

CHAPTER I

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

1.1 Introduction

1.1.1 There were six municipal corporations and 151 municipalities in Tamil Nadu as on 31 March 2005. With a view to enabling Town Panchayats (TPs) to access Central funding under Rural Development Programmes, Government reclassified (June and July 2004), 562 out of 611 TPs as Village Panchayats on the basis of their population being less than 30,000. The balance 49 TPs were simultaneously upgraded as Third Grade municipalities. Urban population of the State as per 2001 census was 2.75 crore constituting 44 *per cent* of total State population (6.24 crore). While the decadal growth rate of the total population was 11 *per cent* during 1991-2001, that for the urban population was 43 *per cent*.

1.1.2 The six corporations in Tamil Nadu are governed under separate acts as shown under:

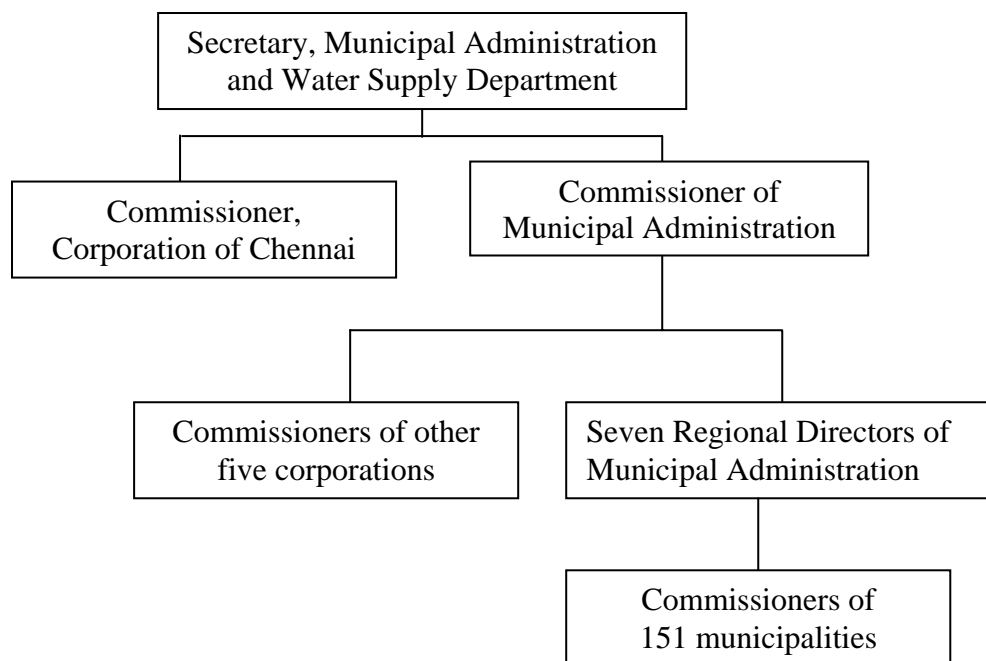
Sl. No.	Name of the Corporation	Governing Act
1.	Corporation of Chennai	Chennai City Municipal Corporation Act, 1919
2.	Madurai Corporation	Madurai City Municipal Corporation Act, 1971
3.	Coimbatore Corporation	Coimbatore City Municipal Corporation Act, 1981
4.	Tiruchirappalli Corporation	Tiruchirappalli City Municipal Corporation Act, 1994
5.	Tirunelveli Corporation	Tirunelveli City Municipal Corporation Act, 1994
6.	Salem Corporation	Salem City Municipal Corporation Act, 1994

1.1.3 The municipalities are classified into different grades based on the annual income as follows:

Grade	Municipalities	
	Annual income	Number
Special Grade	Above Rs five crore	13
Selection Grade	Rs two crore and above but below Rs five crore	28
First Grade	Rs one crore and above but below Rs two crore	36
Second Grade	Below Rs one crore	25
Third Grade	(Erstwhile Town Panchayats with population exceeding 30,000)	49
Total		151

1.2 Administrative arrangements

1.2.1 The overall administration of urban local bodies (ULBs) vests with the Secretary to Government, Municipal Administration and Water Supply (MAWS) Department at Government level. An organisational chart on the administration of ULBs is given below:



The Mayor is the elected representative of the Corporation and a Chairperson is elected for each Municipality.

