration to DEAAS. Implementing DEAAS on a manual platform was an uphill challenge for all ULBs that included migration of legacy data that were largely maintained on a manual platform. As the decision to select and choose manner of computerization of municipal accounting was left to States and ULBs to decide, this created more anomalies in the process of implementation. This also delayed the process of implementation. States and ULBs who did not receive any grants and funds from the State Government or under any externally aided projects (EAPs) were left to wonder how to implement the DEAAS, which actually required funds to implement. Again, availability of an accounting application software was not the only solution, which many ULBs

thought that installation of any off-the-shelf computer application (*all available COTS – accounting application for commercial accounting*) for accounting will solve all issues to implement DEAS overnight. The major issue that all ULBs faced gradually had been to change the business processes and procedure to embed the process of DEAS across all functions of the ULB. Accounting and financial reporting may be an end function of the activity-chain, but DEAS procedures and processes must be effective across the ULB.

#### *NMAM recommended Accounting for Transactions*

The entire Part II of the NMAM covered suggested accounting entries for all possible types of accounting transactions that each ULB accountant was supposed to learn to implement. Effects of all accounting transactions were also discussed in detail.

#### *NMAM suggested Period-end Requirements and Preparation of Opening Balance-Sheet, Budgets, and MIS Reports*

The entire Part III of the NMAM provided details of Period-end Procedures, Reconciliation Procedures, Financial Statements, and Audit Report. Part IV of the NMAM concerned preparation of opening balance sheet and preparation of budget and MIS.

The process of implementation is still an on-going as for various reasons the reformed system and method of municipal accounting is yet to be embedded within the system in most ULBs of India. This publication is not going to deliberate on the various implementation techniques and the success or failure of each technique, as various other literature is available that discussed about the implementation and the results of the implementation thereof. The most recent and comprehensive being the publication titled, “*Transition to accrual accounting: Models and learnings for Urban Local Bodies*”, an ICAI - ICAI ARF Study for NITI Aayog, January 2023. Nevertheless, the process of implementation during the last three decades threw some issues that needs addressing otherwise, the reforms will take more time before being embedded as an accepted system. The issues that need revised consideration of the appropriate authorities at State and ULB level to embed the DEAS as the only accounting system of a ULB are:

- Specific mention of adopting DEAS as the only accounting system in the State and Union Territory specific

legislation. To allow a period of 12 to 24 months for complete migration.

For example, under The Telangana Municipalities Act, 2019 (Telangana State Act No. 11 of 2019) Section 109 provides, on *Preparation of Annual Accounts*

(1) **The Commissioner shall prepare annual accounts by way of Double Entry Accrual Based Accounting System** with such information and in such form and manner, as may be prescribed under the rules and submit the annual accounts for approval of the Municipal Council.

(2) *The annual accounts shall be forwarded to the Director of State Audit and the audit shall be completed within such time, as prescribed under the rules.*

- Discontinue with the existing system on a definite time-bound approach. It has been found across many ULBs that there is a practice to maintain both accounting systems. The old system to ensure that existing municipal staffs continue with the existing system and engaging consultants to maintain a parallel DEAAS to comply with Central Finance Commission recommendations and other Mission Mode programs of GOI and access various grants associated with such recommendations and mission mode objectives. Also, some ULBs were concerned to migrate to issue municipal bonds that mandatorily requires DEAAS adoption. Hence, the objective of migration to DEAAS had only been to access funds. The overall objective of reforms gets defeated with such narrow objectives.
- Change the business processes of the entire ULB to adopt DEAAS. Accounting may-be an end function in the chain of any municipal activity. But if the processes and procedures are not re-engineered to adopt DEAAS, it will remain an uphill task and bound to fail.
- To sufficiently deploy municipal staff across all ULBs who are competent enough to adopt the system themselves. Insufficient institutional capacity and skill sets had been a

major impediment in the process of DEAS implementation.

- ULBs shall now need to own the process of accounting reforms that is continuing for almost the last twenty years. As mentioned, DEAS implementation is still a consultant driven initiatives. Consultants may be required to implement but the system must be embedded and run at the ULB premises and not at the office of the consultants.

## **2.6. Model National Municipal Asset Valuation Methodology Manual, January 2009**

The Model National Municipal Asset Valuation Methodology Manual, (NMAVMM) has been designed and adopted by Ministry of Urban Development, Government of India in January 2009 for use by the staff of urban local bodies (ULBs) to facilitate bringing on record the value of municipal assets determined during the course of preparation of Opening Balance Sheet. In particular, it will help to:

- determine the appropriate value, useful life and depreciation of municipal fixed assets and their reporting in the financial statements,
- increase the effectiveness of control over municipal fixed assets, and
- assist ULBs to which they belong to present its true and fair financial position, facilitate budgetary planning and control over resources.

Like the NMAM, this was also developed as a “model” manual. Hence, it laid down the policy level guidance in respect of asset valuation. States were allowed to adapt this manual to suit their needs in line with their accounting manual and ULB requirements.

The basic premises proposed for the valuation methodology of fixed assets at the time of preparation of opening balance sheet (OBS), as proposed under NMAVMM are:

- Considering the current practices in asset record maintenance, most ULBs do not have readily available records about existing assets.

- The purpose of valuation is not to determine the ‘correct value’ of an asset. It is to get a **reasonable estimate of the book value** for the purpose of including in a statement which reflects the ‘true and fair’ financial position of the ULB.
- Unlike other entities where valuation of assets affects share prices and / or prospective takeovers **based on valuation of the company**, this concern is not relevant to ULBs.
- Some assets present problems in terms of identification because of their nature – for example, underground drains cannot be easily verified while preparing asset list.
- Many assets of ULBs present problems in terms of resale or reuse. For example, roads which have been constructed cannot generally be disposed off, sold, nor reused.
- Even valuation at a nominal price Re 1/- is recommended for maintaining the asset on the fixed asset register. Hence, the value is not as important as the identification and correct recording of the nature of the asset.

Keeping these concerns in mind, the NMAVMM provides the following premises for valuation:

- **Encourage thorough identification of assets** – this must be done to ensure that not even one asset, no matter how small, is left out.
- **Simplify valuation** – Considering the premises mentioned, it would be sufficient to have a ‘**reasonable valuation**’ rather than a ‘**perfect**’ one.
- **Ensure updating** – Ensure that after the one-time exercise on identification and valuation, the assets are recorded in the asset register and the register is regularly updated thereafter.

## **2.7. National Municipal Accounting Training Manual, November 2007**

National Municipal Accounting Training Manual, November 2007 was drafted and published for the elected representatives and top management by the Ministry of Urban Development, Government of India. The training manual

targeted only the elected representatives and members of the top management – mostly who are not associated with the regular accounting. Hence, the training manual mostly covered some of the basic chapters and concepts of municipal accounting. The modules covered in the training manual are:

- Introduction,
- Urban Local Bodies in India,
- Introduction to Accrual-based Double Entry System of Accounting,
- Overview of National Municipal Accounts Manual,
- Understanding Financial statements, and
- Management Information System Reports.

It gives an overview of the accounting system and helps the target trainees in understanding the financial statements. The training manual opens with a brief introduction to the Accrual-Based Double Entry System of Accounting including the Accounting Principles. An overview of the NMAM is provided and further the manual provides an understanding of the financial statements and Management Information System (MIS) reports.

### **3. Management Information System (MIS) Reports – Municipal Finances**

In most developing countries, budget execution and accounting processes were/are either manual or supported by very old and inadequately maintained software applications. The consequent lack of reliable and timely revenue and expenditure data for budget planning, monitoring, expenditure control, and reporting has negatively influenced budget management in the urban local bodies. The results have been a poorly controlled commitment to resources, often resulting in a large buildup of arrears; excessive borrowing, and misallocation of resources, undermining the effectiveness and efficiency of service delivery. Further, local governments have found it difficult to provide an accurate, complete, and transparent account of their financial position to council or to other interested parties, including donors and the public. This lack of information has hindered transparency and the enforcement of accountability and has only contributed to the perceived governance problems.

Managing the financial resources of the ULB operation is critical to the success of the ULB. One of the most important aspects of financial management involves preparation of financial statements that can be used to analyze program operations. Before financial statements can be prepared and analyzed, basic accounting principles and financial management concepts must be in place to provide a uniform basis for gathering, recording, and interpreting financial data.

The primary financial MIS reports will include the financial statements, that all ULBs are supposed to prepare. All ULBs, must collate financial information in accordance with principles established in NMAM or the State-specific manuals or rules and other legislations to provide consistency and comparability for users. If the ULBs are to achieve financial accountability, the information provided must be accurate, relevant, and reliable. Financial statements must provide data that foster effective decision-making, allow internal comparison to expected or prior performance, and permit external comparison with other ULBs. The financial statements of the ULB will include:

- *Income and Expenditure Account:* The Income and Expenditure Account of the ULB will report on the net operating results (excess of income over expenditure/ excess of expenditure over income) generated after fulfilling its service activities and after exercising its various obligatory and discretionary functions.
- *Balance Sheet:* The Balance Sheet or the Statement of Financial Position is a financial statement prepared at the end of each accounting period (31 March of the financial year) to reflect the financial position of the ULB. The Balance Sheet is normally prepared following the generally accepted accounting principles. This statement can also be a useful tool for ULB administrators. Critical information such as municipal assets – fixed and current, amounts receivable, outstanding payables, and fund balance available for expenditures is available from this statement.
- *Cash Flow Statements:* The Cash Flow Statement is the financial statement, which provides information concerning the sources of cash and the application of the cash. Here, cash includes moneys that the local body receives and spends. The cash flow statement specifically discloses movement of cash under operating activities, financing

activities, and investment activities. The statement acts as an important tool to disclose the link between the source and application of cash.

- *Receipts and Payments Accounts*: The Receipts and Payments Account is the financial statement, which will provide the summary of the actual receipts and payments of the ULB. This statement will provide the basis for the preparation of the annual budget, which follows the cash-based system of budget preparation.

ULBs can consider secondary financial MIS reports also to supplement the primary financial MIS reports as discussed above. These supplemental MIS reports are designed to help ULBs to identify potential trends of revenue, expenditures, receivables, and payables that would help in decision-making. The reports also provide a guide for recording financial data in a manner that allows ULB to capture revenues, expenditures, receivables, and payables and other pertinent information in a consistent and standardized format. The secondary financial MIS reports must be designed as management tools for the ULB and are not required for financial reporting. Each ULB will need to decide how much of the information will be made available to other interested parties. ULBs are also required to report financial information periodically to the State and the Union Government to substantiate use of funds/grants sanctioned by the State and the Union Government.

The following points are important when reviewing the secondary financial MIS reports:

- The detail included in each report will depend on the complexity of the ULB operation.
- secondary financial MIS reports must be designed to be inclusive of all ULB standard operations. Whether a given ULB should or should not have a particular operation in these categories is a local decision.
- The ULB administrators should tailor the reports by adding or deleting line items to match the situation in their ULB operation. Once adapted, schedules must remain consistent from one reporting period to the next. This permits ULB to make meaningful comparisons.

- All changes in schedules must remain consistent with generally accepted accounting principles.

The various secondary financial MIS reports may include:

- Daily secondary financial MIS reports, and where not possible, then at least weekly, may include
  - i. Collection against each head of revenue, zone wise and ward-wise,
  - ii. Fund position, bank wise,
  - iii. Numbers of Birth and Death Registration,
  - iv. Numbers of Building Plan Sanctions,
  - v. Numbers of Licenses Issued,
  - vi. Numbers of Water and Sewerage connection issued.
- Monthly secondary financial MIS reports, may include
  - i. Monthly Receipts and Payments Account,
  - ii. Advance reconciliation statements,
  - iii. Deposit Reconciliation statements,
  - iv. Bank reconciliation statements,
  - v. Personnel information concerning retirements,
  - vi. Provident fund, and pensions disbursed,
  - vii. Status of receivables,
  - viii. Status of payables, and
  - ix. Age wise analysis of receivable and payables.

#### **4. Role of ICAI and Accounting Standards for Local Bodies**

The NMAM provided guidance to ULBs in preparation of their accounts on accrual basis. Another reason for ULBs adopting accrual basis is that these bodies are also approaching capital markets for raising funds. However, ULBs had been following diverse accounting policies and practices in preparation of their financial statements. Hence, a need was felt for formulation of a single set of high-quality financial reporting standards for

Local Bodies which will set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements of Local Bodies. As a first step in this direction, Accounting Standards Board of the ICAI constituted a Sub-Committee for issuing accounting standards for government including urban local bodies in 1999, which issued a Technical Guide on Accounting and Financial Reporting by Urban Local Bodies. The Guide contained recommendations relating to application of accounting standards issued by the ICAI, to ULBs. Recognising the need to harmonise and improve accounting and financial reporting among Local Bodies, the ICAI, constituted a full-fledged Committee on Accounting Standards for Local Bodies (CASLB) in March 2005. The main function of the CASLB is, therefore, to formulate a single set of Accounting Standards applicable to Local Bodies.<sup>41</sup>

The CASLB has been established with the primary responsibility to conceive and suggest areas in which Accounting Standards for Local Bodies (ASLBs) need to be developed, formulate ASLBs, integrate the ASLBs to the extent possible, with the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSAS-B), provide implementation guidance on ASLBs, review and revise the ASLBs, assist Local Bodies in adoption of accrual system of accounting, and propagate the ASLBs among the stakeholders in preparation and presentation of financial statements.

ICAI keeping its mission and vision in mind has constituted the Committee on Public and Government Financial Management (CP&GFM) which strives to assist Central & State Governments and Local Bodies in successful implementation of the accounting reforms and public finance management. Now CP&GFM, ICAI is responsible for developing and formulating accounting standards for the local bodies. The basic objective of any accounting standards is to remove variations in the treatment of several accounting aspects and to bring about standardization in accounting and presentation of financial statements and reports.

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<sup>41</sup> *Extracted and modified from Preface to the Accounting Standards for Local Bodies, ICAI, [accessed from <https://cpghm.icai.org/accounting-standards-for-local-bodies/>]*

CP&GFM, ICAI issued Compendium of Accounting Standard for Local Bodies (ASLB), Volume-III. As mentioned in the Preface of the Compendium, as of now, **31 ASLBs** (refer to the list of ASLBs below) have been issued by the ICAI including one cash based ASLB to facilitate transition from cash to accrual accounting system and these ASLBs are recommendatory in nature and will become mandatory from the date specified in this regard by the State Government concerned. The State of Uttarakhand has notified State Municipal Accounts Manual including ASLBs therein. Apart from this, ASLB 2 (Cash Flow Statements), ASLB 5 (Borrowing Costs) and Guidance Note on “Accounting for Investments for Local Bodies” have been mandated by the ICAI to comply with by Members of ICAI while Auditing the Financial Statements of ULBs w.e.f. 01 April 2022.<sup>42</sup>

Accounting Standards issued by CASLB include the following AS's:<sup>43</sup>

1. Accounting Standard for Local Bodies (ASLB) 1, 'Presentation of Financial Statements'
2. Accounting Standard for Local Bodies (ASLB) 2, 'Cash Flow Statements'
3. Accounting Standards for Local Bodies (ASLB) 3, 'Accounting Policies, changes in Accounting Estimates and Errors'
4. Accounting Standards for Local Bodies (ASLB) 4, 'The Effects of Changes in Foreign Exchange Rates'
5. Accounting Standard for Local Bodies (ASLB) 5, 'Borrowing Costs'
6. Accounting Standard for Local Bodies (ASLB) 9, 'Revenue from Exchange Transactions'
7. Accounting standard for Local Bodies (ASLB) 11, "Construction Contracts"
8. Accounting Standard for Local Bodies (ASLB) 12, 'Inventories'
9. Accounting Standards for Local Bodies (ASLB) 13, 'Leases'
10. Accounting Standard for Local Bodies (ASLB) 14, 'Events After the Reporting Date'

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<sup>42</sup> *Extracted and modified from Preface to the Compendium of Accounting Standard for Local Bodies (ASLB), Volume-III, [accessed from <https://cpqfm.icaai.org/wp-content/uploads/2024/02/compendium-of-ASLB-Vol-III-final.pdf>]*

<sup>43</sup> *Latest list of ASLB accessed from <https://cpqfm.icaai.org/accounting-standards-for-local-bodies/>*

11. Accounting Standards for Local Bodies (ASLB) 16, 'Investment Property'
12. Accounting Standard for Local Bodies (ASLB) 17, 'Property, Plant and Equipment'
13. Accounting Standard for Local Bodies (ASLB) 18, 'Segment Reporting'
14. Accounting Standards for Local Bodies (ASLB) 19, 'Provision, Contingent Liabilities and Contingent Assets'
15. Accounting Standard for Local Bodies (ASLB) 20, 'Related Party Disclosures'
16. Accounting Standards for Local Bodies (ASLB) 21, 'Impairment of Non-Cash-Generating Assets'
17. Accounting Standards for Local Bodies (ASLB) 23, 'Revenue from Non-Exchange Transaction (Taxes and Transfers)'
18. Accounting Standard for Local Bodies (ASLB) 24, 'Presentation of Budget Information in Financial Statements'
19. Accounting Standards for Local Bodies (ASLB) 26, 'Impairment of Cash-Generating Assets'
20. Accounting Standards for Local Bodies (ASLB) 31, 'Intangible Assets'
21. Accounting Standards for Local Bodies (ASLB) 32, 'Service Concession Arrangements: Grantor'
22. Accounting Standards for Local Bodies (ASLB) 33, 'First-Time Adoption of Accrual Basis Accounting Standards for Local Bodies (ASLBs)'
23. Accounting Standards for Local Bodies (ASLB) 34, 'Separate Financial Statements'
24. Accounting Standards for Local Bodies (ASLB) 35, 'Consolidated Financial Statements'
25. Accounting Standards for Local Bodies (ASLB) 36, 'Investment in Associates and Joint Ventures'
26. Accounting Standards for Local Bodies (ASLB) 37, 'Joint Arrangements'
27. Accounting Standards for Local Bodies (ASLB) 38, 'Disclosure of Interests in Other Entities'

28. Accounting Standards for Local Bodies (ASLB) 39, 'Employee Benefits'
29. Accounting Standards for Local Bodies (ASLB) 40, 'Entity Combinations'
30. Accounting Standards for Local Bodies (ASLB) 42, 'Social Benefits'
31. Accounting Standards for Local Bodies (ASLB), 'Financial Reporting under Cash Basis of Accounting'

Guidance Note on

1. "Accounting for Investments" for Local Bodies

It would be a progressive step to implement ASLBs, if the States and Union Territories may adopt the ASLBs as part of their accounting manuals, guidelines, and other legislations.

