Over the years there has been a decline of local self government institutions in India in terms of inadequate devolution of powers and poor management and governance.

There has been a complete lack of financial viability and sustainability of local self government institutions (ULBs).

This has resulted in inadequate in service delivery at ground level.
Public Financial Management & Accountability in Urban Local Bodies

- To arrest this decline government amended the Constitution to recognize the importance of local self government institutions and ensure the devolution of legislative, financial and administrative powers.

- The 74th Amendment mandated the constitution of ULBs and the holding of regular elections.

- It identified 18 functions to be devolved to ULBs.

- It mandated the constitution of State Finance Commissions for recommending revenue sharing norms between states and ULBs.
<table>
<thead>
<tr>
<th>No</th>
<th>Functions listed in 12th Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Urban Planning including town planning</td>
</tr>
<tr>
<td>2</td>
<td>Regulation of land-use and construction of buildings</td>
</tr>
<tr>
<td>3</td>
<td>Planning for economic and social development</td>
</tr>
<tr>
<td>4</td>
<td>Roads and bridges</td>
</tr>
<tr>
<td>5</td>
<td>Water supply—domestic, industrial and commercial</td>
</tr>
<tr>
<td>6</td>
<td>Public health, sanitation, conservancy and SWM</td>
</tr>
<tr>
<td>7</td>
<td>Fire services</td>
</tr>
<tr>
<td>8</td>
<td>Urban forestry, protection of environment and ecology</td>
</tr>
<tr>
<td>9</td>
<td>Safeguarding the interests of weaker sections society including the handicapped and mentally retarded</td>
</tr>
<tr>
<td>10</td>
<td>Slum improvement and up-gradation</td>
</tr>
<tr>
<td>11</td>
<td>Urban poverty alleviation</td>
</tr>
<tr>
<td>12</td>
<td>Provision of urban amenities and facilities—parks, gardens and playgrounds</td>
</tr>
<tr>
<td>13</td>
<td>Promotion of cultural, educational, and aesthetic aspects</td>
</tr>
<tr>
<td>14</td>
<td>Burials and burial grounds, cremations, cremation grounds and electric crematoriums</td>
</tr>
<tr>
<td>15</td>
<td>Cattle pounds, prevention of cruelty to animals</td>
</tr>
<tr>
<td>16</td>
<td>Vital statistics including registration of births and deaths</td>
</tr>
<tr>
<td>17</td>
<td>Public amenities including street lighting, parking lots, bus stops and public conveniences</td>
</tr>
<tr>
<td>18</td>
<td>Regulation of slaughter houses and tanneries</td>
</tr>
</tbody>
</table>
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- Despite the 74th Amendment, the situation did not change on the ground because the Constitution did not mandate a time period for the implementation of this amendment.

- The implementation of the spirit of the Amendment was also hampered by the lack of political will of the states.

- The transfer of functions was not accompanied by the transfer of funds and functionaries so it led to the tardy implementation of the 74th Amendment.
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- To reverse this process of decay and decline of urban governance, the Government of India conceived the Jawaharlal Nehru National Urban Reform Mission (JNNURM).

- Basic thrust of JNNURM is planned development of urban areas through improved urban governance.
JNNURM is the flagship urban program of the Government of India.

The substance of the program is improvement of governance through implementation of reforms.

Total outlay of JNNURM is USD 12 bn. or Rs. 50,000 crores approximate equal amount to be contributed by states and ULBs.

JNNURM grants are conditional on the implementation of reforms.

PFMA reforms are a part of JNNURM.
<table>
<thead>
<tr>
<th><strong>State</strong></th>
<th><strong>ULB</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Decentralisation as per 74th Constitutional Amendment</td>
<td>- Double entry accrual based accounting system</td>
</tr>
<tr>
<td>- Repeal of ULCRA*</td>
<td>- E-Governance: IT/GIS applications</td>
</tr>
<tr>
<td>- Reform Rent Control Law*</td>
<td>- Property tax reform</td>
</tr>
<tr>
<td>- Enactment- Public Disclosure Law</td>
<td></td>
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<tr>
<td>- Enactment- Community Participation Law</td>
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<tr>
<td>- Assigning city planning and other municipal functions to ULB</td>
<td>- Levy of reasonable user charges:</td>
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</tbody>
</table>

* - not mandatory for water supply, sanitation and pro-poor projects
Reform Agenda: Optional

- Bye-laws revision: streamline approval process for construction
- Simplify land-use conversion
  - Agriculture to Non-Agriculture use
- Property Title Certification system in ULBs
- Earmarking for EWS/LIG: 20-25% land in housing projects
- Computerised registration of land & property
- Revision of bye-laws: for compulsory rain water harvesting
- Re-use of recycled water
- Administrative reforms
- Structural reforms
- Encouraging PPP
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- Since PFMA is an integral part of JNNURM, the MoUD requested the World Bank to conduct a diagnostic study on the status of PFMA in ULBs.