1.3 Accounting arrangements

1.3.1 Government of Tamil Nadu introduced accrual-based system of accounting in all corporations and municipalities with effect from 2000-01 in a phased manner.

1.3.2 Apart from the General Fund Account, the following three accounts are maintained under the accrual-based system of accounting by all the municipalities and five corporations (excluding Chennai):

- (i) Revenue Fund and Capital Fund
- (ii) Water Supply and Drainage Fund and
- (iii) Elementary Education Fund

The cash balance of each of the above Fund is maintained in a separate bank account. The Corporation of Chennai is maintaining (i) a General Fund

comprising both Revenue and Capital Funds and (ii) an Elementary Education Fund.

State Government also accepted (February 2005) adopting the database formats as suggested by the Comptroller and Auditor General of India and directed that they be adopted by the ULBs with effect from 1 April 2004. Government also ordered that the Commissioner of Municipal Administration (CMA) and the Commissioner of Corporation of Chennai should take action for creating the database in ULBs in consultation with the National Informatics Centre (NIC) by March 2005 and the NIC would arrange thereafter to train the staff of ULBs on the new software at the NIC district offices by 15 April 2005. Further action taken in this regard is awaited (December 2005).

1.4 Audit arrangements

1.4.1 Director of Local Fund Audit (DLFA) is the Statutory Auditor for ULBs and fifty *per cent* of the actual cost of audit¹ of DLFA is paid by the ULBs out of the Municipal fund. The corporations and municipalities were yet to pay Rs 8.39 crore towards audit fees as of November 2005. Year-wise details are given in the **Appendix I**.

1.4.2 The Principal Accountant General (PAG) audits the ULBs under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Further, PAG provides technical guidance to DLFA on a continuing basis regarding audit of accounts of the ULBs in terms of Government of Tamil Nadu order of March 2003.

1.5 Financial and functional delegation/devolution

1.5.1 Delegation of Financial Powers

The powers for issue of administrative sanction and technical sanction at various levels of five corporations (except Chennai) and municipalities are indicated below:

Nature of sanction	Financial limit	Sanctioning authority
Administrative sanction	Up to Rs ten lakh	The concerned Council
	Rs ten lakh to Rs one crore	The concerned Directorate
	Above Rs one crore	Government
Technical sanction	For Municipalities	
	Up to Rs 30 lakh	Municipal Engineer or Engineer in-charge in the rank of Executive Engineer
	Over and above Rs 30 lakh	Superintending Engineer

¹ As per G.O. Ms. No. 62 dated 17.1.1994 of Finance (Local Fund) Department.

**For Corporations (except
Chennai)**

Up to Rs 50 lakh

Corporation Engineer

The powers for issue of administrative sanction and technical sanction at various levels in Corporation of Chennai are given in **Appendix II**.

1.5.2 Devolution of functions

In terms of the Seventy-fourth Amendment to the Constitution of India (June 1993), out of the 18 functions to be devolved on the municipalities and corporations, only 12 functions have been transferred. The transfer of the remaining functions was under the consideration of the State Government (**Appendix III**). In respect of Corporation of Chennai, out of the 12 functions, the one relating to water supply for domestic, industrial and commercial purposes already vested with Chennai Metropolitan Water Supply and Sewerage Board. The function on cattle pounds was also reported (August 2005) as transferred to Corporation of Chennai.

Audit noted that the functionaries for execution of devolved functions had not yet been transferred. In response, the Secretary, MAWS Department stated (August 2005) that out of 18 functions mentioned in the Twelfth Schedule, all except "Fire service" already stood transferred to ULBs. He further added that all ULBs in the State except transition towns had an adequate sanctioned staff strength for effectively discharging these functions. For transition towns, it was stated that a separate engineering wing has been created with adequate number of engineering personnel.

The reply of Secretary, MAWS Department is not tenable because some important devolved functions continue to be discharged by other Government agencies e.g. by Highways Department in respect of Roads and Bridges, slum improvement by Tamil Nadu Slum Clearance Board etc.