## **5. Opportunities for Chartered Accountants for Municipal Accounting**

Chartered Accountants while applying their accounting professional expertise can engage with ULBs to assist the ULBs to adopt and follow DEAAS. It is a fact that the institutional set-up of most of the ULBs are still not strong enough to practice and follow DEAAS on their own. Hence, there would be a requirement for ULBs to engage Chartered Accountants as individuals or as firms on an out-sourcing basis to help the ULBs to complete the process of accounting on a professional manner. However, members of the ICAI must consider that accounting for ULBs is different from audit of the accounts. The professional services of accounting and auditing are different and must be kept separate and independent, and all conflict of interest must be avoided. Members of the ICAI can help the ULBs to implement the DEAAS by disseminating the vast accounting knowledge while following the principles as laid down in the State-specific manual and the State-specific legislations. Members of the ICAI may follow recruitment procedures like publication and advertisements of engagement by ULBs closely.



## Chapter 6: Fiscal Management

According to the Smart City Mission Guidelines, as issued by Ministry of Urban Development, Government of India, “*Cities are engines of growth for the economy of every nation, including India. Nearly 31% of India’s current population lives in urban areas and contributes 63% of India’s GDP (Census 2011). With increasing urbanization, urban areas are expected to house 40% of India’s population and contribute 75% of India’s GDP by 2030. This requires comprehensive development of physical, institutional, social and economic infrastructure. All are important in improving the quality of life and attracting people and investments to the City, setting in motion a virtuous cycle of growth and development*”.

Indian economy has witnessed rapid growth in recent years. Productivity of the cities and towns is one of the important determinants of national economic growth, job creation and social development. Provision of basic services in these towns and cities is just one of the fundamental necessities and therefore development of the urban and rural areas is vital for the progress of a nation.

The Union Government has dismissed the planning commission and replaced it with NITI Aayog, a body for strategic thinking. There happened a paradigm shift in all strata of urban infrastructure planning and related financial planning as planning would no more be top-down but a bottom-up approach. Therefore, the role of local bodies becomes prominent in future. Municipal or Urban Local Bodies (ULBs) and the Panchayati Raj Institutions (PRI) are the main providers of key services at the grass-root level to the citizens. These local bodies directly deal with the local population, and accordingly are best informed about the ground reality. Accordingly, their inputs and suggestions deserve due consideration in planning and implementation processes and their concerns require suitable attention by the state governments. Focus needs to be laid on strengthening of the organisational as well as financial position of the local bodies. With changing times technological up-gradation of functions and services provided by these

local bodies would become essential and therefore, there is need for enhancing their infrastructure.<sup>44</sup>

India is undergoing manifold phases of infrastructural development. Efficient expansion of national growth needs a strong and developed infrastructure system. However, this would entail substantial amount of financial resources. Over and above their own revenue, which is generally meagre, most local bodies significantly depend upon the devolution of resources and grants from the State governments. To meet the rising financial requirements, new sources of funding would also need to be explored.<sup>45</sup>

ULBs directly influence the welfare of the people by providing civic, social and economic infrastructure services and facilities in both urban and rural areas. Given their strategic position in delivering services in the hierarchy of Government set up, following the 74 CAA, more functions, powers and resources have been provided to them. However, over a period of time, the functions and responsibilities of ULBs have increased considerably without commensurate enhancement of their resource base. cent. Although India's urban population has been growing, the level and pace of urbanisation have been low in comparison with other developed and developing countries. After liberalisation of the economy, India made strides in economic growth; a large part of it has been through the contribution of urban areas.

Though ULBs were exposed to some forms of institutional and accounting reforms during the last two decades, but there had been less holistic and more isolated efforts to introduce fiscal reforms to augment the ULBs own source revenues (OSR) in India. This forced ULBs to remain dependent on grants and devolution of funds from the higher-level governments. If we consider the ULBs, a report by Indian Council for Research on International Economic Relations, titled *State of Municipal Finances in India*, March 2019, stated that municipal revenue continues to account for a small share of GDP in India, and has remained stagnant at around 1 per cent of GDP during the period from 2007-08 to 2017-18. The same ratio was 4.5 per cent for Poland, 6.0 per cent for South Africa, 7.4 per cent for Brazil, 13.9 per cent for the United Kingdom, and 14.2 per cent for Norway in 2010.

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<sup>44</sup> *Working Paper No. 493, Financing of Urban Local Bodies in India*, Charan Singh, RBI Chair Professor and Chiranjiv Singh, IAS (Retired), June 2015

<sup>45</sup> *Ibid*

This shows the stress of ULB finances to fund the exponential rise in revenue expenditure in the form of establishment expenses, administrative costs, operation and maintenance of assets deployed to provide services and carry out mandatory functions, and pay interest and finance charges, leaving minimal amount for capital expenditure out of OSR.

With the introduction of Goods and Service Tax (GST) in 2017, many ULB revenue sources like advertisement tax, octroi, entry tax, and entertainment/amusement tax have been taken away from the ULBs and subsumed with GST. This has reduced the capacity of ULB to generate their own funds like pre-GST regime. Property or holding tax continues to be the most important tax revenue for ULB. However, collection from property tax has remained abysmally low due to low base values applied to properties, continuation with annual rental value method to compute property taxes (which always lacked transparency, and open to doubts and litigations), low rates of taxes levied (due to lack of willingness to charge higher), continuation with multiple types of rebates, waivers of past dues, lack of ULB staff for enforcement, and unwillingness to adopt reforms including technological reforms for assessment of taxes (though many ULBs adopted reforms in billing and collection systems). Non-tax revenues did not grow substantially, again because for unwillingness to levy user charges on services offered.

## **1. Structure of ULB Revenues**

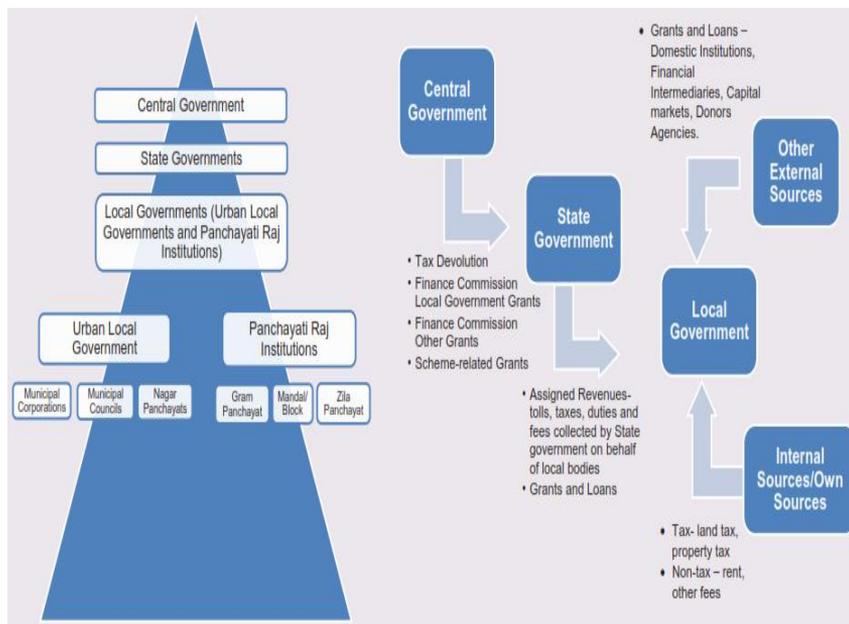
In general, financial resources of ULBs are scarce, and unable to meet the expenditure requirements, and therefore the dependence on the other two upper tiers of government is substantial. The Constitution of India specifies the taxes to be divided between the Union and State Governments but does not specify the revenue base for ULBs. Even the 74 CAA is not specific about the type of taxes that urban local bodies should have, however, it outlines the duties and responsibilities of the ULBs, which means ULB need to secure funds and finance those responsibilities. The resource base of ULBs typically consists of their own sources, state revenue, government grants, loans from state governments, and market borrowings. The urban local bodies are sometimes not even aware of the opportunities and avenues of generating revenues through taxes and non-tax charges. Even if they are aware, they do not have the skill to optimize tax collection. The ULBs, especially the smaller ones, find it difficult to demonstrate their credit worthiness and

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therefore would require help and assistance in designing financial instruments for mobilizing resources from the market.

The existing pattern of municipal finances has not been able to meet the required expenditure on infrastructure development in urban areas. Municipal finance involves planning of revenue and expenditure decisions of the municipalities. Their budgets comprise plans with details regarding proposed expenditure and sources of financing during a financial year. Revenues of municipalities come from different sources but are limited in amount.

The structure of ULB finances can be understood from the chart below, which had been reproduced from Chart I.1: Three-tiers of Governance Structure and Finance, page 3 of Municipal Finances in India: An Overview, REPORT ON MUNICIPAL FINANCES, Reserve Bank of India 2022.



As explained earlier, Article 246 read with the Seventh Schedule of the Indian Constitution, distributes legislative powers including taxation, between the Parliament and the State Legislature. Separate heads of taxation are provided under Lists I and II of Seventh Schedule of Indian Constitution. There is no head of taxation in the Concurrent List or List III (Union and the

States have no concurrent power of taxation). Any tax levied by the government, which is not backed by law or is beyond the powers of the legislating authority may be struck down as unconstitutional.

Prior to the enactment of the **Constitution (One Hundred and First Amendment) Act, 2016** (hereinafter referred to as 101 CAA), there were thirteen (13) heads in the **List-I** of Seventh Schedule of Constitution of India covered under Union taxation, on which Parliament enacts the taxation law. There were nineteen (19) heads in **List-II** of Seventh Schedule of the Indian Constitution covered under State taxation, on which State Legislative enacts the taxation law, that are listed as under. Out of these, the respective State Governments decided and devolved the powers of levy of taxes and non-taxes to the local governments (both PRIs and ULBs) based on the respective PRI and ULB legislation/(s) of the States. The power to levy taxes and non-taxes on other heads were retained by the State Governments.

- a. Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenues;
- b. Taxes on agricultural income;
- c. Duties in respect of succession to agricultural income;
- d. Estate Duty in respect of agricultural income;
- e. **Taxes on lands and buildings** (*also known as property tax or holding tax*);
- f. Taxes on mineral rights;
- g. Duties of excise for following goods manufactured or produced within the State (i) alcoholic liquors for human consumption, and (ii) opium, Indian hemp and other narcotic drugs and narcotics;
- h. **Taxes on entry of goods into a local area for consumption, use or sale therein** (*also known as Octroi, however since abolished, some states levied Entry Taxes*) [Entry No: 52 of the **List-II** of Seventh Schedule prior to deletion by 101 CAA];
- i. Taxes on the consumption or sale of electricity;
- j. Taxes on the sale or purchase of goods other than newspapers;
- k. **Taxes on advertisements other than advertisements published in newspapers and advertisements broadcast by radio or television** (*also known as Advertisement Tax*) [Entry No: 55 of the **List-II** of Seventh Schedule prior to deletion];

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- l. Taxes on goods and passengers carried by roads or on inland waterways;
- m. Taxes on vehicles suitable for use on roads;
- n. Taxes on animals and boats;
- o. Tolls;
- p. Taxes on profession, trades, callings and employments;
- q. Capitation taxes<sup>46</sup>;
- r. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling; and
- s. Stamp duty.

With the introduction of the 101 CAA, Entry No 52 and Entry No. 55 of the State List under the Seventh Schedule to the Constitution of India (Article 246) stands deleted. It is important to re-iterate that vide the enactment of the 101 CAA, there had been introduction of a unified regime of levying indirect taxes on goods and services and many types of indirect taxes had been subsumed under the Goods and Services Tax regime. Upon the enactment of the 101 CAA, the authority provided to all State Governments and local bodies for levy and collection of,

- all types of “taxes on entry of goods into a local area for consumption, use or sale therein” (Entry No: 52)
- all types of “advertisement taxes” in compliance of Entry No. 55

of the State List under the Seventh Schedule to the Constitution of India (Article 246) have been withdrawn.

In addition, Government of India introduced provisions under Section 5(1)(c), 5(1)(e) and 5(1)(g) of The Goods and Services Tax (Compensation to States) Act, 2017 (Union Act No 15 of 2017), whereby taxes, any cess or surcharge

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<sup>46</sup> According to the Black's Law Dictionary, Capitation Tax is “one which is levied upon the person simply, without any reference to his property, real or personal, or to any business in which he may be engaged, or to any employment which he may follow. Gardner v. Hall, 61 N. C. 22; Leedy v. Bourbon, 12 Ind. App. 456, 40 N. E. C40; Ilead- Money Cases (C. C.) 18 Fed. 139 A tax or imposition raised on each person in consideration of his labor, industry, office, rank, etc. It is a very ancient kind of tribute, and answers to what the Latins called "tributum," by which taxes on persons are distinguished from taxes on merchandise, called "vectigalia."

or fee leviable under entry 66 read with entry 52 and 55 had been subsumed under goods and service tax (GST).

The resources of the ULBs can now be grouped into the four broad heads –

- own source revenues,
- assigned/shared revenues,
- grants, devolutions and special scheme/programs from Central/State governments and private individuals, and
- loans/market borrowings.

**Own source revenues** (OSR) includes (i) *taxes*: land tax, property/house tax, tax on non-agricultural land, taxes on fairs/festivals, cess on stamp duty, sanitation/drainage/conservancy tax, water tax, lighting tax, tax on construction and public works etc.; and (ii) *non-tax*: license fee, permits, building sanction fees, fee on usage of panchayat shelter, fee on using common use resources like grazing land, car parking, fee on markets and weekly bazaars, user charges for hospitals and schools, street cleaning fee, rent on ULB properties, various fines, royalty, profits and dividends, interest, user charges, miscellaneous receipts, etc. [*There would be no more levy of any tax which is in the name of the entry tax and no tax in the nature of the advertisement tax.*]

**Assigned/shared revenues** include taxes and other levies being levied and collected by the state governments and then either, (i) passed entirely to ULBs, or (ii) shared partly with ULBs.

