Chapter - IV

GOVERNMENT'S ROLE AND POLICIES
Chapter No. 04

Government's Role and Policies

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Indian Panchayats and Municipalities are endowed with the responsibility of taking care of the administration in the Indian villages and sub-urban areas in the country. The states in India are divided into many districts and the districts are further sub-divided into taluqs or tehsils. There are about 250-600 villages under each taluq. The villages are managed and administered by the panchayat. The 26 percent of the population living in urban areas are governed by municipal corporations and municipal councils. The municipal corporations governing the larger cities are composed of elected councils and a president or mayor elected from within the council. The state government appoints an officer who acts as the chief executive of the municipal corporation. The municipal councils administering the smaller cities have elected committees or boards.

The municipal government is responsible for education, health, sanitation, safety, and maintaining roads and other public facilities. The country's municipal governments have long been troubled, in part because of their limited authority and lack of funds. The frequent intervention of state governments to suspend the activities of municipal administrations has also undermined them. For instance, state or union territory governments suspended the elected bodies of forty-four out of sixty-six municipal corporations in 1986. The Seventy-fourth Amendment was passed in December 1992 in order to revive municipal governments. Among other things, it mandates that elections for municipal bodies must be held within six months of the date of their dissolution. The amendment also provides for financial review of the municipalities in order to enable recommendations concerning the distribution of proceeds from taxes, duties, tolls, and fees.
4.02 Criteria of Municipalization:

The constitution specifies that the declaration of a municipal area may be based on the criteria of population, density of population, local revenues, non agricultural employment, economic importance of the settlement and such other factor. The Model Municipal Law takes population and non agricultural employment as the two critical criteria. In Maharashtra, there is a fair amount of thought given to the process of municipalization. The Maharashtra Municipal Act, for instance, stipulates what shall constitute Class A, B and C towns. Despite this, huge discretions seem to remain in deciding what settlements and areas are fit for municipalization and which of those are not. As a consequence, a lot of time and energy is lost in the declaration of municipal areas and political and local factors come to the fore in decision making. In general resistance to municipalization is palpably noticeable. We have instances in the State where large settlements fully urbanized are not declared urban and peripheral areas merged into cities are taken out for specious considerations.

4.3 Growth of Urban Population In India:

It can be observed from following Table that the towns with a population of 1 lakh and above recorded the highest growth followed by towns in the size class of above 50,000 but less than one lakh. This again points to an increasing demand for municipality provided services. It can be seen from Table that every State had experienced an increased in the number of urban local bodies, though there are some interstate differences. The changing composition of urban population has also contributed to an increase in the demand for Municipal Corporation amenities. The growing urbanization in India has been characterized by an increasing migration of people into the urban areas.
### Table No. 4.01

**State wise Urban Local Bodies in India**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>State &amp; UT</th>
<th>1990-90</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Andhra Pradesh</td>
<td>90</td>
<td>113</td>
</tr>
<tr>
<td>2</td>
<td>Assam</td>
<td>46</td>
<td>43</td>
</tr>
<tr>
<td>3</td>
<td>Bihar</td>
<td>152</td>
<td>157</td>
</tr>
<tr>
<td>4</td>
<td>Gujrat</td>
<td>60</td>
<td>65</td>
</tr>
<tr>
<td>5</td>
<td>Haryana</td>
<td>64</td>
<td>67</td>
</tr>
<tr>
<td>6</td>
<td>Himachal Pradesh</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>7</td>
<td>Jammu &amp; Kashmir</td>
<td>60</td>
<td>72</td>
</tr>
<tr>
<td>8</td>
<td>Karnataka</td>
<td>236</td>
<td>240</td>
</tr>
<tr>
<td>9</td>
<td>Kerala</td>
<td>52</td>
<td>58</td>
</tr>
<tr>
<td>10</td>
<td>Madya Pradesh</td>
<td>315</td>
<td>340</td>
</tr>
<tr>
<td>11</td>
<td>Maharashtra</td>
<td>226</td>
<td>239</td>
</tr>
<tr>
<td>12</td>
<td>Meghalaya</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>13</td>
<td>Orisa</td>
<td>132</td>
<td>140</td>
</tr>
<tr>
<td>14</td>
<td>Punjab</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>15</td>
<td>Rajastan</td>
<td>196</td>
<td>203</td>
</tr>
<tr>
<td>16</td>
<td>Tamilnadu</td>
<td>115</td>
<td>122</td>
</tr>
<tr>
<td>17</td>
<td>Uttar Pradesh</td>
<td>655</td>
<td>720</td>
</tr>
<tr>
<td>18</td>
<td>West Bengal</td>
<td>105</td>
<td>112</td>
</tr>
<tr>
<td>19</td>
<td>Pondicherry</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>20</td>
<td>Delhi</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>21</td>
<td>Goa</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>22</td>
<td>Andaman &amp; Nicobar</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>23</td>
<td>Manipur</td>
<td>32</td>
<td>38</td>
</tr>
<tr>
<td>24</td>
<td>Nagaland</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>25</td>
<td>Sikkim</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td>2600</td>
<td>2811</td>
</tr>
</tbody>
</table>