1.6 Source of revenue

1.6.1 Own revenue resources constitute tax and non-tax revenues realised by ULBs. Property tax is the most important source of tax revenue. Other resources comprise (a) funds released by the State Government based on the recommendation of State Finance Commission (SFC) and (b) loans released by it for implementation of various schemes relating to urban development, water supply, roads, etc. and (c) Government of India grants released (i) on the basis of Central Finance Commission recommendations and (ii) for implementation of specific schemes including poverty alleviation programmes. A chart depicting various sources of revenues of ULBs is given in **Appendix IV**.

1.7 Requirement of funds

1.7.1 Urbanisation is generally accompanied by a widening gap between demand and supply of essential infrastructure services like water supply, sanitation, solid waste management, transportation and development of housing, etc. This results from increasing population pressure on urban centres, most of which are financially and organisationally ill-equipped to respond to infrastructural needs.

1.7.2 The First State Finance Commission which was set up for the period 1997-2002 following the passage of Seventy-third and Seventy-fourth Amendments to the Constitution of India, assessed the requirements for various urban services based on the norms and population forecast for 2002 and computed the service gaps on the basis of the then existing service levels.

1.7.3 Projections made by Second State Finance Commission

(a) Projected revenues of ULBs

The Second State Finance Commission (SSFC) constituted in December 1999, projected the growth of tax and non-tax base for the ULBs for the award period 2002-07 to Rs 4969.39 crore as detailed in **Appendix V**. The projections were based on the current taxes and their expected buoyancy. A comparison of the actual vis-à-vis projected revenues of ULBs during the first three years (2002-05) of the award period is given at paragraph 1.8.4.

(b) Projected capital expenditure of ULBs

Based on the absorptive capacity of ULBs (assessed in terms of their utilisation of funds over the past five years), the SSFC fixed the total requirement of funds for incurring capital expenditure under the core sectors during 2002-07 to Rs 1625 crore (corporations: Rs 975 crore and municipalities: Rs 650 crore). Year-wise breakup is given in **Appendix VI**. A comparison of the actual vis-à-vis projected capital expenditure during the first three years (2002-05) of the award period is given at paragraph 1.9.3.

(c) Projected operation and maintenance expenditure of ULBs

Based on the sustainable investment assessed for capital works, SSFC projected Rs 3113.25 crore towards operation and maintenance (O&M) expenditure for the ULBs for the period 2002-07 (corporations: Rs 1700 crore and municipalities: Rs 1413.25 crore). Year-wise details are given in **Appendix VII**. SSFC had clarified in their Report that the above amounts towards O&M expenditure may be taken as the upper limit and can be pruned down. A comparison of the actual vis-à-vis projected O&M expenditure during the first three years (2002-05) of the award period is given at paragraph 1.9.2.

1.8 Receipts and Expenditure in urban local bodies

1.8.1 The details of receipts and expenditure (provisional and unaudited) in ULBs during the last three years are given below:

(Rupees in crore)

	2002-03		2003-04		2004-05	
	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure
Corporation of Chennai	566.11	477.70	690.39	681.57	742.20	726.22
Other Corporations	482.67	444.67	439.83	385.85	478.54	486.47
Municipalities	836.09	792.59	779.07	696.15	817.07	770.02
Total	1884.87	1714.96	1909.29	1763.57	2037.81	1982.71

The above data was compiled mainly from the Performance Budget of MAWS Department for the respective years and from the details furnished by the Commissioner, Corporation of Chennai and the CMA.

The accuracy of these figures could not be authenticated in the absence of data compiled from the audited accounts of the ULBs by the Department/Government. Such a consolidation of audited accounts of all the ULBs in the State is essential for accurate presentation of a comprehensive picture of the finances of the ULBs.

1.8.2 The component-wise details of receipts and expenditure are given in the succeeding paragraphs.

1.8.3 Own Revenue realised

Details of "Own Revenue" realised by ULBs during 2002-05 as furnished by the CMA are given below:

(Rupees in crore)

Category of ULB	2002-03			2003-04			2004-05 (provisional)		
	Tax	Non-Tax	Total	Tax	Non-Tax	Total	Tax	Non-Tax	Total
Corporation of Chennai (1)	194.55	80.04	274.59	236.89	70.91	307.80	267.42	88.81	356.23
Other Corporations (5)	93.97	81.36	175.33	119.32	106.26	225.58	126.61	119.35	245.96
Municipalities*	220.16	195.64	415.80	194.44	164.50	358.94	203.83	180.33	384.16
Total	508.68	357.04	865.72	550.65	341.67	892.32	597.86	388.49	986.35

(* Figures in respect of 2004-05 relate to 151 municipalities including the 49 Third Grade municipalities).