**Grants, devolutions, and special schemes/programs** from the Central/State governments include the various grants given to ULBs for salaries, several development programmes, infrastructure schemes, institutional reform initiatives, include funds under Central Finance Commission (CFC), State Finance Commission (SFC), PM Gram Sadak Yojana, Backward Region Grant Funds, Jal-Jeevan Mission, AMRUT, etc.

Access to **loans/market borrowings** allow ULBs to raise loans from the state government as well as financial institutions to meet their capital expenditure and they can borrow from the financial institutions, multi-lateral funding

agencies (like The World Bank, Asian Development Bank, and New Development Bank), bi-lateral funding agencies (like JICA) or other bodies only with the approval of the state and central government, and can issue municipal bonds/debentures for subscriptions by individuals and financial institutions.

A look into the various types of common heads of ULB revenue (*usually these heads are found in all ULBs, there may be some more specific heads which are particular to some ULBs*) as provided in the state-specific legislation would be helpful to understand at this stage.

The **taxes** as specified in the municipal laws of various States that ULBs are allowed to levy may be categorized as follows:

#### *Land-based Taxes*

- Property Tax – by whatever name called
- A Duty on Transfers of Property, in the form of a surcharge on the duty imposed by the Indian Stamp Act, 1899
- Street Tax

#### *Taxes/Service Charges on Government Properties*

- Provisions as made in the municipal laws
- Provisions made under various Port Trust Acts and under the Railways (Local Authorities Taxation) Act, 1941
- Service Charges as levied under orders of the Union Ministry of Finance

#### *Taxes related to Services or Performance of Statutory/Regulatory Roles*

- Water tax / Water Benefit Tax
- Sewerage Tax (or Sanitary Tax or Cess, Latrine Tax, Drainage Tax, etc.) / Sewerage Benefit Tax
- Conservancy Tax (or Scavenging Tax)
- Lighting Tax
- Education Tax/Cess
- Fire Tax

#### *Taxes on Businesses, Professions and Entertainments*

- **Advertisement Tax (before deletion)**

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- Tax on Professions, Trades, Callings and Employments
- Theatre Tax or Taxes on Cinemas, Circuses, Carnivals, etc.
- Amusement Tax
- Entertainment Tax

*Taxes on Entry or Exit of Passengers, Goods and Services*

- **Octroi/Entry Tax (before deletion)**
- Tax on Pilgrims
- Tolls

*Taxes with a Registration Bias*

- Tax on animals, horses, carriages, carts, vehicles excluding motor vehicles, boats, vessels moored at ghats, etc.
- Tax on dogs and domestic animals

*Development Levies*

- Betterment Taxes or Charges – mostly levied now as a tool of value capture financing to recover cost of large infrastructure assets that gave direct and indirect benefits to people living in and around (sometimes within a specific radius) the asset created (say metro connectivity, connectivity through bridges, expressways, ring-roads, development of satellite towns, industrial zones, etc.).

ULBs efforts to levy “**User Charges**” as a non-tax own source revenues against the specific services (includes levies like fees) provided have numerous extremely desirable political, economic and administrative implications, like,

- there being a direct quid pro quo for the service offered, on the one hand, there is a willingness to pay, and on the other hand, the non-beneficiaries are not required to pay unnecessarily, thereby enhancing the political acceptability of this means of local finance,
- since failures to pay can be followed by termination of service, collections are facilitated and cash flows can be better managed,
- since services are rationed out economically, wastages are eliminated, but at the same time high cost of services alienate

citizens from availing the services and force them to look for alternatives to bypass the system or use the system without paying the levied charges (a typical situation observed is when people find ways to use toll roads without paying the entire charges),

- municipal administrations must be more responsive to the consumer problems, and more responsible for monitoring the cost effectiveness of the organizations involved, and of the efficiency of the service delivery.

The common types of user charges that an ULB levies in India are:

- Water Charges (for actual delivery of water to the household – sometimes levied simultaneously with a Water Tax, where the tax portion is meant to be for the use of the asset and the charges are for the actual use of the water measured by flow meters or sometimes on a flat monthly-basis).
- Sewerage Charges (usually part and a component of the water charges).
- Building Plan Sanction Fees (charged as permission fees to construct a building as per the building construction guidelines to safeguard engineering and structural aspects, environmental aspects, safety from fire and other health aspects – in some states this is collected by the Town and Country Planning Department of the State Government – sometimes there are overlapping and conflicting responsibilities).
- Trade Licence Fees (charged to allow a business, trade, or profession to set-up a business unit and continue to function within the municipal jurisdiction every year – trade license permissions are mandatory for obtaining various other business facilities like banking, tax registrations, etc.).
- Dangerous and Offensive Trade Licence (charged to allow to set-up a business unit and continue to function within the municipal jurisdiction every year for a special business, trade, or profession that deals with dangerous items like chemicals, petroleum, and other matters that require added permission and supervision)
- Vehicle Parking Fees (charged for allowing cars and vehicles to park on municipal roads and areas in an orderly manner so that unnecessary blocking of roads and traffics are avoided).

- Mutation Fees (charged for change of title ownership of properties – divisions, amalgamation, or otherwise – that are registered with the ULBs).
- Betterment Charges (as explained above, sometimes charged by the ULB as a user charge and not as a tax).
- Market Fees / Rent (ULBs often owns markets and other commercial properties and lease out the entire property or units of the property and collects rent from the user – usually monthly).
- Slaughterhouse Fees (ULBs often own places (sometimes with scientific facilities) for slaughtering of animals and birds for the purpose of meat consumption by citizens. Traders and business involved in sale of meat are usually not allowed for open slaughtering but are supposed to use only the slaughterhouses as provided by the municipal bodies. ULBs charge a fee for the use of the slaughtering facilities).
- Fees for registration of births and deaths (usually this service is not chargeable, if the registration is done within a time period after the birth or death but becomes chargeable after the expiry of the no-fee period).
- Fees for stacking of materials or rubbish on public streets for construction, alteration, repair, or demolition work of any type of private property.
- Fees for removing regular removal of household municipal solid and liquid waste and municipal solid waste from markets.
- Fees for using facilities in burning ghats, crematoriums, and burial grounds managed by ULBs for the rituals associated with funerals and cremations of dead people.
- Fees for keeping domestic pets in houses (this includes permission fees, and vaccinations).
- Fees for use of municipal properties like community halls, auditoriums, open spaces, and other assets.
- Special licensing of various categories of professionals such as architects, plumbers and surveyors who would be working on behalf of ULBs during the preparation of the building plans while keeping the municipal legislations and guidelines in mind.
- Hire charges for letting out plant and equipment like JCBs, payloaders, road-rollers, etc.

- Entry fees for parks and other playgrounds owned and operated by the ULBs.
- Penalty for late or non-payment of taxes, user charges, and fees.
- Interest on delayed payment of taxes, user charges, and fees.

In the publication of Verma, M., Bazaz, A., Dubey, M. (2022). Indian Municipal Finance - An Update. Indian Institute for Human Settlements, it was reported that, *“the reality of Indian municipal finance however is far from these aspirational goals. ULBs in most states continue to struggle on almost all dimensions of the funds and functionaries and, hence, the functions continuum. Most have limited autonomy of functioning and capacities for planning, budgeting, expenditure management, procurement, implementation, and monitoring.*

*In larger urban centres, ULBs’ mandates and resources are fractured in ‘competition’ with development authorities and parastatal organisations. The availability of technology, incentives, and resources for institutional reform from national urban flagship programmes has had some positive effect, but the overall situation remains concerning.*

*The fiscal space for ULBs has been shrinking in most states, especially with constraints in expansion of the overall tax base, the growing central and state fiscal deficit, and the weakening of the vertical and horizontal institutional mechanisms for resource mobilisation, coordination, and transfer.*

*Municipal expenditures and revenues in Indian ULBs are only about 1 per cent of the country’s Gross Domestic Product (GDP), far less compared to other developing countries, where they are about 6–7 per cent of the GDP (Ahluwalia et al., 2019). Although the scale of municipal finance has gradually increased over time, ULBs still face deepening deficits. Revenue losses post-GST and on account of the COVID pandemic have exacerbated the situation (Kelkar, 2019; Revi et al., 2020; Wahba et al., 2021).*

*The major findings from Indian Municipal Finance 2022 were as follows:*

- *ULBs’ own revenue has been consistently insufficient to cover for revenue expenditure. Grants and transfers assist in filling the revenue gap for many ULBs.*
- *Tax revenue is the largest revenue source for larger cities, whereas smaller cities are more dependent on transfers from central and state governments.*

- *Establishment and administrative expenditures, of which salaries are the largest component, account for half of the ULBs' total revenue expenditure. Only about a third of ULBs' total revenue expenditure is incurred on operation and maintenance (O&M).*

The analysis and the conclusion made in the above-mentioned publication rightly explain the critical situation of own source revenues of ULBs as at present.

The major sources of **assigned/shared revenues** to the ULBs are State Cess, State Surcharges, Surcharge on Stamp duty, Entertainment tax, Motor Vehicle Tax and a few specific heads being collected by the State Governments and shared with the ULBs. However, there is no uniformity among States about sharing the corpus between State Governments and the Local Governments and more so, if States are assigning a part of the revenues there is no fixed formula about the amount to be shared every year. In general, financial resources of ULBs are scarce, and unable to meet the expenditure requirements, and therefore the dependence on other two upper tiers of government are substantial. The Constitution of India specifies the taxes to be divided between the centre and state governments but does not specify the revenue base for urban and local bodies. Even the 74 CAA was not specific about the type of taxes that urban local bodies should have.

On an average, it was observed that almost half of the total revenues of the ULBs come from transfers from the upper two tiers of the government. A study (NIUA 2011) reported that 66 per cent of the revenues for the ULBs of Bhopal, Ujjain, Bhubaneswar and Puri came from “non plan transfers”. However, ULBs of Ahmadabad and Rajkot were fairly “self-sufficient” while dependence on state funds has increased for Guwahati.

**Transfers out of Central and State Finance Commission** recommendations have been providing much of the recent day fundings to the ULBs. These transfers or grants have been providing much of the needed resources to bridge the financial gaps to fund the infrastructure requirement of the ULBs. As per the mandate of Articles 243I and 243 Y of the Constitution of India, each State shall constitute a State Finance Commission (SFC) to review the financial position of the Panchayats and Urban Local Bodies to recommend devolution of financial resources from the State Government to

them. The primary task of the SFCs is to assess the financial resources of the State as well as the rural and urban local bodies and to make recommendations for devolution of funds from the State to the local bodies. Analysis of finances of the local bodies is an important step in the estimation of the revenue gap.

After the enactment of the 74 CAA, the Tenth, Eleventh, and Twelfth Finance Commissions constituted by the Union Government provided “ad hoc grants” to the ULBs of India. However, the Thirteenth Finance Commissions (13FC) made provisions for a “devolution package” whereby the grants would be now linked to the central revenues. Also, the 13FC had introduced the “*performance-based grants*”. There were also other features like the proper budgeting, having a better system of proper administration at the local body level, having an electronic transfer system at the local body level etc. However, the ULBs could not achieve the expected target to access the performance based grants as these needed certain conditions to be fulfilled (like empowering all ULBs to levy property taxes without any exemptions, having a State Property tax Board which would assist the ULBs in assessing property tax, having a Local Body Ombudsman who would look after complaint being addressed etc) and there was lack of capacity, lack of willingness with the ULBs for the fulfilment of these conditions.

The Fourteenth Finance Commission (14FC) stipulated that a detailed procedure for the disbursement of the Performance Grant to ULBs to be designed, subject to certain eligibility criteria. Under the 14FC, an amount of Rs. 87,143 crores devolved towards the ULBs over a period of five years, from 2015-2020. 80% of this amount forms the Basic Grant and 20% of the amount was the Performance Grant. These funds were devolved for basic services and O&M purposes by ULBs. Keeping in view the objective of leveraging Performance Grant to encourage ULBs to undertake reform measures, which result in the improvement of financial health and service delivery to the citizens, the scheme for the disbursement of Performance Grant was agreed by the Ministry of Urban Development (MoUD). The Performance Grant scheme was designed to serve the purpose of ensuring reliable audited accounts, data of receipts and expenditure and improvement in own revenues and publication of service level benchmarks.

The Fifteenth Finance Commission (15FC) recommended a total amount of Rs. 121,055 crores for ULBs including urban agglomerations/cities for the

period 2021-22 to 2025-26 in addition to the grants earmarked for primary health care, incubation of new cities and municipal shared services. As 61% of the urban population lives in urban agglomerations which include ULBs, census towns and outgrowths, the 15FC has given differential treatment to the urban agglomerations with more than one million population in distribution of ULB grants. Accordingly, the urban areas have been grouped into two broad categories as below:

- Category-I Cities which include urban agglomeration / cities with more than one million population (million population city or MPC). For the award period 2021-22 to 2025-26, the 15FC recommended Rs. 38,196 crores for the MPCs. Out of the Rs. 12,139 crores are for ambient air quality and Rs. 26,057 crores are for meeting service level benchmarks. Grants to MPCs is linked to the performance of these cities in improving their air quality and meeting the service level benchmarks for urban drinking water supply, sanitation, and solid waste management.
- Category-II Cities, which include cities other than million plus cities (non-million population city or NMPC). For the award period 2021-22 to 2025-26, the 15FC recommended Rs. 82,859 crores for the NMPCs in two parts – “UNTIED” and “TIED” grants. Untied Grants amounted to Rs. 33,143 crores (40% of grants for the Category-II cities is untied (Basic) grant, which the ULBs were allowed to use as per requirement to meet the needs of the eighteen subjects mentioned in the Twelfth Schedule of the Constitution, except for salaries and other establishment costs. Tied Grants was earmarked for Rs. 49,716 crores for supporting and strengthening of the basic services out of which Rs. 24,858 crores (50%) were earmarked for “Sanitation, Solid Waste Management and attainment of star ratings as developed by the Ministry of Housing and Urban Affairs (MOH&UA) and the remaining 50% i.e. Rs. 24,858 crores were earmarked for “Drinking water, rainwater harvesting, and water recycling”. However, if the ULB has saturated the needs of one category and there are no requirement funds for that purpose, it can utilize the funds for the other category.

As stipulated by the Guidelines the State Governments on receipt of grant from the Department of Expenditure, Ministry of Finance shall transfer the same to the ULBs concerned within ten working days. Any delay beyond the ten working days, will require the State Governments to release the grant with

interest for the period of delay as per the average effective rate of interest on market borrowings/State Development Loans (SDLs) for the previous year. Department of Expenditure, Ministry of Finance shall release the grants for Category-II cities or NMPCs in two equal instalments each year in the month of June and October, subject to the fulfilment of stipulated conditions as detailed below for each component. For Category-I cities, the grant shall be released in one instalment each year based on the recommendations of the nodal Ministry and subject to fulfilment of the stipulated conditions.

As per the Guidelines provided, all ULBs under Categories I and II must complete the following actions by the FY 2021-22 so that to be eligible to receive the grants from FY 2022-23 to FY 2025-26. However, there will be no pre-conditions for release of the grants in 2021-22.

- States to notify the floor rates of property tax and operationalize the arrangements for collection of property tax, if not already done.
- States where SFCs not constituted, or their award period lapsed to issue notification for the constitution of the SFCs for laying in the State Legislature on or before March 2024.
- Category I cities or MPCs need to submit a detailed annual report on measures and/or projects undertaken for recycling and reuse of waste eater, rejuvenation of water bodies and water supply along with the progress achieved and milestones achieved.
- MPCs to publish annually all 28 service level benchmarks (SLBs) and targets for the year on the website maintained for the purpose i.e. [www.cityfinance.in](http://www.cityfinance.in).

As per the Guidelines provided, all ULBs under Categories I and II must comply with the following actions as “entry-level conditions”.

- During the first two years i.e. 2021-22 and 2022-23, States need to ensure online availability of unaudited accounts for the previous year and audited accounts for the year before the previous of 25% of the ULBs in 2021-22 and 2022-23 and 100% of the ULBs in 2023-24 onwards by 15<sup>th</sup> August of the year to avail the full grants. After FY 2023-24 all the ULBs have to mandatorily prepare and make available online in the public domain accounts of the previous year and duly audited accounts of the previous year by 15<sup>th</sup> May of each year to avail full grants in that year.