*Source: National Institute of Urban Affairs Study - 2006.*
4.04 Model Municipal Law:

The Government of India, Ministry of Urban Development had charged the project with the responsibility of preparing a model municipal law that could serve as a base for state municipal laws and as a vehicle for fully implanting the spirit of the Constitution (74th Amendment) Act, 1992. The primary objective of the Amendment Act is to establish the urban local bodies as the third tier of governance and empower them administratively and financially to function as local governments capable of carrying out the functions entrusted to them. In this background of the Constitution Amendment Act and the multiplicity of Municipal Laws existing in India framed a century ago, there was the hugely felt need to inject a process of reforms in municipal bodies for empowerment and sustainability. Hence the need of crafting a model municipal law that reflects these concerns and can stand as a foundation on which state municipal laws can be built was growing. Government of India therefore took the initiative to commission the preparation of a Model Municipal Law. Such a model was prepared by Times Research Foundation in consultation with a panel of experts, and after a series of further discussions with the Government of India found approval in 2002. The ministry has circulated the Model Municipal Law to the States and has recommended suitable amendments to their own state municipal laws to reflect the provisions and principles of the Model Municipal Law.

4.05 The Maharashtra Municipalities Act of 1965:

The Maharashtra Municipalities Act was framed and passed in 1965. According to this act all Municipal councils in Maharashtra were authorized to levy the compulsory taxes to improve their financial position. This act was framed after a deep study into
various rules of municipal councils. This act is a consolidation of three Municipal acts viz.

i. The Bombay district Municipalities act

ii. The Vidarbha District Municipalities Act and

iii. The Hyderabad District Municipalities Act.

All municipal bodies in Maharashtra were governed by the 'Maharashtra State Municipalities act 1965'. This Act has provided the unification of various Municipal Laws in-forced in different region of the state. Before passing of this act Maharashtra Government had appointed a committee for unifying the existing laws relating to the Municipalities in the state. The report of this committee was submitted in 1964 and on the basis of this report new act came into being in 1965. A number of improvement and amendments were made later on taking into account the existing situation. All the urban local Bodies are governed by a uniform Act. The following improvements and amendments were made in the Maharashtra Municipalities act of 1965.

4.06 Municipal Area and their Classification:

'The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act. 1965' dealt with the municipal area and their classification. 'Municipal area' means the local area for the time being within the Jurisdiction of any of the existing councils as defined in clause (a) of section 344 and "the council concerned means the local authority for the time being having Jurisdiction over such area'. Every area declared to be municipal area after the state government shall likewise classify the appointed day.

The State Government, on the basis of population, shall classify every Municipal area thereof as specified below:
Table No. 4.02

Classification of Municipal Council

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Class</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>‘A’ class Municipal area</td>
<td>75,000 and more.</td>
</tr>
<tr>
<td>2</td>
<td>‘B’ Class Municipal area</td>
<td>30,000 to 75,000.</td>
</tr>
<tr>
<td>3</td>
<td>‘C’ Class Municipal area</td>
<td>Below 30,000.</td>
</tr>
</tbody>
</table>

Any ‘C’ Class municipal area of which the population is more than 30,000 may, within a period of one year from the appointed day, pass a resolution by simple majority and request the State Government to take decision to declare that such area shall cease to be a Municipal area and constitute any other local authority thereof. On receipt of such request, the State Government shall take action accordingly. In addition, there are different norms for ‘Town Panchayats” and ‘Industrial Townships’. An urban area with a population of between 15,000 and 25,000 is declared as Town Panchayat. Municipal Council ‘C’ Class has the lowest mean population and mean area followed by Municipal Council ‘B’ class, then by Municipal Council ‘A’ class and finally Municipal Council.

Membership:

The membership of every municipal area is different on the basis of their classification. The Classification of membership is as under:

- **4.06.01 ‘A’ Class Municipalities:** In ‘A’ class municipal area the minimum number of elected councilors shall be 40 and for every 5,000 of the population above 75,000 there shall be one additional elected councilor. However, the total number of elected councilor shall not exceed sixty.
• **4.06.02 'B' Class Municipalities:** The minimum number of elected councilors shall be 30, and for every 3,000 of the population above 30,000, there shall be one additional elected councilor. But the total number of elected councilors shall not exceed 40.