The percentage of own revenue of the ULBs to total receipts grew marginally from 47 per cent in 2003-04 to 48 in 2004-05.

1.8.4 Projection and Realisation of Own Revenue

A comparison of "Own Revenue" realised by ULBs as reported by CMA during the first three years of the award period *vis-à-vis* the projected revenue in respect of them by SSFC is given in table below:

(Rupees in crore)

	2002-03		2003-04		2004-05 (Provisional)	
	Projected	Actual	Projected	Actual	Projected	Actual
Tax revenue	509.34	508.68	661.53	550.65 (17)	690.11	597.86 (13)
Non-tax revenue	258.30	357.04	289.33	341.67	324.24	388.49
Total own revenue	767.64	865.72	950.86	892.32 (6)	1014.35	986.35 (3)

(Figures in brackets indicate percentage of shortfall).

Thus, the actual tax revenue realised during 2003-04 and 2004-05 was less than the projected by 17 and 13 *per cent* respectively. The deficiencies noticed in realisation of tax and non-tax revenues by the ULBs are analysed in the subsequent paragraphs.

1.8.5 Tax Revenue

Property tax is the major source of Tax Revenue of ULBs. Some of the other significant components of tax revenue are Professional tax, Company tax and Advertisement tax.

1.8.6 Property Tax

The position of cumulative demand (including arrears), collection and balance of Property tax during the years 2002-03, 2003-04 and 2004-05 is as given below:

(Rupees in crore)

Year		Corporation of Chennai	Other corporations (except Chennai)	Municipalities	Total
2002-03	Demand	384.97	194.28	293.12	872.37
	Collection	163.76 (43)	99.64 (51)	177.96 (61)	441.36 (51)
	Balance	221.21	94.64	115.16	431.01
2003-04	Demand	423.09	194.40	312.54	930.03
	Collection	206.61 (49)	101.41 (52)	184.81 (59)	492.83 (53)
	Balance	216.48	92.99	127.73	437.20
2004-05	Demand	433.43	203.11	332.94	969.48
	Collection	220.55 (51)	106.37 (52)	188.15 (57)	515.07 (53)
	Balance	212.88	96.74	144.79	454.41

(Figures in brackets indicate the percentage of collection during the year. Figures in respect of 2002-03 and 2003-04 relate to 102 municipalities while for 2004-05 relate to 151 municipalities).

The above table indicates that in terms of percentage of Property tax collected vis-à-vis that demanded, the performance of municipalities was better than the municipal corporations in all the three years. However, this percentage

exhibited a declining trend for municipalities, an upward trend for Corporation of Chennai and a stationary trend for the other five corporations. Scrutiny by Audit indicated that the CMA had been holding frequent meetings during 2004-05 with the Commissioners of all the five corporations and municipalities to monitor and improve the collection of Property taxes by them. However, the absence of any tangible progress in this regard indicates that such meetings did not have the desired impact. Consequently, the arrears of Property tax due for collection in municipalities increased to Rs 144.79 crore (43 *per cent* of the demand) at the end of 2004-05. In respect of corporations (except Corporation of Chennai) the arrears of Property tax increased from Rs 92.99 crore to Rs 96.74 crore in absolute terms during the same period, though the percentage of arrears of Property tax amounted to 48 *per cent* of the demand in both years. The CMA intimated (December 2005) that the main reason for the poor collection was the litigations in the Courts relating to the assessment of Property tax and the tax relating to municipalities to be collected in such cases covered by litigation amounted to Rs 84.75 crore as of November 2005.