- Each State Government and each Category-I City/town shall sign a tripartite Memorandum of Understanding (MoU) with the MoH&UA. The MoU shall contain the baseline level as on 01-04-2021, service level benchmarks, annual targets/outcomes and incentives for achieving the targets for water supply, water conservation measures and solid waste management and sustaining outcomes for Swachh Bharat Mission.
- The condition of notifying the floor rates of property tax will apply for eligibility of ULBs grants from 2022-23 onwards. The State need to submit a copy of the notification.
- From the year 2024-25 onwards, the States will be treated as eligible for the release of grant provided that in addition to the other prescribed conditions, the States has laid the Explanatory Memorandum as to the action taken on the recommendations of the State Finance Commission before the State Legislature on or before March 2024.
- Linking of ULB account for 15FC grant with the PFMS or with any other e-Governance system fully integrated with PFMS will be a pre-condition for the release of grant from 2022-23.

It can be well-inferred from the above conditions of the 15FC that fiscal improvement, financial management, and proper accounting are the key cornerstones to be achieved to avail the benefits of the 15FC grants.

One point must be noted in here, that most ULBs which have lower own source revenues are dependent on the grant money for the development work and a large part of its own source revenues are utilized for payment of salaries and some portion of emergency expenses towards operation and maintenance. Using grant monies for development work lacks financial autonomy as grant money are devolved with riders and conditions to utilize it, which bars the ULBs to use the money autonomously for the required and needed development work.

## **2. General Situation of ULB Finance and Revenues**

The key highlights listed in the REPORT ON MUNICIPAL FINANCES, Reserve Bank of India 2022 sums up the present situation of the municipal finance. The highlights reproduced herein below:

- *The rapid growth of urbanisation in India has not been accompanied by a corresponding increase in urban infrastructure, which is reflected in the performance of the urban local bodies, especially municipal corporations (MCs).*
  - *While the size of the municipal budgets in India are much smaller than peers in other countries, revenues are dominated by property tax collections and devolution of taxes and grants from upper tiers of government, resulting in lack of financial autonomy.*
  - *MCs' committed expenditure in the form of establishment expenses, administrative costs and interest and finance charges is rising, but capital expenditure is minimal.*
  - *MCs mostly rely on borrowings from banks and financial institutions and loans from centre/state governments to finance their resource gaps in the absence of a well-developed market for municipal bonds.*
- *MCs need to adopt sound and transparent accounting practices with proper monitoring and documentation of various receipt and expenditure items, and explore different innovative bond and land based financing mechanisms to augment their resources.*

Paragraph 1.9 of the REPORT ON MUNICIPAL FINANCES, Reserve Bank of India 2022 further states that, *due to limited sources of revenue generation, municipal corporations in India are largely dependent on grants from the Central and State governments for meeting their expenditure needs. Among own revenue sources, over-reliance on property tax has constrained exploiting other avenues of funding, such as trade licences, entertainment taxes, taxes from mobile towers, solid waste user charges, water charges, and value capture financing. ULBs in India also need to improve collection efficiencies in respect of property tax, user charges, lease rentals, advertisement tax and parking fees.*

As had been rightly concluded in a recent report and referred to in this document earlier, *the reality of Indian municipal finance however is far from these aspirational goals. ULBs in most states continue to struggle on almost all dimensions of the funds and functionaries and, hence, the functions continuum.*

In India, in 2011 there were 4041 towns and in 2001 there were 3799 towns that had urban local bodies as per Census data of Government of India. There are about 4852 Urban Local Bodies in India now.<sup>47</sup> Except the ULBs that manage large cosmopolitan and metropolitan cities the other ULBs in general, the financial resources are scarce, and unable to meet the expenditure requirements, and therefore the dependence on other two upper tiers of government is substantial.

On a comparative note, paragraph 1.13 of the REPORT ON MUNICIPAL FINANCES, Reserve Bank of India 2022 states that, the sources of revenue for Local governments vary across countries but generally include taxes, user fees and charges and intergovernmental transfers. Other revenues include investment income, property sales, licenses and permits. Property tax is regarded as one of the most important tools for raising revenue at the Local government level around the world (UN Habitat, 2009; McMillan and Dalby, 2014). Other local taxes include income tax, general sales taxes on fuel, liquor, tobacco, hotel occupancy, and vehicle registration. Often, these taxes are collected at the State level and shared with the local bodies (Vitkovic and Kopanyi, 2014). Cross-country experience reveals that Local governments in major advanced economies like Australia, Belgium, Canada, Czech Republic, France, Iceland, Latvia, New Zealand, Spain, Sweden and Switzerland largely depend on their own tax and non-tax revenue sources while those in Austria, Estonia, Greece, Ireland, Lithuania, Luxembourg, Mexico, Netherlands, Slovakia, Turkey and United Kingdom tend to rely more on general government grants for their revenue. Among the BRICS nations, Local governments in Brazil and Russia rely on general government grants while those in China and South Africa generate their own tax and non-tax revenues. share of own revenue (both tax and non-tax) in the total revenue of ULBs in India has declined over time while that of government transfers has increased, indicating growing fiscal dependency. Empirical evidence has shown that greater dependency of Local governments on upper tiers for meeting their expenditure needs makes them more vulnerable and less efficient (Stansel, 2005; Thießen, 2003; Akai and Sakata, 2002).

Interpreting paragraph, paragraph 1.14 of the REPORT ON MUNICIPAL FINANCES, Reserve Bank of India 2022 this document also agrees that

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<sup>47</sup> As referred from <https://localbodydata.com/urban-local-bodies-of-india#:~:text=They%20also%20play%20a%20role,Urban%20Local%20Bodies%20in%20India.>

various studies and research papers on municipal finances and those prepared under the various Finance Commission reports have regularly highlighted the financing needs of the ULBs. They recommend grants to local bodies from the Central government as well as scheme-specific grants. In line with the Central Finance Commissions (CFCs), SFC reports have also assessed Local government budgets and arrived at a formula for devolution of funds with due consideration to: (i) distribution of tax proceeds between State governments and municipalities; (ii) allocation of revenue across all levels of municipal governments; (iii) taxes, duties and tolls to be assigned or appropriated by municipalities; and (iv) measures to improve the financial position of municipalities. But allocation of grants every year and under every scheme have disturbed the self-initiatives of the ULBs to find avenues and find political willingness to ramp-up its own revenues. Grant monies coming at regular intervals have ensured to do some development work and pay their own salaries and expenses. Over-dependency on the grants probably is creating a retarding factor to raise own source revenues as operating the ULBs with the grant money is a politically safe bet for the ULB managers.

As per paragraph 2.2 and 2.3 of the REPORT ON MUNICIPAL FINANCES, Reserve Bank of India 2022, the analysis of the revenue receipts of sample municipal corporations reported that the revenue receipts consist of own tax revenue, own non-tax revenue and transfers and was estimated at 0.61 per cent of GDP in 2017-18 and were budgeted to increase to 0.72 per cent of GDP in 2019-20. Own tax revenue, comprising property tax, water tax, toll tax and other local taxes, accounted for 31-34 per cent of total revenue during the period under study. Large variations are observed, with MCs in Delhi, Gujarat, Maharashtra, Chandigarh, and Chhattisgarh collecting higher taxes relative to others. As per paragraph 2.4, property tax has gained prominence among the own tax revenue sources as taxes such as octroi/local body tax were subsumed in the Goods and Services Tax (GST). The analysis also reported that there however exists, a wide variation in the collection of property tax across municipal corporations.

The paragraph 2.5 and 2.6 of the REPORT ON MUNICIPAL FINANCES, Reserve Bank of India 2022 further states that despite its dominance over other municipal taxes, property tax collection in India is much lower compared to the OECD countries due to several factors, viz., property undervaluation, incomplete registers, policy inadequacy and ineffective administration (Awasthi and Nagarajan, 2020). Moreover, the collection system is marred by challenges of pending litigations and inadequate staffing pattern in MCs

(Mankikar, 2018). Thus, there is a need for large-scale reform of property taxation practices in India. Non-tax revenue, which accounted for around 30 per cent of total revenue receipts of municipal corporations, is dominated by fees and user charges followed by income from investment, mainly in the form of interest earned and dividends, rental income from municipal properties, and sale and hire charges.

Poor enforcement mechanisms, coupled with multiple outdated exemptions, dated property rolls and databases, sub-optimal tax rates, property undervaluation and weak tax administration have resulted in significant under-recoveries in the majority of the Indian cities (Awasthi and Nagarajan, 2020). The potential of property tax needs to be fully leveraged by extending coverage, regular revision of tax rates, improving the assessment system and raising efficiency in tax administration. For the smaller MCs, lack of institutional capacity to undertake these reforms constitute the main challenge and assistance from the State governments in this regard may be helpful. For the larger corporations, it is vital that the expansion of tax base and increase in efficiency of tax collection are achieved through the use of technologies such as satellite photography and geo-coding of data.

As per paragraph 2.13 and 2.14 of the REPORT ON MUNICIPAL FINANCES, Reserve Bank of India 2022, the level of gross municipal borrowings in India is minuscule and constitutes less than 0.05 per cent of GDP cumulatively for all MCs. There is, however, perceptible inter-State variation in municipal borrowings. As a proportion to total receipts of MCs, borrowings account for only around 6 per cent. The bulk of the borrowings are raised by a few large metropolitan corporations. Composition-wise, borrowings from banks and financial institutions, and loans from Centre/State governments account for more than half of the total loans raised by MCs. Funds raised from capital markets through bond issuances at less than a tenth of the total borrowings remain an underutilised source of financing.

### **3. Scope and Need for Augmentation of Own Source Revenues by ULBs**

ULBs in India are not bound by any performance standards either in respect of revenue-raising or delivery of services. The result is twofold: (i) they continue to operate at sub-optimal levels and hardly ever formulate plans for eliminating inefficiencies in the internal mobilisation and management of

resources, and (ii) they are hardly ever confronted with a hard budget constraint, rely as they do on intergovernmental transfers. The economy-wide costs of the absence of any form of performance standards are phenomenally large. In sum, the existing fiscal system is out of sync with the present-day realities; it is burdened with taxes that have no productive value and are obsolete. Property taxes, although vital for the fiscal viability of municipalities, have accumulated a lot of inefficiencies. Other taxes that meet the test of immobility, e.g., land-based taxes, stand appropriated by state-level development authorities. The importance of “own source revenues” in the financial structure of municipalities has declined. It is not only their share has dipped; their growth rates vis-à-vis other revenue constituents have also declined.<sup>48</sup>

In the page 23 and 24 of the report, State of Municipal Finances in India, A Study Prepared for the Fifteenth Finance Commission, ICRIER, March 2019, it was mentioned that, “All Finance Commissions have recognized the need to augment property tax revenue to improve municipal finances. The 11<sup>th</sup> Finance Commission encouraged setting up of a Central Valuation Authority of the kind set up by West Bengal. The 12<sup>th</sup> Finance Commission encouraged the use of Geographical Information System (GIS) and digitization to improve property tax administration. The 13<sup>th</sup> Finance Commission mandated the setting up of the State Property Tax Board as one of the conditions necessary for performance grant eligibility of states. The primary function of the State Property Tax Board was to help municipal corporations and municipal councils put in place a transparent and efficient property tax regime. The 14<sup>th</sup> Finance Commission also stressed the need for property tax reforms by states. They also recommended that municipalities be enabled to levy vacant land tax and that a part of land use conversion charges should be shared with local bodies. Further, a clear framework of rules for the levy of betterment tax should be put in place by the states. The 14<sup>th</sup> Finance Commission also recommended that local bodies be empowered to mobilise resources through advertisement tax and entertainment tax. The base of entertainment tax needs to be expanded to include newer forms of entertainment such as boat rides, cable television and internet cafes. [*But it is pertinent to mention, that the power to levy advertisement taxes has been subsumed under GST under the 101CAA, explained earlier.*]

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<sup>48</sup> APPROACH TO THE FINANCES OF MUNICIPALITIES: A REPORT TO THE 14TH FINANCE COMMISSION, Ministry of Urban Development and National Institute of Urban Affairs New Delhi, November 2013

#### 4. Property Tax / Holding Tax as the Primary Own Source Revenues of ULBs

ULBs in India through the Constitutional mandate and subsequent enactments of all State Governments had been levying and collecting property tax or holding tax from owners of properties within the municipal jurisdiction.

The World Bank Report on Property Tax Diagnostic Manual (Kelly, Roy; White, Roland; Anand, Aanchal. 2020. Property Tax Diagnostic Manual. Washington, D.C.: World Bank Group.), the recurrent, annual property tax has tremendous potential for mobilizing own-source revenues, primarily for local governments. The property tax generates about 0.3–0.6 percent of GDP for low- and middle-income countries, 1.1 percent in higher-income (OECD) countries. In some countries, it generates up to 2–3 percent of GDP, for example, in the United States, Canada, and the United Kingdom. Although property tax may account for only about 1–2 percent of total government taxes, it contributes between 15–40 percent of total local taxes across all countries.

**Taxes on lands and buildings or simply called Property Tax** is one of the most important sources of revenue for municipalities in India. The growth in revenue from this source has not been commensurate with the potential due to inadequate policies, legal problems, and inefficient administration. Property tax reforms have been a matter of debate in the country for a very long time.

Some cities have introduced improvements in property tax assessment and/or administration. These reforms have helped to rationalize the property tax system and increase revenues. **Property Tax reform was one of the mandatory reforms under the JNNURM.** Theoretically, this tax should be a buoyant source of own revenue as the value of properties rise over time. Legal hurdles and poor administration have made property tax inelastic in most of the municipalities. Inability to de-link property tax from Rent Control Act had also played a crucial role in hampering this process.

In the book on “*Property Tax Reforms in the States of Andhra Pradesh and Telangana*” compiled (2015) by Sri M. Prasada Rao, IAS (Retd.), former Commissioner & Director of Municipal Administration and Sri D. V. Rao, formerly Additional Director of Municipal Administration, the history of levying property tax in India had been dealt with detail.

The property tax is a British contribution to the Indian Administration. Although it compares well with the British counterpart, it was developed on different lines. According to Charter Act of 1793, lands and buildings were referred to as property on which tax was to be levied. It was primarily a local tax and the basis for assessment was **annual rental value**. This tax was levied to meet the charges of civic services. The Charter Act authorized the Presidency towns to levy taxes on buildings and lands at 5% of their annual rental value to meet the cost of scavenging, police and routine maintenance. Outside the presidency towns, the local committees were permitted in 1842 to levy a tax on houses. The Act of 1854 specified for the first time sources of Municipal Revenue out of which the tax on houses, lands and buildings was one of the main sources.

The subsequent Acts passed in pursuance of Lord Mayo’s Resolution of 1870 and Lord Ripon’s Resolution of 1882 consolidated the thinking on the structure of property tax as a municipal source of revenue thereby laying foundation for local autonomy and local accountability. The tax was linked up with franchise when the Town Improvement Act, 1871 prescribed that the ratepayers in the municipal jurisdiction could elect local Councillors.

According to the scheme of financial decentralization proposed by Lord Mayo during the year 1877, the services like public health, education and scavenging were purely of local character and the way of financing these services was held to be by means of local taxation (i.e.) by taxing the inhabitants of the locality who received the benefits of the services, and it was decided that the people of the country should raise and expend their own money for maintaining roads, improving the sanitary conditions of the towns and promoting every other object of interest. During the year 1884, for the first time the service functions like water rate, lighting rate and scavenging rate formed the components of property tax along with holding rate on the basis of annual rateable value of the property.

The Government of India Act, 1919 accorded prominent status to the principles of local autonomy and local accountability. First, it provided a base to the local authorities more or less on par with those of the other two levels of Government. Secondly as the corollary of the first, it laid foundation for local finance. The Act envisaged a separate schedule of taxes exclusively reserved for local bodies. They comprised:

- a) Tax on buildings.
- b) Tax imposed on services rendered such as
  - i) a water tax,
  - ii) a lighting tax,
  - iii) a scavenging, sanitary or sewerage tax,
  - iv) a drainage tax, and
  - v) fees for the use of markets and other public conveniences.