• **4.06.03 'C' Class Municipalities:** This municipal area will have a minimum number of elected councilors 20, with a provision for one additional councilors for every 2,000 of the population above 15,000. The total number of elected councilors shall not exceed 30.

**4.06.04 Statutory Provisions:**

Statutory provision for creating a municipal unit is available in two forms. First, by statute that provides for the establishment of a municipal authority, as for instance in the form taken in the case of the *Bombay Municipal Corporation Act in 1888*, the *City of Nagpur Corporation Act of 1948* and the *Delhi Municipal Corporation Act 1957*. The other route is through statutory provision empowering State Government creation. *The Bombay Provincial Municipal Corporations Act of 1949* and the *Gujarat Municipalities Act of 1964* are both examples of the latter. Generally, these statutes confer significant control and supervisory powers on the state government. In this context, it can be said they are creatures of state government.

Municipal election provisions in different states are not uniform. In some, the state government makes arrangements for election; while in others Municipal Commissioners make the arrangements. Prior to the passage of the 1992 Act, urban local government was defined generally by the Municipal Corporations, Municipal Councils, Town Area Committees and Notified Area Committees. In this context, the structure and composition of
municipalities varied considerably, with wide differences in definition and structure between states. Hence, the 1992 Act attempted to instill some uniformity in the constitution of the municipal bodies by classifying them as Municipal Corporations for large urban areas, Municipal Councils for smaller urban areas and that are termed Nagar Panchayats, suburban government bodies.

4.07 The 74th Constitutional Amendment Act:

The 1992 Act provided for the Twelfth Schedule, which listed the functions of urban local units, along with their planning, regulation and development powers. It made provision for ward committees in areas exceeding 3,00,000 and the specification of the powers and responsibilities of municipal units and the ward committees. There is a requirement made therein for the holding of timely periodical elections and for the reconstitution of a municipal government within six months, should it be dissolved for any reason.

Sources of municipal finance and their periodic review by a statutorily constituted State Finance Commission were also provided for by the Act, which also made it obligatory for the Central Finance Commission to recommend steps to support state resources for the assistance of municipal governments. The Act also provided for reservation of one-third of the seats for women and scheduled castes in municipal bodies. State Governments were to adopt the 74th Constitutional Amendment Act with reference to their respective municipal bodies to affect its purpose within their jurisdictions.

Unlike rural bodies, urban government was not provided with a federated systemic framework (which is ironic, because since the 1950s outside India it has been urban regions that have seen the rising use of integrated federated systems). However, they do have
direct access to state governments, something that is not open to rural governments, which have indirect access through their relevant state bureaucratic representative - the District Collector and Divisional Commissioner.

**Divisions of Powers:**

**4.07.01 Elected, Nominated and Administrative:**

The 1992 Act provides for elected and nominated councilors. According to the size of the population of a particular unit, the number of elected councilors varies. Nominated councilors are to be chosen by the elected councilors for their special knowledge or experience in municipal administration.

**4.07.02 Mayor and councilors:**

This model is also known as the Commissioner system, taking its name from the role of the city administrator whom is generally a state-appointed officer. In such a system the Mayor in the Municipal Corporation is usually chosen through indirect or direct election by the councilors from among themselves for a term of one year, which is renewable. The Mayor generally lacks executive authority. This is due to the British roots of the system that remain from the time when the administrator was the representative of the colonial power, not to the fact that it operates under a council-manager whereby the executive would be accountable to the elected representatives. In this context, the indirect election of the Mayor combined with his short one-year tenure renders the role little more than that of a figurehead. Councilors act by committee, the most powerful being the Standing Committee with its role of the steering committee exercising executive, supervisory, financial and personnel powers. It is composed of elected members varying
in number between seven and sixteen through a system of proportional representation of councilors.

4.07.03 The executive arm of the corporation:

The Municipal Commissioner is the chief Executive Officer and head of the executive arm of the Municipal Corporation. All executive powers are vested in the Municipal Commissioner. Although the Municipal Corporation is the legislative body that lays down policies for the governance of the city, it is the Commissioner who is responsible for the execution of the policies. The Commissioner is appointed for a fixed term as defined by state statute. The Commissioner's term in office can be extended or reduced. The powers of the Commissioner are those provided by statute and those delegated by the Corporation or the Standing Committee. This is the closest that India has come to the council-manager system, with the critical difference of accountability of the manager to the elected arm of government; and the fact that the power of the un-elected executive arm of government is thus weighted in its favour.