- This presentation is based on draft results of PFMA Study on ULBs which was conducted by the World Bank under the guidance of MoUD to provide inputs to JNNURM.
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For the purpose of this study basic tenets of PFMA were taken to comprise:

- Legislative Framework
- Accounting (including Budgeting and Cash Management)
- Audit
- Internal Control
- Procurement

In each area the study devised Benchmarks, assessed them against Policy and Progress to be able to gauge performance under the JNNURM.

Benchmarks in different functional areas covered in subsequent slides.
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Legislative Framework

**Key Benchmark**: Prevailing rules and regulations should provide an enabling environment for key aspects of PFMA.

**Policy**: State Acts do exist but they are vague in specific requirements

**Practice**: Requirements of State Municipal Acts often not adhered to.

**Progress**: MoUD suggests Model Municipal Law and crucial changes to the rules that accompany Municipal Acts to ensure that they are comprehensive.

MoUD mandated Disclosure Laws for ULBs under JNNURM.
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Accounting, Planning and Budgeting

**Key Benchmark**: Reliable financial information to be available to decision makers that is based on cogent budgets that are consistent from one year to the next, are participatory and reflect the priorities of the people.

**Policy**: Most Municipal Acts do provide for annual accounts. Budgeting is also required to be done. But, there is nothing to mandate participatory budgets or budgets that are realistic and outcome based.
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Accounting, Planning and Budgeting Cont..

- **Practice**: Larger Urban Bodies maintain accounts and have adopted the NMAM but medium and small ULBs are indifferent in the preparation of accounts. Budgets are ad-hoc and usually extrapolations of the previous years’ budgets.

- **States which committed under JNNURM** to adopting Double Entry Accrual Accounting by AP, Chattisgarh, Gujarat, MP, Maharashtra, Rajasthan, TN, WB.

- **States which initiated process of conversion to Double Entry Accrual Accounting on their own** Orissa, Kerala, Uttar Pradesh, Karnataka, Delhi
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Accounting, Planning and Budgeting Cont…

Progress: Introduction of accrual accounting mandatory under JNNURM.

But there are states which are still to initiate the conversion to double entry accounts like Punjab, Bihar, HP, Jharkhand, Uttaranchal, Manipur, J&K, A P, Assam, Tripura, Mizoram, Nagaland, Sikkim.

This study defines a discrete set of activities with time lines that would be required for ULBs to switch to full accrual and to adopt participatory multi year outcome based budgeting.

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Audit

**Key Benchmark**: Providing assurance to stakeholders that money was used for the purposes intended

**Policy**: Municipal Acts require annual audits by the Local Fund Auditors but no penal actions on non-performance

**Practice**: Larger ULBs or those that moved to the market for funds are able to furnish have audited accounts, but the audit quality is suspect. Medium and Small ULBs have a few decades of audit arrears
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Audit

- **Progress**: MoUD and the C&AG have started thinking about ways to strengthen the Local Fund Audit offices through the preparation of Manuals and guides. Other ways of building capacity of the LFA are also under consideration like Certification Programs.
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Internal Control

Key Benchmark: Clearly defined systems and procedures backed by policies to monitor activities of each department and function area.

Policy: Most Acts governing ULBs do not provide for internal audit.

Cont...
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**Internal Control Cont.....**

**Practice**: Larger Corporations are required to have internal audit carried out e.g. Chennai and Kolkata.

**Progress**: ULBs need to have a separate department for Internal Audit and hire or train the necessary staff to conduct the audit functions efficiently.

Audit Committees to be established.
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Procurement

**Key Benchmark** : ULB procurement needs to be efficient and managed in a way to ensure increased competition, value-for-money and transparency.

**Policy** : Legislation governing procurement in most cases is defined, though it is very rudimentary and mostly based on lowest cost basis (L1 basis). Most state acts prescribe ULBs to follow State/PWD rules for the purpose of procurement.
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Procurement Cont...

- **Practice**: No concept of value for money. No specialized procurement department. Limited transparency. In most ULBs there is inadequate linkage of procurement with planning.

- Departments need to be encouraged during the budget preparation to review and plan their tentative procurement schedules and timeframes, so that budgets can be appropriately allocated.
Practice: Most states still do not have any standard documents directing procurement procedures and outlining the forms to be used at various stages of procurements.

Lack of standardized procedures also results in delays in tendering processes and award.

Delays largely happen at the evaluation and approval stage since proposals are received in different formats making it difficult to evaluate. This can lead to substantial cost overruns for the bidder and procurer.
Progress: Many states have implemented the Tender Transparency Act. Some progress is being made in this area through e-procurement.

Going forward Model guidelines and Tender documents need to be developed.
Public Financial Management & Accountability in Urban Local Bodies

- The PFMA study presented a palette of discrete actions in the accounting and budgeting along with timelines that the JNNURM could pick up for inclusion.

- MoUD (GoI) has covered significant ground in the area of accounting and public disclosure through JNNURM but other areas such as Audit, Procurement and Internal Control still have some distance to cover.