A Taxation Appeals Committee was formed during the year 1932 in pursuance of Bengal Municipal Act which consisted of Municipal Chairman, members and persons to be nominated by Government. It became a model for the Municipal Corporation of Madras. In Government of India Act, 1935 the schedule of local taxes was deleted with the result the status of local finances was seriously affected, and the local bodies were brought under the purview of the provinces. It has however permitted the state legislatures to allot at its discretion any of the state financial resources to the local bodies. Thus, the local finance today is circumscribed by a number of statutes. They have drawn the framework for the operation of finances from State Governments unlike the Central and State Taxation authority which has Constitutional basis and the local taxation authority is a matter of state discretion.

Five major enquiry committees / commissions and study groups were constituted by the Central Government to help to improve local finance generally at the instance of the Central Council of Local Self-Government. The property tax has been a vital subject of their investigation. The recommendations of the said committees are stated below in brief:

- Recommendations of the ***Report of the Local Finance Enquiry Committee, 1950:***
  - There should be only one basis of assessment, namely the rental basis. There should be no change from the well-tried

basis of rent to the more or less uncertain basis of capital value.

- Where the actual rent is lower than the reasonable rent, the latter should be adopted as the basis of assessment.
  - The Municipal Acts should be amended so as to make it obligatory to record the grounds for each reduction of assessment.
  - A Valuation Department should be brought into being for all the local bodies in the State and it should be entrusted with the detailed work connected with the preparation of the valuation list of all the properties within the jurisdiction of a local body.
- Recommendations of the ***Report of the Taxation Enquiry Commission, 1953-54:***
    - The annual value, based on the rent at which properties may reasonably be expected to let should be the normal basis for the levy of property tax, subject to the basis of capital value being adopted in special cases.
    - The levy of tax on the basis of reasonable rent is a more equitable method of taxation than one based on capital value.
    - Vacant Lands in urban areas should be assessed to property tax adequately.
    - A statewide Valuation Department should be created for valuing the properties in municipal areas.
  - Recommendations of the ***Report of the Committee on Augmentation of Financial Resources of ULBs, 1963 (Zakaria Committee):***
    - A Central Valuation Department should be set up in each State to get the work of assessment of properties in different municipalities done and take up systematically at regular intervals, reassessment of urban properties.
    - A comprehensive code for assessment of rental values should be drawn up with the assistance of one or two assessors and legal experts.
    - The property tax should be freed from the restrictive influence of the Rent Control Act.

- A statutory minimum and maximum rate should be fixed for property tax.
- Machinery and plant should be considered for assessment of property tax.
- Recommendations of the ***Report of the Rural-Urban Relationship Committee, 1966:***
  - The valuation of property shall be made on the basis of annual rent at which the property is reasonably expected to let or the actual rent, whichever is greater.
  - There should be a statutory minimum rate of 17 percent on the annual rental value of the property.
  - Plant and machinery shall not be excluded for fixation of annual rental value.
  - There should be a Chief Valuation Officer in the Directorate of Local Bodies, who should lay down principles for determining the annual values and supervise and control the Valuation Officers.
  - The assessment list should be prepared by the Valuation Officer and published for objections. After deciding the objections, the Valuation Officer may finalize the list.
- Recommendations of the ***Report of the National Commission on Urbanization, 1988:***
  - To make property tax a major source of revenue, all laws which inhibit a proper valuation of property should be reviewed, amended or scrapped.
  - The system of assessment should be simplified, with every urban settlement being divided into zones, with an assigned value, with plus and minus factors on a pre-determined basis. This would remove arbitrariness from assessment.
  - The exemptions under property tax should be drastically reviewed and reduced.
  - The property tax should be assessed even on unauthorized structures and squatter colonies, without creating any right of title thereby.

Para 9.75 of the 14 Finance Commission Report provided the following recommendations, which was accepted by Government of India, the Commission stated, ***“We are providing performance grants to address the following issues: (i) making available reliable data on local bodies’ receipt and expenditure through audited accounts; and (ii) improvement in own revenues. In addition, the urban local bodies will have to measure and publish service level benchmarks for basic services. These performance grants will be disbursed from the second year of our award period, that is, 2016-17 onwards so as to enable sufficient time to State Governments and the local bodies to put in place a scheme and mechanism for implementation.”***

Para 9.90 of the 14 Finance Commission Report further provided the following recommendations, which was accepted by Government of India, the Commission stated, ***“We suggest that the existing rules be reviewed and amplified to facilitate the levy of property tax and the granting of exemptions be minimised. The assessment of properties may be done every four or five years and the urban local bodies should introduce the system of self-assessment. We recommend that action be taken by the States to share information regarding property tax among the municipalities, State and Union Governments.”***

In the last 10 years, many cities in the country have introduced innovative practices in property tax assessment and administration. The mandate under the JNNURM as well as the Standardised Service Level Benchmarks for e-Governance in Municipalities by Ministry of Urban Development (MoUD) emphasizes the need for implementation of on-line system for property tax through a proper mapping of properties using a GIS system. This will enable the municipalities to have a full record of properties in the city and bring them under the tax net, leading to improved collections. In the long run, it will help the municipalities to move towards a more user friendly, simple and transparent property tax system.

By virtue of Article 243-X of the Constitution of India, the Legislature of a State may by law, authorise a municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits. Therefore, a ULB can levy and collect taxes that are subject for the municipalities. Worldwide, the authority for taxing properties to provide basic urban civic services lies with the local bodies. By virtue of Article 243-

W of the Constitution of India, provides that the Legislature of a State may by law, endow the municipalities to function as institutions of self-government. Thus, by virtue of the legislation of the State, the ULB can decide about the types of taxes to levy, the system of taxation, and the rates of taxation. In India, by virtue of these provisions of the Constitution of India, all State Governments have devolved the authority to levy property taxes to the local bodies.

Property tax until recently was calculated based on Annual Rental Value (ARV) at which the land or building was reasonably expected to be let out from year to year. In the Unit Area Method (UAM), tax for a particular property will be based on the annual value of the property arrived at by multiplying the unit area value assigned to the colonies/localities by the covered area of the property and multiplicative factors. Multiplicative factors include occupancy (self-use or rented), the age of the building, its structure and use (residential or commercial/office).

Property by law is of two types: commercial and personal. Property tax is levied on both commercial and personal property. Property tax assessment for both of these is different. Whether any property is a commercial or personal would require further categorization according to its use. Property Tax in urban areas is often a matter of contention between citizens and the local government. Prior to 1993, in Patna, the capital of the state of Bihar, there were numerous complaints of harassment by assessors, as there was little transparency, and the system was difficult to understand. The collection of property tax by the Municipal Corporation was also low. Things changed in 1993, when the Unit Area Method (UAM) was adopted for property tax assessment in Patna city for the first time in India. The UN Habitat in 2002, awarded the Title of Best Practice for Area Based Assessment of Property Tax in Patna, Bihar (India).

Before the initiative began in 1992-93, Patna Municipal Corporation applied rental value method for levying property tax in the city. Annual Rental Value defined as gross annual value rent at which the holding may reasonably be expected to let as per Patna Municipal Corporation Act in 1951, was the basis for assessment. This had the scope of discretion, and the tax inspectors were making assessments inconsistently and irrationally. The prevailing rate in the Patna Municipal Corporation was also high being 43.75%. The Property Tax family included five taxes/cess namely: Holding Tax, Latrine Tax, Water Tax,

Education Cess and Health Cess. The high rate of taxation gave rise to more arbitrary and unreasonable assessment by the tax inspectors leading to corruption and unscrupulousness.

It was noticed that discretion and objectiveness in the assessment must be minimized. Unit area method emerged as a suitable alternative to rental value method. It was also considered that legal and administrative hurdles along with popular resistance are to be removed.

Area based assessment method as initiated in Patna Municipal Corporation has emerged as a legally tested, administratively tried and practically feasible method of property tax assessment in India. The Patna model presents a simplified assessment procedure based on a three-type classification of location, construction, and use. This has minimized discretion and ad-hoc nature of assessment and has increased acceptability by assesses and tax compliance. The model also has prompted the stakeholders involved in the areas of municipal finance such as Central/State Government, urban local governments and political and official functionaries to replicate it in a wider context.

The model initiated in 1993 Patna Municipal Corporation has facilitated reduction in tax rate from 44% to 9% of Annual Value. Despite the reduction the current demand of PT had gone up from Rs. 40 million to 170 million. To begin with the model was initiated in 1/27th part of the Patna City which now covers half of the city under new system. It has demonstrated a potential of 10-time increase along with a drastic reduction in the rates. The model has earned legal sanctity from Honourable Supreme Court of India on the grounds of reasonableness and fairness.

Other ULBs of India have already adopted the Patna model. The Government of India also has issued guidelines to state governments to modify their assessment procedure of property tax in line with Patna model. The Nagpur Municipal Corporation (NMC) is one of the ULB in India to make record of its five-lakh properties in city and making it online for the purpose of property tax search and online payment of tax.

Prior to the amendment in DMC Act, 1957 by the Delhi Municipal Corporation (Amendment) Act, 2003, properties in Delhi were taxed on the basis of the annual rent at which such land or building was reasonably expected to be let

out from year-to-year basis. The above system of determining property tax became questionable on various grounds primarily on inequity since it created wide disparity in property tax of similarly placed properties in the same locality, subjectivity in assessments and excessive litigation. The unit area-based system, which was notified and came into force for properties under the jurisdiction of MCD from the 1 August 2003, has been implemented from 1 April 2004. Property owners can self-assess their tax and submit the returns using the prescribed form. The area-based method is simple, arithmetically correct, and transparent. It is based on fixing a unit area value per square metre of covered space for calculation of property tax. The tax for a particular property is based on the annual value of the property arrived at by multiplying unit area value assigned to the colonies/localities by the covered area of the property and the multiplicative factors for occupancy, age, structure, and use. The annual value of any covered space of building shall be the amount arrived at by multiplying the total covered space of the building by the corresponding unit area value of the category in which the colony/area/locality is situated as prescribed and the relevant multiplicative factors.

In India, property tax reforms were initiated while migrating to are-based taxation under the following lines:

- Tap the full potential of property tax as a source of own revenue of the ULB.
- Bring all properties into the tax net through implementation of geographic information system (GIS) enabled property database.
- Introduce system improvements to increase efficiency in tax administration focusing on the entire value chain – coverage, billing, collection and enforcement.
- Make the system of assessment transparent and simple so as to be easily understood and interpreted by all property owners.
- Eliminate/reduce subjectivity and discretion in assessment particularly at the field level.
- Remove existing inequities in tax burden on similarly placed or similarly used properties.
- Enable property owners/occupiers to calculate tax liability on their own, file self-assessment forms and pay tax on that basis, putting the onus upon the assesses to pay tax on time.

- Build in buoyancy and elasticity in the tax base to achieve revenue growth.
- Reward honest taxpayers and penalize defaulters.
- Have a proper information system for monitoring to ensure full coverage in assessment and full collection of tax dues.
- Make the systems of assessment, collection and information citizen friendly.
- Introduce efficient mechanisms for speedy grievance redressal and dispute settlement.

### **5. Value Capture Financing as an Own Source Revenues of ULBs**

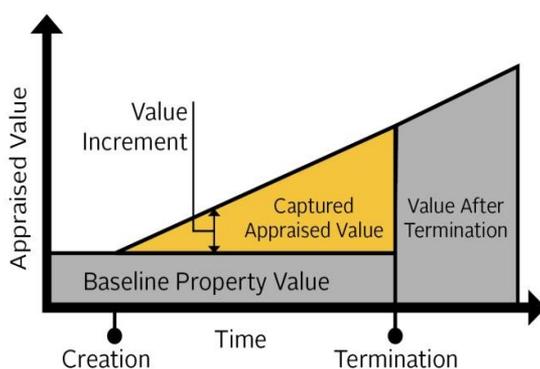
Value capture is a type of public financing that recovers some or all the value that public infrastructure generates for private landowners. Public investments, such as building transportation or sewer facilities, can increase adjacent land values, generating an unearned profit for private landowners. The unearned value (increases in land value, which otherwise profit private landowners cost-free) may be "captured" directly by converting them into public revenue. Thus, value capture internalizes the positive externalities of public investments, allowing public agencies to tax the direct beneficiaries of their investments.

Urban planners and urban finance officials are often interested in value capture mechanisms, for at least two reasons:

- because they offer a targeted method to finance infrastructure benefiting specific land, and
- because some such investments can generate private investment in the area, which will more widely benefit the city (e.g., by providing employment opportunities, shopping and other amenities, and a more robust and diverse tax base).

It can be politically useful to capture for the city treasury a share of the positive externalities of city-financed investment. This can help address public concern about the fact or perception of unfair windfalls when specific owners' land values increase after urban infrastructure investment is paid from general city revenues.

In the search for innovative financing mechanisms in the infrastructure industry, value capture financing has emerged as a beneficial tool. Long established as a local government mechanism for real estate and redevelopment financing, value capture is now being used to directly support significant infrastructure programs around the country. The idea is simple. Wherever new transportation access is provided (such as new interchanges, new transit stations, or new transportation corridors) nearby property becomes more attractive for development and improvement. Resulting land value premiums from this investment create an enhanced tax revenue base.



The diagram to the left illustrates the concept. When new access or improved capacity for travel is created, the private real estate market responds and opportunities for new real estate investment are generated. The

resulting increases in real estate values are “captured” to support the costs of the project. Typical value capture tools include tax increment finance, development impact fees, special assessments, or joint development approaches. Because reliance on real estate taxes can offer multi-year funding support, the approach is particularly useful for annualized project debt reduction toward bond issuances and other finance tools.

In the past, property taxes and other fees collected in this manner have mostly benefited local government for community infrastructure and development incentives to improve local tax conditions. Until recently, little benefit has been returned to the owners of major infrastructure who created the opportunities in the first place.

Thus, value capture refers to the recovery of a share of the increment in land valuation due to the positive externalities from actions other than the landowner’s investments. The appreciation in land valuation occurs due to regulatory changes, investments in public goods infrastructure that increases

quality of housing, jobs access, transportation or social benefits and emergence of an important commercial, cultural, institutional, or residential developments in the neighborhood. All these changes are associated with increases, most often large spikes, in land values of the affected properties for no effort of the landowner. The landowners in the proximity of these changes become indirect yet rent seeking beneficiaries of an “unearned increment”. The potential for windfall gains encourages speculative investments in lands in urban areas and its surroundings. For example, investment in a transit corridor distorts land valuations in areas adjoining to the corridor and consequently make housing unaffordable to those who would benefit from the transit usage.

One less used internal revenue source is urban land. Land value in urban areas appreciates due to regulatory changes and investments in public goods infrastructure. Governments through various Value Capture Financing tools can capture such increases in value. Such tools if implemented can generate substantial internal resources for ULBs. In this connection, the Ministry of Urban Development (MoUD, now MoH&UA) in 2013 had got a study done on land based fiscal tools to generate additional fund resources (Land Based Fiscal Tools and Practices for Generating Additional Financial Resources, CBUD, MoUD, August 2013).

According to Land Based Fiscal Tools and Practices for Generating Additional Financial Resources, August 2013 prepared under Capacity Building for Urban Development project (CBUD) by MoUD, GoI, “*Land is a multi-dimensional resource. Raising financial resources is one of the aspects of land policy. Obtaining land for public purposes, promoting inclusive housing, redeveloping slums and inner-city areas, bringing about planned expansion of cities, preventing unauthorized development in per-urban areas and enabling expansion of formal urban land, real estate and housing market are the other urban development themes that are closely dependent on land. Consideration of land based fiscal tools has to be seen in this context.*

*Every fiscal tool cause supply curve to move backward causing reduced supply for the given price level. The incidence of the tax falls on both suppliers and consumers. The relative share depends upon the elasticity of demand and supply. In case of urban real estate there are two submarkets, one where*

*developers purchase land and the other where they sell the constructed buildings or floor space to final users. Empirical evidence suggests that in most cases the incidence of land-based tax gets passed on to final purchasers of floor space. Neither the landowners nor the developers tend to absorb the taxes, except in very competitive markets which are rare in most Indian cities."*

In 2017, the Ministry of Urban Development (MoUD, and now the MoH&UA) published the Value Capture Finance Policy Framework and it described that the value capture is practiced widely in the world is based on the principle that private land and buildings benefit from public investments in infrastructure and policy decisions of governments (e.g. change of land use or floor-space index). Appropriate value capture financing (VCF) tools can be deployed to capture a part of the increment in value of land and buildings. In turn, these can be used to fund projects being set up for the public by any tier of the three-tier government structure in India. This generates a virtuous cycle in which value is created, realized, and captured, and used again for project investment.