1.8.7 Professional Tax

The position of demand (inclusive of arrears), collection and balance of Professional tax during the last three years are as given below:

(Rupees in crore)

Year	Corporation of Chennai			Other corporations (except Chennai)			Municipalities		
	Demand	Collection	Balance	Demand	Collection	Balance	Demand	Collection	Balance
2002-03	NA	29.38	NA	13.89	8.75 (63)	5.14	35.37	19.70 (56)	15.67
2003-04	NA	29.48	NA	13.94	8.96 (64)	4.98	37.19	20.73 (56)	16.46
2004-05	NA	46.22	NA	17.29	12.09 (70)	5.20	40.95	22.76 (56)	18.19

(NA: Not Available)

(Figures in brackets indicate the percentage of collection during the year)

The Town Panchayats, Municipalities and Municipal Corporations (Collection of Tax on Professions, Trades, Callings and Employments) Rules, 1999 require all these urban local bodies to maintain a master register containing details relating to the traders, professionals and employers within their municipal limits. The failure of the Corporation of Chennai to maintain such a register resulted in it not being able to issue any demand notices. The Corporation's response to an Audit query for not maintaining it is awaited (January 2006).

1.8.8 Non-tax revenue

Non-tax revenue of ULBs includes fees from building licence, market, survey, parking, encroachment, bays in bus stand, slaughter house, cart stand and fishery rights etc.

Rupees 239.76 crore were collected as non-tax revenue by Corporation of Chennai during 2002-05. The contributions to this revenue from license fees, rent on land and building and private scavenging fees during the above period amounted to Rs 63.46 crore.

1.8.9 Assigned Revenue

A portion of the proceeds arising from (a) Entertainment tax (ET) and (b) Stamp duty Surcharge on transfer of property (SS) are assigned to ULBs. The amounts reported as assigned during 2002-05 are tabulated below:

(Rupees in crore)

Category of ULBs	Entertainment Tax			Stamp duty Surcharge on transfer of property		
	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05
Corporation of Chennai	13.37	6.42	18.19	118.02	112.75	77.01
Other Corporations	19.20	14.96	14.10	62.83	47.12	43.02
Municipalities *	38.10	24.96	25.43	97.64	86.03	82.71
Total	70.67	46.34	57.72	278.49	245.90	202.74

(* Data for 2002-03 and 2003-04 is for 102 municipalities, but is for 151 municipalities for 2004-05).

The above table shows that the proceeds of ET in corporations (except Chennai) and in municipalities in 2004-05 had declined as compared to their proceeds in 2002-03. Similarly, the assigned Stamp duty Surcharge for all corporations and municipalities declined since 2002-03. The decline in surcharge on Stamp duty was attributed by CMA to reduction in the rate of surcharge from five to two *per cent* with effect from November 2003. No specific reasons for the decline in ET were furnished by the CMA (January 2006).

1.8.10 Grants and loans released to Local Bodies

Apart from the devolution grants² based on the recommendations of SSFC, various grants were given to ULBs by the Central and State Government for implementation of various schemes under Municipal Urban Development Fund (MUDF), Integrated Development of Small and Medium Towns, Integrated Urban Development Programme, National Slum Development Programme (NSDP), National River Conservation Programme, Swarna Jayanthi Shahari Rozgar Yojana (SJSRY) etc. Besides, loans were also obtained by ULBs from Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (TUFIDCO) and Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL) for these schemes.

The assistance provided by way of grants and loans to ULBs during 2002-05, as compiled by the CMA and reported in the Performance Budget of

² SSFC grants to the extent of actual receipts after adjustment.

Municipal Administration and Water Supply Department for 2004-05 was as follows:

(Rupees in crore)

Year	Corporation of Chennai			Other Corporations			Municipalities			All Urban local bodies		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
2002-03	92.03	68.10	160.13	217.35	7.96	225.31	262.03	22.52	284.55	571.41	98.58	669.99
2003-04	93.50	169.92	263.42	105.09	47.08	152.17	236.00	73.14	309.14	434.59	290.14	724.73
2004-05*	97.77	193.00	290.77	85.35	90.11	175.46	236.47	88.30	324.77	419.59	371.41	791.00

(* provisional figures).

On the declining trend of grants in respect of 'Other Corporations' and municipalities being pointed out, the CMA clarified (March 2006) that many ULBs had reported the net amount of grants received after the deductions made in his office towards pension payment, recoveries in respect of loans obtained earlier from Government, TUFIDCO and TNUIFSL. Consequently, the gross amount of grants received by ULBs and the actual amount deducted from them were not available separately in the compiled account.