4.08 Town Planning And Valuation Department:

The Maharashtra State has an independent Town Planning and Valuation Department under the administrative control of the Urban Development, Public Health and Housing Department. This department came into existence in the year 1914 with the Consulting Surveyor to Government, Pune, now designated as the Director of Town Planning, Maharashtra State, as its head. The department, as its name indicates, principally deals with the important subject of town planning and valuation of real properties. Some of the important duties and functions of this department as stipulated by Government are as under:
4.08.01 Duties and Functions of the Department:

Town Planning:

1. To prepare the regional plans, development plans and town planning schemes under the provisions of the Maharashtra Regional and Town Planning Act, 1966, this has come into force in the State with effect from 11th January, 1967.

2. To render assistance to the municipal authorities in the preparation of development plans and town planning schemes in the shape of advice, as well as loan of the services of technical personnel for the preparation of development plans, draft town planning schemes, etc.

3. To perform the duties of the Town Planning Officers and Arbitrators, when so appointed by Government under the Maharashtra Regional and Town Planning Act, 1966, to carry out surveys to prepare existing land use plans and development plans to scrutinize development or building permission cases, to tender advice to the Tribunal of Appeal and to draw up final town planning schemes, to work as members of the Regional Planning Boards, constituted by Government and to prepare regional plans.

4. To advise Government on all matters regarding town and country planning including legislation.

5. To advise and prepare town development, improvement, extension and slum clearance schemes under the Municipal Acts.

6. To prepare development schemes or layouts of—
   
   i. lands belonging to Government,
   
   ii. lands of co-operative housing societies and
iii. lands of private bodies with the sanction of Government.

7. To prepare village layouts for extension of old village *gaothan* and new village *gaothan* sites.

8. To advise the Government on housing, slum clearance, regional planning and prevention of ribbon development including legislation.

9. To prepare type designs for the housing of the middle and poorer classes including Harijans.

10. To scrutinize miscellaneous building permission cases and layouts received from the Collectors and to recommend suitable building regulations for adoption in the areas concerned.

**4.08.02 Valuation:**

The Director of Town Planning is the chief expert adviser of Government on this subject and his duties under this heading include:

1. valuation of agricultural and non-agricultural lands and properties in towns and villages belonging to Government and intended for the purposes of sale or lease;

2. valuation of Government properties for the purpose of rating under the Provincial Municipal Corporation Act and to function as the Authorized Valuation Officer for finalization of the lists of assessment of all the properties in municipal towns submitted by the chief officers under the provisions of the Maharashtra Municipalities Act, 1965;

3. valuation for miscellaneous purposes such as cantonment leases, probate or stamp duty, etc.;
4. valuation for the purposes of fixing standard rates of non-agricultural assessment and prescribing zones of values in all villages and rising localities in the vicinity of important and growing towns;

5. valuation for the purposes of fixing standard table of ground rents and land values in respect of lands in cantonments;

6. scrutiny of awards of compensation under the Land Acquisition Act, 1894;

7. supplying trained technical assistants to do duty as Special Land Acquisition Officers in important towns where the land acquisition work is of a very important and responsible nature;

8. giving expert evidence when called upon to do so in the District Courts and High Court when appeals are lodged against the awards of compensation under the Land Acquisition Act; and

9. undertaking valuation work on behalf of Railways and other departments of the Central Government and private bodies with the sanction of Government on payment of fees, etc.

4.08.03 Miscellaneous:

1. To advise the various heads of departments of Government in the selection of sites required for public purposes.

2. To see that all town planning schemes or layouts sanctioned by Government are properly executed (within a reasonable period or periods fixed in the schemes, and

3. To advise Government as regards interpretation, amendment of or addition to the Maharashtra Regional Town Planning Act, 1966, or rules there under.
4.08.04 Regional Planning:

The statutory powers regarding planning were embodied under the Bombay Town Planning Act, 1915, which was in force till its replacement by the Bombay Town Planning Act, 1954. The Act of 1954 generally incorporated the provisions of the Bombay Town Planning Act, 1915, and in addition made obligatory on every local authority (barring village panchayats) to prepare development plan for the entire area within its jurisdiction.

The Bombay Town Planning Act, 1954, applied to lands included within the municipal limits only and therefore there was no provision for exercising proper and effective control over the planning and development of land in peripheral areas outside the municipal limits which were growing in an irregular and haphazard manner. The evil results of such uncontrolled growth and development have already become apparent in the vast areas outside Greater Bombay and Pune and other important urban centers. It was considered that the only way to tackle adequately these evil effects arising out of rapid industrialization and urbanization would be by resorting to regional planning for areas around the metropolitan centers like Bombay, Pune and Nagpur and by developing counter magnets for the disposal and reallocation of both industries and population within the region.

There was no statutory power under the Act of 1954 for the preparation of regional plans which has, therefore, been repealed and replaced by the Maharashtra Regional and Town Planning Act, 1966. The Act came into force in the State with effect from 11th January, 1967. This Act provided for the establishment of regions and constitution of Regional Planning Boards for the preparation of regional plans, designation of sites for new towns, establishment of development authorities to create new towns, preparation of
development plans for the municipal areas and town planning schemes for execution of the sanctioned development plans.