The framework document clearly mentions that the value capture must be considered as distinct from the user charges or fees that agencies collect for providing services. It gives governments, the opportunity to launch new projects, even with a small resource base.

Across India and other cities of the world, where VCF had been practiced, the important VCF tools had been:

- **Land Value Tax (LVT):** Land records, valuation, assessment and revenue collection is perhaps the oldest governance system in India.

In Maharashtra, tax related aspects of land are governed by the *Maharashtra Land Revenue Code, 1966* wherein land revenue is leviable on any land with reference to the use of the land, - (a) agriculture, (b) residence, (c) industry, (d) commerce, (e) other purpose. (Section 67)

*The Tamil Nadu Urban Land Tax Act* was enacted with a view to augment the resources of the State to carry out the slum clearance scheme, for housing scheme relating to low-income group in the state and to rationalize the scheme of taxation of land in urban areas put to non-agricultural use and to secure a

return commensurate with the pronounced increase in land values. Urban Land Tax was levied with effect from 1<sup>st</sup> July 1975 up to 2 percent of market value.

- **Tax on conversion of land use:** Land revenue codes provide for procedure to obtain permission for conversion of agricultural use to non-agricultural use and related fees.

*West Bengal Urban Land Taxation Act 1976* envisaged to levy two taxes, viz., Land tax and Urban Land tax and two charges, viz. Development charge and Conversion charge in urban area as listed in the Schedule to the Urban Land (Ceiling and Regulation) Act, 1976. The rates of conversion charge were proposed to be Maximum rate of 40% as percent of Increase in Value of Land and Buildings

*Karnataka Town and Country Planning Act, 1961* provides under section 18 that where permission for change of land use or development of land or building, capable of yielding a better income to the owner, is granted, the Planning Authority may levy a prescribed fee not exceeding one-third of the estimated increase in the value of the land or building in the prescribed manner .In practice however rates of fees are so prescribed that they are linked to area of development. These rates are prescribed by Karnataka Planning Authority Rules 1965 (Karnataka 1965). The rates for change of use was last revised in 1993 fixing maximum rate at Rs. 75.00 per square meter of total land and at Rs. 10 per sq meter of floor area of Buildings for commercial purposes.

- **Land Value Increment Tax (LVIT):** Land value increment tax or betterment tax is perhaps the oldest land based fiscal tool that was introduced in the legislation related to city improvement trusts in the last decade of the nineteenth century. Later the concept was incorporated in the town planning schemes. Provisions also exist to capture land value increments in case of specific projects.
- **Betterment levy:** Land Value Increment Tax (LVIT) in case of improvement schemes. Legislation for constituting Improvement Trusts typically provided for preparation of 'improvement schemes'

and enabled Improvement Trusts to recoup part of the land value gains accruing to landowners on account of the implementation of improvement schemes.

In Maharashtra, the *Nagpur Improvement Trust Act, 1936* envisages various types of improvement schemes and provides for recovery of contribution under section 69 of the Act. When by making of any improvement scheme any land in the area comprised in the scheme which is not required for the execution thereof, will in the opinion of the Trust be increased in value, the Trust in framing the Scheme may in lieu of providing for the acquisition of such land declare that a betterment contribution will be payable by the owner on the land in respect of the increase in the value of land resulting the execution of the scheme. Such betterment contribution shall be an amount equal to one-half of the amount by which the value of the land on the date of deemed completion of the scheme estimated as if the land were clear of buildings, exceeds the value of the land on or immediately before the date on which the scheme was first published.

The procedure for determining the contribution requires assessing the land value increment, allowing landowners to represent their say, hearing them and then recover the contribution after the approval of the government.

*Mumbai Municipal Corporation Act, 1888*, has similar provisions.

*Bangalore Development Authority Act, 1976* repealed the City of Bangalore Improvement Act 1945 but has retained the provisions for preparation of Development Schemes and levy of betterment tax at the rate of 1/3 of the land value increment. However, such schemes have not been used in Bangalore since 1985. Instead, Bangalore Development Authority uses the land acquisition model with 40% land returned to the landowners.

Madhya Pradesh too had *Madhya Pradesh Town Improvement Trust Act, 1960* and probably had provisions like those present in Nagpur (Maharashtra 1936). Similar provisions have been incorporated in Madhya Pradesh Town and Country Planning Act 1973 (Madhya Pradesh 1973). The provisions allow recovery of development charge in the nature of betterment

levy. Where it is adjudged that on account of implementation of Improvement Scheme betterment in the nature of increase of land value is likely to occur, the planning authority can recover minimum of one fourth or maximum of one third of such increased land value as the development charge.

In *Gujarat*, experience the difficulties of assessing land value increments and then recovering betterment contributions have been overcome through practical approach. Instead of calculating the market value of individual final plot, a uniform rate (per square meter) is charged that can recover the cost of the scheme. Consequently, it loses the character of being a LVIT and remains a tool of cost recovery. Moreover, this is charged at the time of granting development permission with a facility to pay the contribution over a period of ten years.

- **LVIT in case of specific projects:** Mumbai Metropolitan Region Development Authority (MMRDA) Act, 1974 – Section 26 to 30 provides for levy of betterment charges. Section 26 states that, “Where, in the opinion of the metropolitan Authority as a consequence of any development project or scheme having been executed by the metropolitan Authority in any area the value of land in that area has increased or will increase, the metropolitan Authority shall be entitled to levy upon the owner of the land a betterment charge in respect of increase in value of land resulting from the execution of the development project or scheme.” The betterment charge is limited to 50 percent of the increase in value of land attributable to the execution development project or scheme.

- **Area based development charges:** Area based development charge is the most widely used land based fiscal tool in many states.

In *Hyderabad* permission to obtain Layout / Sub-division of Site / Plot requires payment of the drainage, betterment charges as fixed by the Corporation. Under Section 27 and 28 of *AP Urban Areas (Development) Act, 1975*, in case of the site that falls in the jurisdiction of Urban Development Authority area and when person intends to change the use of the land or building or development of any land or building shall pay the Development Charges under Sections 27 & 28 of the said Act and the rules made there under.

- **Regularization of unauthorized development:** In *Maharashtra*, regularization of unauthorized development by charging a fee had been in practice through executive orders almost since 1960s.
- **Impact Fee:** *Government of Andhra Pradesh* under the G.O.Ms No.766 MA & UD dt: 18/10/2007 permitted the Municipal Corporation of Hyderabad to levy impact fees to mitigate the impacts of construction of commercial buildings that lead to increased traffic and necessitates decongestion measures. This fee is levied for the sites abutting to certain important potential roads where there is demand for commercial activity. Distinction is made between on-site and offsite development cost and citywide impact. The facilities financed out of impact fees may include on-site and off-site infrastructure such as roads, water supply, sewerage, storm water drainage, flood control measures, open space, solid waste management, fire protection, libraries, schools, police services, public buildings and administration. The impact fees are meant to address citywide problems emanating from high-density commercial development. The fee collected is utilized for implementation of capital improvement and decongestion plan i.e. for works such as road widening, link roads, slip roads, parallel roads, junction improvements, flyovers etc. Impact fees are “one-time” charges collected to pay for public infrastructure required by new developments. They are imposed as a condition for approval to proceed with development.
- **Premium on additional Floor Space Index (FSI):** The Premium FSI is allowed in specific areas as may be notified, subject to Guidelines and on collection of charge at the rates as may be prescribed by the Authority with the approval of the Government. The amount collected towards the award of Premium FSI is remitted into Government account allotted separately for this purpose for utilizing it for infrastructure development in that area as may be decided by the Government.

## 6. Levying User Charges as an Own Source Revenues of ULBs

In the 2007 study conducted by Department of Economic Analysis and Policy, Reserve Bank of India published the report *Municipal Finance in India: An Assessment*, where the study concluded on the following findings:

- There is a mismatch between functions and finances of ULBs, which primarily explains the vertical imbalance.
- Out of the 18 functions to be performed by the municipal bodies in India, less than half have a corresponding financing source.
- Own taxes and user charges of the ULBs in India are grossly inadequate to meet the expenditure needs of ULBs.
- Elaborate State Government controls on municipal authorities to levy taxes and user charges, to set rates, to grant exemptions, to borrow funds, etc., and on the design, quantum and timing of inter-governmental transfers constrain the ability of the ULBs in mobilising resources.
- The Study states that the conventional method for assessing municipal finances in terms of analysis of revenue and expenditures of municipalities may not be appropriate as the ULBs are required to generate a revenue surplus due to statutory requirements.
- Overall resource gaps of ULBs, as seen from municipal budgets, are not very large. However, the spending by all the municipal corporations is lower than that required for providing a minimum level of civic amenities.
- Based on per capita spending on core services by the municipal corporations considered under the study indicates that the level of under spending on an average works out to be about 76 per cent. The study suggested that ULBs have considerable scope for debt financing as they have low debt and interest coverage ratios.
- The backlog, current and growth need of infrastructure in cities and towns far exceed the resources at the disposal of the ULBs.

One of the important means to improve own source revenues of ULBs is from non-tax sources where to levy and collect the fees and charges from various services that ULBs provide to different citizens. Non-tax revenue is more acceptable to implement instead of levying taxes as taxes are always politically debatable and sensitive. It is a fact, that till now, user fees and user

charges have not developed as a significant own source of revenue of ULBs. However, there is a vast potential in this regard.

Almost all legislative frameworks of municipalities of India have the power to levy user charges for the following purposes:

- Provision of water-supply, drainage, and sewerage.
- Solid waste management.
- Parking of different types of vehicles in different areas and for different periods of time.
- After the abolition of advertising taxes on display hoardings and display boards, ULBs may consider levying the urban planning fees for visual displays of advertising hoardings and displays.
- Stacking of materials or rubbish on public streets for construction, alteration, repair or demolition work of any type.
- Other specific services rendered in pursuance of the provision of the state municipal legislations that govern municipal bodies at such rates as may be determined from time to time by regulations.

According to a paper published by the National Institute of Urban Affairs, levy of user charges in respect of services offered by municipalities in India is a matter of recent concern. Accordingly, there are not too many enabling provisions in the existing municipal laws.

When it comes to costing any public service, accurate working becomes difficult in view of poor record keeping, poor accounting and hidden subsidies. In fact, it is only after the introduction of 74 CAA, that ULBs are switching over to commercial accounts and cost accounts which are yet to stabilize. Ideally, charges should be based on the marginal cost of providing the good or service where the cost includes both the operating and capital cost of providing the service. The capital cost of existing infrastructure is difficult to determine due to age of the capital installation, actual costs incurred, depreciation, etc., Average costs provide another basis. Applying either marginal or average cost pricing to the user charge a decision has to be made regarding which costs to include in the calculation – capital costs, operating costs, or both. To apply full cost pricing, both or all costs should be used in the calculation. However, there may be circumstances when only one of the

two cost components is appropriate to be used in the calculation for the user fee.

Public private partnership (PPP or 3Ps) arrangement has been widely accepted during recent time as there is need for very large-scale investment to augment the infrastructure and provide better services to the citizens. Given the inadequate resource base of ULBs, the alternative to capital infrastructure financing and purely public investment is PPP as well as privatizations. Many of the ULBs of India have gone in for large scale PPP ventures, ranging from building infrastructure projects to providing user services such as solid waste management, water supply, etc. Some ULBs has also introduced privatizations in select services.

Studies across India, shows that the cost recovery in some of the basic services like water supply is extremely low. Therefore, rationalization of user charges for services is expected to mobilize substantial revenues for financing urban infrastructure and services. Many states have recommended for the effective pricing of municipal services with a view to balance revenue and expenditure of urban local bodies, the cost of public utility services should be recovered by charging appropriate fees from the user of services.

According to Dr. Mukesh Mathur, the former Professor of National Institute of Urban Affairs mentioned that in recent years, there has been a major paradigm shift in thinking about provision of urban services, such as water supply, sewerage, solid waste disposal, road maintenance, street lighting, etc. It is no longer considered that these services must be provided by the local authority as free public goods or as obligatory services offered in return of general taxes levied by the municipal governments. Increasingly, these services are being viewed as commodities which are to be provided on commercially viable basis, that is as goods for which a service charge or user fee has to be paid, at times in addition to the general taxes paid by urban inhabitants. The service charge or user fee is in the long run expected to be adequate to meet the entire cost of supplying these services, that is both capital cost and operation and maintenance cost.

The idea of commercialization of urban services is becoming increasingly acceptable to planners and administrators in most developing countries. Commercialization means ensuring rate of return on investments that is

commensurate with market rate of return. This calls for cost optimisation, rational pricing, and efficient cost recovery. Cost recovery is the crux of commercialization of urban services, and it is essential for:

- Recovery of costs incurred by the agencies concerned with provision of these services.
- Demand management and conservation of resources by making consumers more cautious.
- Generating revenues for extending the services to meet the existing unmet demand as well as the increasing demand.
- To ensure access to all user groups, particularly those who may have remained unserved if the supply was limited.

The Indian economy is poised for high economic growth during the next few years for various reasons, important being demographic dividends and urbanisation. The infrastructure in the country is lacking to support such potential high growth. The purchasing power with the people, however, is significantly large and can be tapped for the purpose of investment. The 74 CAA amendment to the Constitution, more than three decades ago have not been implemented as is evident from the discussions in various Finance Commission reports of the Government of India. The urban local bodies continue to depend on financial resources transferred from the state and the centre to meet their regular expenditure. The time is important to pursue the ULBs of India to concentrate on own source revenues, so that the financial resources of the central and state governments can be channelised to more pressing needs of infrastructure development covering areas and scope that are not within the list under Article 243W read with the Twelfth Schedule to the Constitution.



## Chapter 7: Auditing in ULBs of India

The audit institutions entrusted with responsibility of audit of Local Bodies, derive their duties and powers from articles 243J and 243Z<sup>49</sup> of the Constitution of India, which expect the States to make Legislation for maintenance of accounts by the Urban Local Bodies and the Panchayati Raj Institutions (PRIs) and their audit. Accordingly, various States have passed necessary legislation for maintenance of accounts and audit of Local Bodies.

In almost all States of India the Director, Local Fund Audit is vested with the authority for audit of accounts of the Urban Local Bodies and PRIs. As per recommendations of the Eleventh Finance Commission and the guidelines for utilization of grants to Local Bodies issued by Finance Ministry, Government of India, the Comptroller and Auditor General of India has been entrusted with the responsibility for exercising control and supervision over the proper maintenance of accounts and their audit for all three levels of PRIs and the ULBs.

Thus, the Director, Local Fund Audit is the primary auditor for Local Bodies, while the C&AG of India conducts a test check by way of technical control and supervision. Consequent upon passage of 73rd and 74th Constitutional Amendment Act 1992, almost all States and Union Territories of India have either amended their existing local body legislations or enacted new legislations, where audit of local bodies have been dealt in detail.

Central Finance Commission constituted after 1995 have highlighted the issues of accounting and auditing in urban local bodies and recommended ways to create better reward mechanisms for respective state governments and union territories to implement and sustain accounting reforms in ULBs. Several central urban renewal programs such as the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), Atal

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<sup>49</sup> Article 243Z of the Constitution under the title, Audit of accounts of Municipalities, provides that “*The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts*”.

Mission for Rejuvenation and Urban Transformation (AMRUT) and the 14 FC recommendations have ensured that the accrual accounting reforms in ULBs, must continue and directly linking it to grant eligibility. The 15 FC recommendations that made audited annual accounts an entry-level criterion for accessing the grants. Therefore, the audit of ULB accounts and the financial statements assumes importance not only to meet the legislative requirements of the municipal legislations (*many ULBs are still avoiding proper accrual accounting and audit of the financial statements as there are no punitive measures provided in municipal legislations to be imposed on delinquent ULBs*) but also coming as a condition to meet the eligibility requirements for accessing grants. Thus, the governing authorities (mostly the Union Government) considers that this carrot and stick policy may force the States and the ULBs to take some positive actions to complete the accrual accounting and audit thereof.

If one carefully interprets the various provisions relating to audit as provided in the various municipal legislations of India<sup>50</sup>, one can summarize that audit of the urban local bodies are mainly entrusted with the local body audit wing of the Comptroller and Auditor General of India – known differently as the State Audit Department or Local Fund Audit Department or Examiner of Local Funds). Under the statutes of Bihar, Jharkhand, and Assam, a Chartered Accountant (CA) may be appointed by the State Government (either from a panel of Chartered Accountants maintained for the purpose or directly by inviting tenders) may be the statutory auditor of ULBs.