As of March 2005, Rs 6.82 crore (Government of India (GOI) grant: Rs 5.12 crore and State Government grant: Rs 1.70 crore) received for implementing SJSRY and Rs 54.57 crore for NSDP from GOI were yet to be utilised. Similarly, Grants aggregating Rs 67.70 crore³ were lying unutilised with Corporation of Chennai at the end of March 2005 as per their accounts.

1.8.11 Position of outstanding loans

As of March 2005, out of Rs 740.94 crore of loans outstanding with the municipalities and corporations (except Corporation of Chennai), Rs 336.50 crore⁴ (Principal: Rs 98.36 crore and Interest: Rs 238.14 crore) was overdue for repayment. The CMA stated (August 2005) that due to weak financial position of ULBs, the overdue loan amount could not be repaid.

1.8.12 State Finance Commission Grants

Government accepted (March 2002) the following recommendation of SSFC for devolution of State's Own Tax Revenues:

➤ The rural and urban local bodies would receive eight *per cent* of the State's Own Tax Revenues after excluding the Entertainment tax receipts. The vertical sharing of resources between rural and urban local bodies would be in the ratio of 58:42.

³ MUDF grants: Rs 2.75 crore, NSDP grants: Rs 10.12 crore, Solid waste management grants: Rs 18 crore and other grants: Rs 36.83 crore.

⁴ Municipalities - Principal: Rs 71.75 crore and Interest: Rs 179.08 crore.
Five Corporations - Principal: Rs 26.61 crore and Interest: Rs 59.06 crore.

➤ Of the total devolutions to the urban local bodies, the resources would be shared between the Corporations, Municipalities and Town Panchayats in the ratio 31:34:35. Consequent to the reclassification of erstwhile Town Panchayats, Government fixed (November 2004) the ratio between the Special Village Panchayats and the Third Grade Municipalities as 28 *per cent* and seven *per cent* respectively.

The details of SSFC grants released to ULBs and their reported utilisation during 2002-05 is tabulated below:

(Rupees in crore)

Year	SSFC grants					
	Corporations		Municipalities		Total Grants	
	Released	Utilised	Released	Utilised	Released	Utilised
2002-03	191.07	189.82	207.09	208.26	398.16	398.08
2003-04	187.17	187.16	202.87	202.85	390.04	390.01
2004-05	182.35	182.35	202.41	202.41	384.76	384.76

The devolution of funds through SSFC grants was meant to cover the maintenance of assets and the salary and wages of employees of the local bodies. Test-check of records relating to the release of funds revealed that Government had deducted at source most of the funds to be released to cover (a) debt repayment and (b) other pending liabilities and dues, consumption charges to Tamil Nadu Electricity Board, water and maintenance charges to Tamil Nadu Water Supply and Drainage Board, Chennai Metropolitan Water Supply and Sewerage Board etc., amounts to be transferred to DLFA, contribution and adjustment of due interest on certain loans obtained by ULBs. The close match between funds released and that utilised, as reflected in the above table is attributable to the aforesaid deduction at source.

1.9 Expenditure incurred by urban local bodies

1.9.1 The year-wise breakup of expenditure incurred by the ULBs during 2002-05 are given below:

(Rupees in crore)

Year	Revenue Expenditure				Capital expenditure	Total expenditure
	Salaries	Pension	Repairs and Maintenance	Total		
2002-03	471.06	142.94	582.64	1196.64	518.32	1714.96
2003-04	422.78	132.41	701.04	1256.23	507.34	1763.57
2004-05*	446.57	137.06	731.07	1314.70	668.01	1982.71**

(* provisional figures).

(** including expenditure incurred by 49 reclassified Third Grade municipalities.)