The scope of the regional plans for an urban region consists of the formation of a policy for guidance and control of development within the region in such a manner that—

- land be used for the best purposes for which it is most suitable, e.g., residential, commercial, industrial, agricultural, recreational, etc., having regard to both public and private interests;
- adequate means of communications be provided for traffic throughout the region;
- building development be concentrated in areas where adequate public utility services can be supplied economically;
- ample areas be reserved as open spaces;
- amenities and countryside be protected including preservation of landscape; and
- Preservation of historical monuments, etc.

Thus in short, the object of the regional plan is to regulate development so as to maintain a proper balance between buildings and open spaces and secure healthy and economic urban growth.

4.08.05 Organization:

The department as stated above, was started in the year 1914 with the Consulting Surveyor to Government (now designated as the Director of Town Planning, Maharashtra State, Pune) as its head who was later on given the assistance of one Assistant Consulting Surveyor to Government (now designated as the Deputy Director of Town Planning), one Deputy Assistant Consulting Surveyor to
Government (now designated as the Assistant Director of Town Planning), and two Senior Assistants (now designated as Town Planners) with the requisite staff. As the activities of this department increased, these Assistants had to be posted at prominent places in the State to attend the work of town planning, valuation, etc., very essentially required in and around the towns and cities. There has been a tremendous increase in the activities of the department in recent years with the consequential increase in the number of branch offices in the State. This department also spares officers to work in the awards section of Revenue and Forests department to scrutinize the land acquisition awards in the Bombay Collectorate to deal mainly with valuation work in Bombay, and in the rural housing cell of the Rural Development and Cooperation department to prepare layouts of villages included in the schemes of that department. Officers of this department are also called upon to give expert evidence in the Courts in acquisition references and are also appointed to function as Arbitrators to finalize the draft town planning schemes prepared by the planning authorities. They also work as part time Special Land Acquisition Officers at Pune, Solapur, Ahmadnagar, Satara, etc.

The framing and execution of town planning schemes and the development of the areas within municipal limits was being regulated under the Central Provinces and Berar Town Planning Act till 1st May, 1965 since when the Bombay Town Planning Act, 1954, was extended to the Vidarbha region. The Act of 1954 has been repealed and replaced by the Maharashtra Regional and Town Planning Act, 1966, which came into force from 11th January, 1967. According to the provisions of the Maharashtra Regional and Town Planning Act, 1966, it is obligatory upon every municipal council, termed in the Act as a planning authority, to carry out survey, prepare an existing land use map and prepare and publish a development plan for the entire area within its jurisdiction.
4.09 State Control Over Urban Governments:

The state governments exercise supervision and control over urban governments to ensure minimum standard of services and proper performance of their functions through legislative, administrative and financial control. The urban governments are subject to judicial control also for their acts of omission and commission. But instead of providing guidance, advice and support to the urban governments in the discharge of their functions in an effective and efficient manner, the state governments' control over them is of negative, regulatory and restrictive nature; the worst kind of which is super session which meets out punishment not only to the elected councilors but also to the whole lot of citizens by depriving them of the elected Institution of local government. Urban centers contribute immensely to national prosperity. The central and state governments should, therefore, are expected to finance all the local self-government and to act as their friends and patron and not as their powerful rivals or disinterested spectators.

The municipalities have come to rely heavily on the State Governments for revenues, losing in the process the autonomy in expenditure determination. With the increasing dependence on the States for grants and loans, the States have gained enormous control over municipal finances. Most of the grants given by the States are specific in nature, resulting in a certain loss of autonomy. Even in revenue raising the municipalities have been subjected of many controls by the State Governments. The rates and bases of various taxes are determined by the State Government. Even municipality has to seek prior permission of the State Government before bringing about changes in the tax laws. Even in respect of non tax revenues, the municipalities do not enjoy greater freedom. Thus, the municipalities which are intended
to be autonomous have virtually become State Government departments looking for direction and control from the state Governments in every aspect. This constitutes an erosion of the basic objective of local self government, namely functional autonomy.