Hence, as per the legal provisions of the municipal legislations, audit of ULBs can either be done by Comptroller and Auditor General of India or by Chartered Accountants qualified and eligible to take up the audit function of the ULBs. Here, the audit that is being discussed is a “financial audit” is widely understood to result in attestation of the financial statements.

## **1. Audit of ULBs by C&AG of India**

Comptroller and Auditor General of India published CAG’s Auditing Standards, March 2017 (the Third Edition) which replaced the earlier Auditing Standards published in 1994 (the First Edition) and were subsequently

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<sup>50</sup> One can refer to [www.cityfinance.in](http://www.cityfinance.in), a portal launched by the MoHUA that provides comparison of municipal statutes of different states governing accounts, finance, and audit-related matters of ULBs.

revised in 2002 (the Second Edition). These Auditing Standards (hereinafter referred to as CAG AS) provide the framework of auditing in urban local bodies.

C&AG's mandate for audit of Local Bodies flows basically from the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971 (C&AG's DPC Act 1971), and C&AG has been conducting the audit of receipts and expenditure of those local bodies both rural and urban, which are substantially financed from Union or State revenues under Section 14 of the Act and under Section 20(1) of C&AG's DPC Act, 1971 vide FM 23/2000/68 dated 18.5.2002. The Offices of the Principal Accountants General/ Accountants General (Audit) are the State level functionaries of the Comptroller & Auditor General of India. These Offices perform the Audit function of the C&AG in respect of the expenditures and receipts of the State Government including State Autonomous Bodies and State Public Sector Undertakings.

As per para 1.2 of the CAG AS, these Auditing Standards are effective from 1 April 2017 and all audit engagements as per the audit mandate of SAI India on or after this date shall be conducted in accordance with these standards. [SAI India means Supreme Audit Institution of India and Comptroller and Auditor General of India (CAG) is the head of SAI India.]

As per para 1.3.2 of the CAG AS, "The audit mandate of CAG extends to bodies or authorities such as statutory corporations, government companies, autonomous bodies constituted as societies, trusts or not for profit companies, **urban and rural local bodies** and also to any other body or authority whose audit may be entrusted to CAG under law. To fulfil its mandate, SAI India undertakes **financial audit, compliance audit, performance audit** and combination of such audits." Therefore, audit of ULBs is primarily within the mandate of C&AG if the state's municipal legislation provides such provision.

As per para 2.2.1 of the CAG AS, "**Financial Audit**: focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor

to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.”

As per para 2.2.2 of the CAG AS, “**Compliance Audit**: focuses on whether a particular subject matter is in compliance with the criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material aspects, in compliance with the applicable authorities which include the Constitution, Acts, Laws, rules and regulations, budgetary resolutions, policy, contracts, agreements, established codes, sanctions, supply orders, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials.”

As per para 2.2.3 of the CAG AS, “**Performance Audit**: focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement.”

As per para 2.3.3 of CAG AS, the Types of Engagement: There are two types of engagement: Attestation Engagements and Direct Reporting Engagements.

- In **attestation engagements**, the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion.
- In **direct reporting engagements**, it is the auditor who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality.”

Financial audits are always attestation engagements, as they are based on financial information presented by the responsible party. Performance audits and compliance audits are generally direct reporting engagements. Therefore, the C&AG or its State audit wing acting as the auditor of ULBs

carries out an attestation engagement while conducting the financial audit of ULB.

As per para 2.5.2.3 (b) of the CAG AS, Reporting and Follow-up – Opinion or conclusion, “When an audit opinion or conclusion is used to convey the level of assurance, the opinion or conclusion shall be in a standardised format. It may be unmodified or modified. An unmodified opinion/conclusion is used when either limited or reasonable assurance has been obtained. A modified opinion or conclusion may be:

- Qualified (except for) – where the auditor disagrees with, or is unable to obtain sufficient and appropriate audit evidence about certain items in the subject matter which are, or could be, material but not pervasive.
- Adverse – where the auditor, having obtained sufficient and appropriate audit evidence, concludes that deviations or misstatements, whether individually or in the aggregate, are both material and pervasive.
- Disclaimed – where the auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation which is both material and pervasive.

All audits of ULBs conducted under the mandate of the municipal legislation by the C&AG and its State Audit Wings would be considered as a financial audit of the financial statements while adhering to the provisions of the CAG AS.

## 2. Audit of ULBs by Chartered Accountants

As mentioned earlier, that when directed by the enabling municipal legislations, the mandate of audit of ULBs has been given to qualified and eligible firms of Chartered Accountants. In this document, legislative provisions of three States of India are provided as an example to understand the legal provisions:

- **Bihar Municipal Act, 2007** governing ULBs of Bihar: Section 90(1) of the legislation of Bihar provides the Power of Auditor. The provision provides that “The municipal accounts as contained in the financial statement, including the accounts of special funds, if any, and the balance sheet shall be examined and audited by Director

Local Fund Audit or his equivalent authority or ***an Auditor appointed by the State Government from the panel of professional Chartered Accountants prepared in that behalf by the State Government***”.

- **The Assam Municipal Corporation Act, 2022** governing municipal corporations of Assam (however, as interpreted it excludes Guwahati Municipal Corporation as Guwahati Municipal Corporation is governed by a separate legislation): where Section 70(1) of the legislation of Assam provides that “The municipal accounts as contained in the financial statement, including the accounts of special funds, if any, and the balance sheet shall be examined and ***audited by an Auditor appointed by the State Government from the panel of professional chartered accountants prepared in that behalf by the State Government.***”
- **Jharkhand Municipal Act, 2011** governing urban local bodies of Jharkhand: where Section 117(1) of the legislation of Jharkhand provides the Power of Auditor. The provision provides that “The municipal accounts as contained in the financial statement, including the accounts of special funds, if any, and the balance sheet shall be examined and audited by Director Local Fund Audit or his equivalent authority ***or an auditor appointed by the State Government from a panel of professional Chartered Accountants prepared in that behalf by the State Government.***”

The deployment of firms of Chartered Accountants as auditors of the financial statements of ULBs depends on the legal provisions of the enabling legislation governing the ULBs. The appointment of Chartered Accountants can either be done from selection of the panel of Chartered Accountants maintained by the State Government or from a direct engagement by inviting a tender by the ULB, where the ULB follows its procurement norms to select the firm of chartered accountants as the financial auditor of the ULB. There are no fixed fees for such audit and hence the selection of auditors mostly follows the least cost selection among the respondent bidding firms of chartered accountants.

There is no standardised format of audit reports for ULBs of India. Hence, all Chartered Accountants auditing ULBs prepare and sign an audit report which is similar to the audit reports of commercial organizations. Apart from this, ICAI have mandated members of ICAI while Auditing the Financial

Statements of ULBs w.e.f. 01 April 2022 to comply with the provisions of and report thereof:

- ASLB 2 (Cash Flow Statements),
- ASLB 5 (Borrowing Costs), and
- Guidance Note on “Accounting for Investments for Local Bodies”.

ICAI, as a partner in Nation building, has also been making continuous efforts to prescribe and support in implementation of high-quality accrual-based Accounting Framework for Local Bodies in India i.e., Accounting Standards for Local Bodies (ASLBs) that are at par with the Internationally Accepted Accounting and Financial Reporting Standards by all levels of Governments like International Public Sector Accounting Standards (IPSASs). The purpose of ASLBs is to ensure that the financial reporting by local bodies reflects how efficiently and effectively the ULBs have discharged their responsibilities in using public funds. ASLBs issued by the Council of the ICAI, are recommendatory in nature and will become mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned. As mentioned earlier, only the Government of Uttarakhand have notified compliance of ASLBs while preparation of accounts and auditing of the financial statements.



## Chapter 8:

# General Compliances of Union and State Taxes by ULBs of India

ULBs are not entirely exempted from union and state taxes even though ULBs are a third-tier government within the federal structure of the Constitution. ULBs are supposed to comply with the applicable provisions of the Income Tax Act, 1961 and Goods and Services Tax Act, 2017. This publication provides a very brief description of the applicability of these taxes on ULBs of India.

Tax compliances by ULBs are discussed in very brief and about the basic provisions and principles of the laws. The discussions herein must be interpreted as to understand the basic provisions of the compliance and not as a legal interpretation to defend any legal disputes. To interpret the provisions of the law to defend any legal dispute, the reader of this publication must carry out a detailed legal due diligence and opt for some legal counsel.

### 1. Compliance of Goods and Services Tax Act, 2017

Goods and services Tax or GST was introduced in India from 1st July 2017. With its introduction, several taxes got subsumed into GST. Under GST, both the Centre and State are empowered to collect tax. On supplies within the State, Central GST and State GST are applicable, and on inter-state supplies, Integrated GST is applicable.

Various provisions relating to GST are mainly contained in the following three Acts:

- The Central Goods and Services Tax (CGST) Act, 2017
- The Assam Goods and Services Tax (SGST) Act, 2017
- The Integrated Goods and Services (IGST) Tax Act, 2017

Additionally, notifications and circulars issued from time to time also need to be referred. This note gives a quick summary of the compliance, documentation and accounting considerations in respect of GST. Urban local bodies (ULB) must obtain professional advice to address their specific requirements.

**GST Registration:** A person is required to get registered under GST if its aggregate turnover in a financial year exceeds Rs 20 lakhs (Rs 10 lakhs in Special Category States).<sup>51</sup> Assam, being a Special Category State, a ULB must register under GST if its aggregate turnover exceeds Rs 10 lakhs in a financial year. Aggregate turnover here can be taken as gross total income. Rule 8 of CGST Rules lays down the procedure for GST registration. Once registered, compliance to GST must continue even if the turnover falls below Rs. 10 lakhs in a subsequent year.

**Supply:** In GST, the tax is levied on ‘supply’ of goods and services.<sup>52</sup> The CGST Act considers activities of a local authority carried out as a public authority as ‘business’. Therefore, such activities fall under the ambit of GST.

Transactions in a ULB could be of the nature of ‘outward supply’ or ‘inward supply’ of goods and services. The taxability, exemptions, compliance requirements and accounting are discussed in the following sections.

**Outward Supply:** Although most ULB transactions of provision of goods and services would qualify as outward supply, specific exclusions are provided which leave out many transactions from the tax net. Such exclusions are prescribed: (a) in specific notifications, or (b) under the Reverse Charge Mechanism (RCM) which shifts the onus of tax payment on the service recipients. These exclusions are discussed below:

### **Exempt services**

#### **a) Activities pertaining to statutory functions of the Municipality**

Any activity in relation to any function entrusted to a municipality under article 243W of the Constitution are excluded from GST.<sup>53</sup> Under Article 243W of the

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<sup>51</sup> For this purpose, ‘aggregate turnover’ means aggregate value of all taxable supplies, exempt supplies, and inter-State supplies, if any.

<sup>52</sup> As per Section 7 of CGST Act, ‘supply’ includes all forms of supply of goods and services such as sale, transfer, barter, exchange, licence, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business.

<sup>53</sup> Serial No 4 of Notification No. 12/2017 - Central Tax (Rate) dated 28 June 2017 exempts such services by Central Government, State Government, Union Territory, local authority or governmental authority from GST.

Constitution of India, the following are the functions entrusted to the Municipality:

- Urban planning including town planning.
- Regulation of land-use and construction of buildings.
- Planning for economic and social development.
- Roads and bridges.
- Water supply for domestic, industrial and commercial purposes.
- Public health, sanitation conservancy and solid waste management.
- Fire services.
- Urban forestry, protection of the environment and promotion of ecological aspects.
- Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
- Slum improvement and upgradation.
- Urban poverty alleviation.
- Provision of urban amenities and facilities such as parks, gardens and playgrounds.
- Promotion of cultural, educational and aesthetic aspects.
- Burials and burial grounds; cremations, cremation grounds and electric crematoriums.
- Cattle ponds; prevention of cruelty to animals.
- Vital statistics including registration of births and deaths.
- Public amenities including street lighting, parking lots, bus stops and public conveniences.
- Regulation of slaughter houses and tanneries.

Thus, activities of a ULB under the above functions such as health care, education, maintenance of public amenities, birth or death registrations etc. are exempt from GST.

**b) Activities which are exempt by notification**

Other activities under Notification No. 12/2017 which are exempt from GST are:

- Services provided **other than services to business entities**. Therefore, all services provided to individuals are exempt.
- Services provided to **Central Government, State Government, or other local authorities**.
- Any service provided, other than renting of immovable property, to a **business entity with an aggregate turnover of up to Rs 10 lakhs** (in Assam) in the preceding financial year.
- Service provided, where the **consideration does not exceed Rs 5,000**. In the case of continuous supply, the exemption is applicable where the consideration charged does not exceed Rs 5,000 in a financial year.
- Services provided by way of a) **registration required under any law** for the time being in force, or b) by way of **testing, calibration, safety check or certification** relating to protection or safety of workers, consumers or public at large, including fire license, required under any law for the time being in force. Thus, licensing and permits given by municipalities would be outside the purview of GST.
- Service by way of **issue of birth certificate or death certificate**.
- Services provided by way of tolerating non-performance of a contract for which consideration is in the form of **fines or liquidated damages** under such contract.
- Service by way of **assignment of right to use natural resources** to an individual farmer for cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products.

**Activities exempt from GST under RCM:** Under RCM, the liability to pay tax is on the recipient of ULB's goods or services and not on the ULB. The following goods/services of ULBs are covered under RCM.

- Services (other than renting of immovable property) provided by a ULB to a business entity located in a taxable territory (i.e. India).<sup>54</sup>
- Services by way of renting of immovable property to a person registered under CGST Act.<sup>55</sup>

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<sup>54</sup> 13/2017-Central Tax (Rate) dated 28-6-2017.

<sup>55</sup> 3/2018-Central Tax (Rate) dated 25-1-2018 by way of amendment to Notification No 13/2017 above.

- Supply by way of used vehicles, seized and confiscated goods, old and used goods, waste and scrap to a registered person.<sup>56</sup>

**Taxable services:** Based on the exclusions discussed under 4.1 and 4.2 above, the table below summarizes the status of GST taxability/exemption of different outward supplies by a ULB to business entities.<sup>57</sup>

Activity (outward supply)	Where the recipient is a business entity that is	
	Registered	Unregistered
Functions covered under 243W of the Constitution	Exempt	Exempt
Any service below Rs. 5,000 in a financial year	Exempt	Exempt
Registrations, permits, certifications, fines and liquidated damages, assignment of right to use natural resources, cultivation of plants and rearing of animals	Exempt	Exempt
Renting of immovable property	Exempt under RCM	Taxable
Service other than renting of immovable property	Exempt under RCM	Exempt
Supply of used vehicles, seized and confiscated goods, old and used goods, waste and scrap	Exempt under RCM	Taxable <sup>58</sup>

Considering all exemptions, effectively, the residual activities of ULBs that would come within the purview of GST would be **renting of immovable properties to unregistered entities**. Rent would include rent from markets, slaughterhouses, shops, lands etc. On such rent, the ULB is required to collect and pay GST.

For all taxable supplies, the ULB is required to raise a **GST invoice** showing the value of the supply and GST amounts distinctly. The GST collected must

<sup>56</sup> 36/2017--Central Tax (Rate) dated 13-10-2017.

<sup>57</sup> Since outward supplies to individuals and Governments are fully exempt.

<sup>58</sup> The exact position with respect to taxability is not clear. The ULB is advised to take professional opinion when entering into such transactions.

be remitted within the 20<sup>th</sup> of next month as explained in Section 0: Remittances under GST. For activities exempt under RCM, **the tax invoice of the ULB must mention the fact that reverse charge is applicable** and specify it in its GSTR-1 return (discussed later in this note). Based on this, the recipient is required to pay GST on reverse charge basis.

**Inward supply:** A ULB purchases goods from suppliers, engages contractors to execute works, and incurs various expenses in the course of its activities. Suppliers, contractors and service providers levy GST in their bills or tax invoices, wherever applicable. Certain exemptions and concessional rates prescribed to contractors/service providers who cater to ULBs are discussed below.

#### **Exemption on 'Pure services' (Nil rated services)**

Pure services (excluding works contract and composite supplies) in relation to any function entrusted to a municipality under article 243W of the Constitution is exempted from GST.<sup>59</sup> In order to be covered under this exemption, the service should have the following features:

- It must be a 'Pure service'. Supply of goods is not covered by the exemption.
- The supply should be in relation to a function entrusted to a municipality under Article 243W of the Constitution (listed above **Activities pertaining to statutory functions of the Municipality**).

#### **Example:**

A municipality may provide a marriage hall/ community centre to the public. The letting out of the marriage hall is not a function of the municipality entrusted under Article 243W. Therefore, security service provided to the marriage hall is not exempt from GST, since it would not qualify as a Pure service.

On the other hand, contracts for garbage clearance and spraying of insecticides are in the nature of activities entrusted to a municipality. Such services would be 'Pure services' and therefore exempt from GST.

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<sup>59</sup> SI. No. 3 of Notification 12/2017.

- Composite supply of goods and services where value of supply of goods constitutes not more than 25% of the total value.

Before accounting an inward supply bill, the ULB Accountant must verify whether the service is exempt as a 'Pure service'. **If it is exempted, the vendor must not charge GST in the bill.**

### **Works Contracts**

Works contracts entered into by a ULB shall be treated as a supply of services.<sup>60</sup> The term works contract is restricted to contracts for building construction, fabrication etc. of immovable property only. Any composite supply undertaken on goods say, for example, vehicle repair with replacement of tyre does not fall within the definition of 'works contract' under GST. Such contracts are considered as composite supplies.

### **Taxable inward supplies**

For goods purchased and services availed that are not exempt, the supplier of goods/services shall charge GST at prescribed rates on the value invoiced. The supplier shall provide a tax invoice to the ULB in which the GST amount shall be indicated separately from the good/service value.

### **Inward supplies where reverse charge is applicable**

Reverse charge is applicable on certain services received by ULBs. Such services are:

- a. Services of a goods transport agency in respect of transportation of goods by road.
- b. Services received from an advocate by way of representational services or legal services.

In such cases, the liability to pay GST is on the ULB as the service recipient. The ULB must raise a self-invoice and 'payment voucher' respectively and remit the GST as explained in Section 0: Remittances under GST.

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<sup>60</sup> Section 2(119) of CGST Act defines 'Works Contract' as a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods is involved in the execution of such contract.

**Input tax credit:** Every registered person is entitled to take credit of input tax charged on any supply of goods or services which are used or intended to be used in the course of furtherance of business, subject to certain conditions and restrictions. Input credit can be taken provided the ULB is in possession of a tax invoice or debit note of the supplier, and it has received such goods or services. Availing of input credit (ITC) must be done by claiming the same in the monthly GSTR-3B return. Such ITC will be credited to the Electronic Credit Ledger of the ULB on the GST portal and will be available for remittance of output tax. GST paid on RCM basis on inward supplies (discussed in para 0) is also eligible to be claimed as ITC. **ITC cannot be claimed for goods or services used for exempt services.**

**Blocked credits:** Blocked (ineligible) credits are those input tax items which cannot be claimed by the ULB as ITC. A list of such credits is given in Section 17(5) of CGST Act. Certain services (relevant to ULBs) on which ITC is blocked include:

- Works contract services when supplied for construction of an immovable property (other than plant and machinery), except where it is an input service for further supply of works contract service.<sup>61</sup>
- Motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver).
- Services of insurance, servicing, repair and maintenance of motor vehicles.
- Food, beverages, outdoor catering, health services, hiring of motor vehicles.
- Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples.

**Apportionment of common input credits:** Common input credits are those that relate to exempt and taxable outward supplies combined or relate to the ULB as a whole and not to any specific outward supply. Such input credits (other than blocked credits discussed above) must be apportioned between taxable and exempt services and the amount proportionate to exempt services must be reversed in the monthly GSTR-3B return.

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<sup>61</sup> Section 17(5) (c) of the CGST Act, 2017,

**Note:**

Considering that for a ULB, most outward supplies are exempt except renting out of immovable properties to unregistered entities, avenues for claiming input tax credit are minimal.

**Sequence for utilizing GST Input Credit for output tax liability**

Input credit of IGST must be set off against IGST output liability first and the balance can be set off against CGST or SGST liability at the option of the ULB. Input credit of CGST must be set off first against CGST liability and then against IGST liability; it cannot be set off against SGST liability. Likewise, input credit of SGST must be set off first against SGST liability and then against IGST liability; it cannot be set off against CGST liability. ITC of IGST must be exhausted before ITC of CGST and SGST can be set off. Accordingly, the sequence of utilization of input credit would be as follows.

		Output liability of			Remarks
		IGST	CGST	SGST	
Input Credit of	IGST	I	II (at the option of the ULB)		Input credit of IGST to be mandatorily exhausted before utilizing input credit of CGST and SGST.
	CGST	IV	III	Not available	
	SGST	VI	Not available	V	

**Tax Deduction at Source from payments to suppliers under GST:** Where the total value of an inward supply exceeds Rs. two lakh and fifty thousand rupees, the ULB is required to deduct GST at the rate of 1% CGST and 1% SGST (in case of same state supply) and 2% IGST (on inter-state supply), from payments made or credited to the supplier of taxable goods or services. The obligation to deduct GST is similar to the tax deduction at source (TDS) obligation under the Income Tax Act. For the purpose of TDS, the value of supply shall be taken as the amount excluding GST included in the supplier's

invoice. The tax so deducted must be remitted and details of the deduction and remittance must be filed in GSTR-7 by the 10<sup>th</sup> of the following month.

No deduction of tax is required to be made in the following cases:

- a. If the location of the supplier and the place of supply is different from the State of registration of the recipient, i.e. if both are outside the state of Assam.
- b. In respect of services or goods received by ULB from government departments and agencies.

**Remittances under GST:** All remittances of GST are made out of Cash Ledgers on the GST portal. Such remittances include:

- a. Output GST liability after utilizing input credit as explained above.
- b. Input GST payable on RCM basis.
- c. GST deducted at source.
- d. Interest, fines and penalties.
- e. Any other remittances.

**The ULB must maintain sufficient balance in its Cash Ledgers by depositing amounts from time to time.** Cash Ledgers are maintained separately on the portal for CGST, SGST and IGST. Transfer of deposit balance from one Cash Ledger to another can be done using PMT-09 form.

### Documentation requirements

A ULB shall follow the following documentation requirements for supply of goods or services:

No.	Event	Documentation requirement
1.	For supply of taxable goods	Issue a tax invoice showing details of the ULB and the recipient, description, HSN Code, quantity and value of goods, and the tax charged.

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No.	Event	Documentation requirement
2.	For supply of taxable services	Issue a tax invoice showing details of the ULB and the recipient, description, SAC Code, value and tax charged.
3.	For supply of exempted goods or services	Issue a bill of supply containing particulars of such supply.
4.	For receipt of advance payment with respect to supply of such goods or services	Issue a receipt voucher.
5.	Inward supply where RCM is applicable	Prepare a self-invoice and payment voucher.
6.	Where a tax invoice has been issued for supply of goods or services, and excess tax has been charged, or the invoice needs to be reversed partly/fully.	Issue a credit note to the recipient and declare the same in the return for the month during which such credit note is issued.
7.	Where a tax invoice has been issued for supply of goods or services, and tax has been short charged.	Issue a debit note/ supplementary invoice to the recipient and declare the details in the return for the month during which such debit note/ supplementary invoice is issued.

**Filing of Returns of GST:** The ULB is required to file certain returns as prescribed. The online return-filing system in the GST portal enables electronic filing of returns, uploading of invoice level information, auto-population of information relating to ITC from returns of supplier to that of recipient, invoice-level information matching and auto reversal of ITC in case of mismatch. The following returns need to be filed.

No	Return	Description	Date for filling	Explanation
1	GSTR-1	Monthly Statement of Outward	11 <sup>th</sup> of next month	<ul style="list-style-type: none"> <li>The return shows the output tax liability for the supplies</li> </ul>

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No	Return	Description	Date for filling	Explanation
		supplies of Goods and Services		effected during the previous month.
2	GSTR-2B	Monthly Statement of Inward supplies of Goods and Services	Mostly auto-populated from GSTR-1 filed by the supplier by 14 <sup>th</sup> of next month	<ul style="list-style-type: none"> <li>The return reflects the ITC available from the inputs received during the previous month.</li> </ul>
3	GSTR-3B	Monthly Return for Payment of Tax	20 <sup>th</sup> of next month	<ul style="list-style-type: none"> <li>The return consists of summarized details of outward supplies, inward supplies and payment of tax.</li> </ul>
4	GSTR-7	Return and Remittance of Tax Deducted	10 <sup>th</sup> of next month	<ul style="list-style-type: none"> <li>It covers all details of TDS paid under CGST, SGST, and IGST, along with the suppliers' information and details of the source from where tax is deducted.</li> </ul>
5	GSTR-9	Annual Return	31 <sup>st</sup> December of next Financial Year	<ul style="list-style-type: none"> <li>Covers all taxes paid in the financial year (current FY).</li> <li>To be filed if the total turnover crosses Rs 2 crores.</li> <li>It contains information of output, input and tax paid, for the year.</li> </ul>

**Late Fee, interest, penalty etc:** Details of late fee, interest, and penalty in case of non-compliance of return filing and remittance obligations are given below.

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Event	Remarks
Delay in filing GSTR-1	Late Fee of Rs 200 per day.
Delay in filing GSTR-3B	Late Fee of Rs 20 per day in case of nil return. Late Fee of Rs 50 per day in other cases. A maximum penalty of Rs 10,000 is to be paid.
Delay in filing GSTR-9	Late fees of Rs. 200 a day up to a limit of 0.5 percent of turnover.
Non-payment of output tax	Interest at 18% per annum.
Excess availing of input credit	Interest at 24% per annum.

**Accounting for GST:** The ULB shall maintain the following GST related ledger accounts (Detailed Heads) in its books of account.

No.	Detailed Head	Grouping	Purpose
a.	Output CGST	Current Liability	<p><b>Credits:</b> GST liability on non-exempt outward supplies and GST payable on RCM on inward supplies.</p> <p><b>Debits:</b> Payment of GST, either by utilizing Input Tax Credit (through Credit Ledger on GST portal) or direct payment (through Cash Ledger on GST portal).</p>
	Output SGST		
	Output IGST		
b.	Input Credit CGST	Current Asset	<p><b>Debits:</b> GST on inward supplies (expenditure) and GST paid on RCM, to the extent eligible for credit.</p> <p><b>Credits:</b> Input Tax Credit utilized for paying output tax liability and reversal of Input Tax Credit not available.</p> <p><b>Note:</b></p> <p>1) GST paid on inward supplies as well as on RCM, not eligible for credit, shall be accounted under the respective</p>
	Input Credit SGST		
	Input Credit IGST		

No.	Detailed Head	Grouping	Purpose
			<p>expenditure head under which the inward supply is accounted.</p> <p>2) The closing balance must correspond to the balance in the Credit Ledgers on the GST portal.</p>
c.	Cash Ledger - CGST Cash Ledger – SGST Cash Ledger - IGST	Current Asset	<p><b>Debits:</b> Amounts deposited by ULB and inward transfers from other Cash Ledgers.</p> <p><b>Credits:</b> Remittance of any GST liability (including output GST, GST liability under RCM and GST deducted at source, interest, fines and penalties) and outward transfers to other Cash Ledgers</p> <p><b>Note:</b></p> <p>1) The closing balance must correspond to the balance in the Cash Ledgers on the GST portal.</p>
d.	TDS - CGST TDS – SGST TDS – IGST	Current Liability	<p><b>Credits:</b> TDS deducted from vendor bills.</p> <p><b>Debits:</b> Remittance of TDS.</p>
e.	CGST Payable – RCM SGST Payable – RCM IGST Payable – RCM	Current Liability	<p><b>Credits:</b> GST payable on RCM on input supplies</p> <p><b>Debits:</b> Remittance of GST deducted on RCM</p>

The above ledger accounts must be reconciled with GSTR-1, GSTR-2B and GSTR-3B on monthly basis and with GSTR-9 annually.

## 2. Compliance of the Income Tax Act, 1961

Section 10(20) of the Income Tax Act 1961, EXEMPTS the income of a local authority which is chargeable under the head “Income from house property”,

“Capital gains” or “Income from other sources” or from a “trade or business” carried on by it which accrues or arises from the supply of a commodity or service (not being water or electricity) within its own jurisdictional area or from the supply of water or electricity within or outside its own jurisdictional area.

Sec 10(20) Explanation provides that for the purposes of this clause, the expression “local authority” means—

- Panchayat as referred to in clause (d) of Article 243 of the Constitution; or
- Municipality as referred to in clause (e) of Article 243P of the Constitution; or
- Municipal Committee and District Board, legally entitled to, or entrusted by the Government with, the control or management of a Municipal or local fund; or
- Cantonment Board as defined in Section 390 of the Cantonments Act, 1924 (2 of 1924);]

Therefore, any services provided by the ULB outside its jurisdictional area is chargeable to Income Tax.

### **Income Tax Deducted at Source**

Income Tax Deducted at Source or I-TDS forms a major part of direct taxation mechanism. Government of India uses the I-TDS as a tool to collect tax at very source of income in order to minimize tax evasion and relieves the taxpayer from the burden of paying taxes as a lump sum at the end of the financial year. Any person who is responsible for making payment of specific nature are covered under the TDS provisions of Income Tax Act, 1961 shall be liable to deduct tax at source.

Under the scheme of TDS, persons responsible for making payment of income covered by the scheme are responsible to deduct tax at source from the payable amount and deposit the same to the Government’s Treasury within the stipulated time. Persons include local authorities u/s 2(31) of the Income Tax Act, 1961.

The more common provisions of tax deducted at source that are usually applicable for ULBs are:

- Sec 192 – Deduction of Tax from Salaries to employees of local authorities
- Sec 194C – Deduction of Tax from payments to Contractors or sub-contractors
- Sec 194H – Deduction of Tax from Commission or Brokerage
- Sec 194I – Deduction of Tax from payments by way of Rent
- Sec 194IA – Deduction of Tax from payment on transfer of certain immoveable properties (other than agricultural land)
- Sec 194IC – Deduction of Tax from payment of monetary consideration under joint development agreement
- Sec 194J – Deduction of Tax from payments like fees/royalty for professional or technical services
- Sec 194LA – Deduction of tax from compensation payable on compulsory acquisition of immoveable property
- Sec 194Q – Deduction of tax for purchase of any goods of the value (or aggregate of such values) of Rs. 50 Lakhs in a previous year (refer conditions)

For the purposes of tax deductions at source, the ULBs have to follow the following steps:

- Step 1: Deduct the tax at the time of payment or credit to the payee in the accounts, whichever is earlier at the prescribed rates or lower rates, if applicable.
- Step 2: Deposit the same with Government within time.
- Step 3: File the periodic TDS Return.
- Step 4: Issue the Form 16 or 16A to the payee.

Current Rates of INCOME TAX TDS on BASE VALUE without GST for the Assessment Year 2024-25 are:

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- Sec 192 – Deduction of Tax from Salaries to employees of local authorities - NORMAL
- Sec 194C – Deduction of Tax from payments to Contractors or sub-contractors
  - Individual – 1%
  - Others – 2%
- Sec 194H – Deduction of Tax from Commission or Brokerage
  - Greater than Rs. 15,000 – 2%
- Sec 194I – Deduction of Tax from payments by way of Rent
  - Rent of plant & machinery exceeds Rs. 240,000 pa – 2%
  - Land, Building, Furniture, etc. exceeds Rs. 240,000 pa – 10%
- Sec 194IA – Deduction of Tax from payment on transfer of certain immovable properties (other than agricultural land) above Rs. 50.0 Lakhs – 1%
- Sec 194IC – Deduction of Tax from payment of monetary consideration under joint development agreement – 10%
- Sec 194J – Deduction of Tax from payments like fees/royalty for professional or technical services
  - Payment under Technical Services above Rs. 30,000 pa – 2%
  - Payment under Other Services above Rs. 30,000 pa – 10%
- Sec 194LA – Deduction of tax from compensation payable on compulsory acquisition of immovable property – 10%
- Sec 194Q – Deduction of tax for purchase of any goods of the value (or aggregate of such values) of Rs. 50 Lakhs in a previous year (refer conditions) – 0.1%