4.10 Ministry of Urban Development:

The Central Ministry of Urban Development set up in 1985 now known as Ministry of Urban Affairs and Employment has the responsibility of broad formulation and monitoring of programmes in the areas of urban development such as housing creation, urban poverty alleviation and urban water supply. These are essentially state subjects but the Government of India plays a coordinating and monitoring role and also supports these programmes through central sector schemes, institutional finance and expertise. The attached offices of the Ministry of Urban Affairs and Employment are Central Public Works Department, Directorate of Printing, Directorate of Estates, National Building Organization and its subordinate offices comprise Land and Controller Development Office, Town and Country Planning Organization, Controller of Stationery and Controller Publication. Its Public Sector Undertakings are Housing and Urban Development Corporation (HUDCO), National Buildings Construction Corporation Ltd... Hindustan Prefab Ltd. and its Statutory and Autonomous Bodies are Delhi Development Authority (DDA), Delhi Urban Art Commission, National Institute of Urban Affairs and National Capital Region Planning Board. The ministry of Urban development and their offices are useful to municipal self-govt. for procuring and the using the financers. However, as against the large accumulation of civic needs, the endeavors of the ministry appear dwarf. Moreover the municipal incumbent and councilors are themselves
unaware of the various developmental schemes of the above mentioned offices.

4.11 The Role of Central Government in Municipal Accounting Reforms:

The Government of India will have to play a role of an able navigator taking diverse agencies towards unified nation-wide municipal accounting system while maintaining identity and diversity at local level. The ministry of urban development, GOI has prepared a set of accounting policies and standards by bringing together C&AG, ICAI, representatives of state governments, representatives of municipal bodies. This is a very good move in right direction. Sequel to this pragmatic move the ministry of urban development has also recently convened a meeting of urban secretaries regarding implementation of C&AG Task Force Report in a time bound manner. As a follow-up to this high power meeting C&AG has undertaken preparation of National Accounting Manual comprising model account code, which will comprise chart of Accounts, Budget code, system description, operational guidance, agreed accounting policies and standards for municipal bodies. C&AG is simultaneously preparing model data based formats for the creation of national data base on urban local bodies' finances. Once National Accounting Manual and Model Data Base Formats are ready GOI should then place this model municipal account code in force with some legal sanction.\textsuperscript{13}

A state government can adopt it in full or can develop own separate municipal account code but in such circumstances it will have to follow the charts of accounts, budget code up to the second level of the National Municipal Accounting Manual and all the major accounting policies and standards in totality. This is so because if every state government goes ahead with formulating its own account and budget codes and accounting policies differently they
may be able to correct the ills of the existing accounting system at micro or individual municipal body level or at the most state level. Yet there will remain the problem of comparable data. State level (accrual based double-entry accounting system) improved account codes will improve accounting system of municipal bodies, but will not solve the problem of non-comparable data, which we all (national government, various research organizations, institutions, individuals) face today.

In another very good move, Government of India is giving incentive to State Governments to undertake municipal accounting reforms by including it under Urban Reform Incentive Fund. But this fund includes some reforms which involve political and fiscal ramifications. As a result many States are not going forward with URIF implementation. Consequently municipal accounting reforms are also not pursued adequate by such State Governments. If it is necessary then GOI should delink Municipal Accounting Reforms from the URIF and should provide separate incentive grant to States to undertake municipal accounting reforms. For sustainability and up-datation of uniform municipal accounting system GOI should consider setting up of a Municipal Accounting Standard Board as a part of the Government Accounting Standard Board or a separate board under aegis of C&AG. This board should look after the development, standardization and regulation of municipal accounting system. It should also work for promotion of professionalism in municipal bodies.

Formation of or necessary help to form Association of Municipal Accountants and Auditors of India will create a much-desired platform to share experiences and to inculcate professionalism into municipal accountants and auditors. The municipal Chief Accountants and Auditors of Gujarat have formed such an association way back in 1993. This association is registered
under Indian Societies Registration Act and Public Trust Act. This association has remained dormant and limited to Gujarat due to lack of support. It is necessary to revitalize such an association.

4.12 The Role of State Governments in Accounting Reforms:

As per our federal structure urban local bodies are state subject or creation of state hence central government cannot play its role beyond a point. Consequently it is the State Government, which will have to play the crucial and leading role if municipal accounting reforms are to come through. But barring one or two exceptions till date State Governments have not played their expected role in municipal accounting reforms and when compared to the pragmatic role played by central government and apex agencies its failure is becoming very obvious.

The State Governments should also undertake the task of revising municipal account code (on the lines of Tamil Nadu State Government) using the national level model municipal accounting manual at least up to 2nd level. State Municipal Accounts codes should develop Budget and Account Codes up to third level, that is, group account code or sub-budget heads. The fourth level, that is, accounting ledger or budget items can be provided in the account code but municipal bodies should be allowed to finalize the fourth level coding / classification (accounting ledgers & budget items) structure / items. It must be noted that the state governments should place modified accrual based double entry account code in place because it only can provide legal mandate and compulsion to municipal bodies to implement improved accounting system. The account code should also provide stipulations regarding the disclosure norms and financial statement (taking into account ICAI guidelines), which are required, by the SEBI & stock exchanges in order to access the capital market.15
Putting revised municipal account code in place will not be sufficient. The state governments will have to undertake a massive programme of upgrading accounting systems of municipal bodies. It will have to take initiative to provide adequate institution strengthening (capacity building) services to municipal bodies. Such an initiative will require a lot of funds. The lending agencies like World Bank, ADB; HUDCO, L.I.C. etc. should be roped in to share the cost of institutional strengthening. Municipal bodies will have to be motivated to improve through appropriate scheme of positive and negative incentives. For timely implementation of the new accounting system/reforms State Government should adopt following strategies.\textsuperscript{16}

Any transition from the single-entry cash-based accounting to the accrual-based double-entry accounting entails considerable costs. So far, in some cases, the municipal bodies have borne most of the costs. But given the current financial condition of most ULBs in the country, only a handful of them will be capable of financing accounting reforms in future. Hence, most of them will require financial support and State governments will have to come forward with adequate financial assistance. Setting a time frame spanning two to three years for implementation of double entry accounting systems in the ULGs, will be beneficial. Indicating the incentives for compliance with specified time frames for up-gradation and punitive measures on non-achievement will bring about progress at the desired rate. Financial statements produced by improved accounting systems at defined periodicity, should be demanded.

4.13 Budgetary Systems And Reports In Municipal Accounting Reforms:

One area that will need special attention is incorporation of budgetary systems and reports in municipal accounting reforms programme. Therefore, it is important to incorporate in the initial
stages of implementation plan the reformatting of budgetary statements in consonance with the accounting system and financial statement presentation. Lack of synergy between the two can act as a major hurdle in upgrading the accounting system. Central and State Governments should address this issue while framing model accounting system for the municipal bodies. A municipal body should take care of its operational part. Although there is widespread agreement about the desirability of development of an Indian GAAP for local governments, there is an equally widespread recognition that this will neither be implemented easily, nor in a few years time. Basic skills of the accounting professionals employed by local governments, record-keeping systems at the local level, on which all financial reporting depends, and several transitional issues about specific principles in the Indian GAAP are some of the issues which need to be addressed. Skills and record keeping systems at the ULG level need to be upgraded. All the levels of Government, ICAI, and CA & AG will have to jointly address this issue. State governments will have to take lead in this respect as individual ULB will not be capable of doing so.\(^{17}\)

The key implementation issue remains as to how an earnest, honest, and basically competent, but typically untrained employee, who prepares a municipality's financial statements can make the transition most effective – from single-entry accounts (incomplete because of past neglect in record-keeping), to a system based on the standard model and emerging Indian GAAP (based on double-entry book-keeping and the special principles and accounting standards for governments). An appropriate programme of human resource development of municipal bodies will have to be undertaken by the respective state governments.
4.14 The Role of Urban Local Bodies in Accounting Reforms:

Ultimately it is ULBs whom municipal accounting reforms will have to be carried out. They will have to face real brunt of the transition. Urban local bodies need to play a proactive role regarding following aspects:

The most important thing, which should happen at the local municipal level, is change in the perception of all concerned (the elected members, bureaucratic executive head, and the fellow municipal officers) towards accounting functions. For this, specially tailored, structured opinion building workshops need to be conducted by a local body going for accounting and other related reforms. Only a change in the perception will not be sufficient, induction of professionally qualified accounting personnel in the municipal bodies will be a must. In order to attract such personnel municipal bodies will have to suitably upgrade organizational status of their municipal accountants, auditors. Also, working conditions and recurrent training facilities should be improved.

The most difficult issues are technical ones, such as valuation of general fixed assets, and fundamental questions of law (like, who actually owns the road or a particular public land, or who is actually liable for the unpaid electricity, bills from the state government's Electricity Board, for the electricity provided to a ULG under previous administration). Clearly, such issues cannot be resolved by accounting, especially by a typical municipal accountant, or even a typical municipal commissioner. At the same time, such issues need to be resolved before most of the Indian local governments fully implement a modern system for governmental financial reporting and accounting conforming to
government objectives. ULBs will have to sort out these technical issues at the ground level with the guidance from apex bodies like C&AG, ICAI and by hiring appropriate professional support.\textsuperscript{18}

Municipal bodies have continued with rudimentary outdated accounting system and without any meaningful financial disclosure because our society at large including NGO's / CBO's or media or interest groups never compelled them for improvement, transparency, accountability. As discussed, at present, neither the municipal body's present comprehensive annual financial report (CAFR), nor society demands it. For healthy democracy it is necessary that people should come forward for meaningful participation and should press the government for accountability, transparency and information in user-friendly manner. For this, higher-level government should hold workshops for NGO's / CBO's, other related organizations and individuals, regarding municipal accounting system, information disclosure norms, performance indicators etc.

4.15 Urban Reforms:

More than half of world's population is living in cities and towns. 27.8 per cent of India's population (285 million) lives in urban areas as per 2001 census. It is important to note that the contribution of urban sector to GDP is currently expected to be in the range of 50-60 percent.\textsuperscript{19} In this context, enhancing the productivity of urban areas is now central to the policy pronouncements of the Ministry of Urban Development. Cities hold tremendous potential as engines of economic and social development, creating jobs and generating wealth through economies of scale. They need to be sustained and augmented through the high urban productivity for country's economic growth. National economic growth and poverty reduction efforts will be increasingly determined by the productivity of these cities.
and towns. For Indian cities to become growth oriented and productive, it is essential to achieve a world class urban system. This in turn depends on attaining efficiency and equity in the delivery and financing of urban infrastructure.

The India Infrastructure, Report, 1996, assessed the total annual investment needs of water supply, sanitation and roads sectors at Rs. 28,036 crores per year on an average during 1996-2006. Whereas funds to that extent are not available. To overcome these constraints and challenges, the Ministry of Urban Development has initiated institutional, fiscal and financial reforms. First generation urban sector reform - known as the 74th Constitutional Amendment Act of 1992, recognizes the principles of local self governments and empowers urban local bodies with financial resources through Central Finance Commission and State Finance Commissions. Subsequently, in order to strengthen these local bodies, second generation reform have also been started. In the last decade, enormous progress has been made in removing impediments to efficient investment.²⁰

4.15.01 Regulatory Framework for Urban Reforms:

The participation of the private sector in financing and the delivery of infrastructure at the municipal level, especially in the water and sanitation sector, require a regulatory framework to protect consumers, apply environmental standards and support the delivery to the poor.²¹ As there are a variety of models of regulation from centralized to decentralized systems, guidelines will be developed at the National level to ensure consistency across the country. Appropriate training programme and capacity support to regulators will also be developed in partnership with the private sector and urban research institutions. Central Government will develop guidelines for involvement of the private sector in
infrastructure, which will ensure competitive bidding process in a transparent manner.

4.15. 02 Attract Private Finance for Urban Reforms:

Government of India is also encouraging citywide reforms and restructuring so as to ensure that cities are managed efficiently and become creditworthy (to attract private finance) which will enable them to prepare long term plans for infrastructure investments and implement poverty alleviation programs. Citywide reforms and restructuring will, however, result in significant transaction costs during the period of transition. Leaving cities to finance these costs by themselves will delay and make it difficult to implement these reforms. It is to partly offset this disadvantage that the Ministry of Urban Development is proposing to set up a performance based City Challenge Fund for catalyzing city level economic reform programmes. The resources from the Fund would be given as grants but should ideally be matched by equal allocations either from the cities themselves or from the respective State governments. Access to the fund would be on a competitive basis. After the New Economic Policy; several important initiatives in the urban sector designed to encourage private sector participation in urban infrastructure projects. These initiatives would need to be taken to their logical conclusion. A series of new Reform Measures are being put together for implementation during 10th Plan Period.22

4.16 National Urban Renewal Mission:

In December, 2005, a National Urban Renewal Mission (NURM) was announced, which calls for the creation of other arrangements for improving service delivery, which may also affect the environment by adding even more confusion to the situation preceding it. The goal of NURM, however, is to upgrade urban infrastructure and to further reform the urban situation. The
centrally devised program has identified over 60 Indian cities for the improvement program. Funding provision for the improvement is to be divided according to a defined ratio for mega cities and those with more than a million plus population. This is to be 35 per cent from the national government, 15 per cent from the states and the remaining 50 per cent from financial institutions. For other cities, the formula is to be 80:10:10. However, release of funding is tied to the states and their urban local units becoming signatories to a tripartite memorandum of understanding with the national government of accepting to undertake the reforms required. The reform agenda includes core reforms, mandatory reforms and five optional reforms.\textsuperscript{23}

The core reforms include implementation of decentralization measures as envisaged in the 74th Constitutional Amendment, the drawing up of public-private-partnership (PPP) models for development, management and financing of urban infrastructure the adoption of an accrual-based double entry system of accounting, passage of public disclosure law to facilitate quarterly performance information to all stakeholders and a community participation law to institutionalize citizen participation. Other core reforms include introduction of e-governance for property tax collections, with the goal of at least 85 per cent collection efficiency within five years and the introduction of similar practices in the case of financial accounting systems, work management, water tax billing and collection systems, the trade licensing system and the approval of building plans.\textsuperscript{24} Compulsory reforms to be undertaken by the states include repeal of the Urban Land Ceiling and Regulation Act, reforms to the rent control law to stimulate private investment, reduction of Stamp Duty to bring it down to no more than five per cent within the next five years and the introduction of independent regulators for urban services.
References:

5. www.maharashtra.gov.in.