1.9.2 Revenue Expenditure

Revenue expenditure consists of expenditure on (a) salaries and pensions, (b) repairs and maintenance of street lights, water supply works and road works, (c) conservancy works and (d) administrative expenditure, etc. The details of operation and maintenance expenditure (excluding salary and pension payment) incurred during 2002-05 revealed that they were higher than the expenditure projected by SSFC for these years, as tabulated below:

(Rupees in crore)

Year	Operation and maintenance expenditure	
	Projected expenditure	Expenditure incurred
2002-03	507.94	582.64
2003-04	561.97	701.04
2004-05	619.52	731.07

1.9.3 Capital Expenditure

The sector-wise Capital expenditure *vis-à-vis* the projected expenditure by SSFC for all ULBs during the last three years is tabulated below:

(Rupees in crore)

Name of the core sector	2002-03		2003-04		2004-05		Total	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
Roads	91.34	170.83	91.34	268.80	88.47	271.99	271.15	711.62
Street lighting	11.98	17.94	11.98	20.43	11.98	34.03	35.94	72.40
Water supply	64.48	63.43	64.48	65.34	63.43	108.72	192.39	237.49
Storm water drains	50.40	1.85	50.40	16.01	48.71	20.00	149.51	37.86
Conservancy	19.02	8.78	19.02	9.58	19.02	29.75	57.06	48.11
Other capital works	123.48	255.49	123.48	127.18	69.59	203.52	316.55	586.19
Total	360.70	518.32	360.70	507.34	301.20	668.01	1022.60	1693.67

Total Capital expenditure incurred during these three years was higher than that projected mainly due to the expenditure incurred under Roads. No expenditure was reported as incurred for construction of storm water drains by municipalities and corporations except Corporation of Chennai.

The SSFC projected capital expenditure of Rs 13.82 crore per annum by the six corporations under 'Conservancy' during 2002-05. However, as against the total capital expenditure of Rs 48.11 crore on conservancy works during the above period for all ULBs, the six corporations incurred only Rs 10.48 crore as indicated below:

(Rupees in crore)

Year	Actual expenditure in	
	Chennai Corporation	Other five corporations
2002-03	0.04	0.12
2003-04	1.46	0.80
2004-05	6.74	1.32
Total	8.24	2.24

This was indicative that none of the Corporations had taken effective measures for ensuring conservancy services to the extent projected by SSFC.

Further, for Solid Waste Management (SWM), SSFC had projected capital expenditure of Rs 95.10 crore during 2002-07. No compiled data was made available for SWM to Audit regarding the actual funds released to the ULBs and expenditure incurred. A review on SWM in selected municipalities and corporations revealed that waste disposal facilities were not set up by the targeted date of 31 December 2003 envisaged in the Municipal Solid Waste (Management and Handling) Rules, 2000 notified by GOI. This review is reflected in Chapter II of this Report.

Similarly, as against Rs 42 crore earmarked each year towards water supply by the municipalities during 2003-04 and 2004-05, only Rs 28.51 crore and Rs 30.50 crore respectively were incurred.

SSFC had suggested 10 *per cent* and five *per cent* of Capital expenditure towards “Remunerative Enterprises⁵” in corporations and municipalities respectively so that the yield from them is more than debt servicing requirement to enable the excess balance being accumulated to build up cash reserve year after year. No data regarding the actual Capital expenditure incurred towards this by all ULBs was available with the CMA. A review on the impact of remunerative assets created in selected municipalities revealed that the revenue realised from such assets was not adequate even to service the debt obtained for their creation, as discussed in Chapter II of this Report.

1.10 User charges

1.10.1 Details of user charges (mainly water charges) collected during the last three years as reported by CMA are given below:

⁵ Remunerative Enterprises cover assets such as commercial complexes, Kalyana Mandapams, etc.

(Rupees in crore)

Urban Local Bodies	2002-03			2003-04			2004-05 (provisional)		
	Demand	Collection	Balance	Demand	Collection	Balance	Demand	Collection	Balance
Corporations (other than Chennai Corporation)	32.20	22.09 (69)	10.11	42.95	28.99 (67)	13.96	Not available		
Municipalities	53.06	34.70 (65)	18.36	68.48	41.50 (61)	26.98	80.98	48.59 (60)	32.39

(Figures in brackets indicate the percentage of collection against the demand raised).

The above table shows that the percentage of collection of user charges in municipalities had declined from 65 in 2002-03 to 60 in 2004-05. In respect of corporations other than Corporation of Chennai, also the percentage declined from 69 in 2002-03 to 67 in 2003-04. Reply from CMA clarifying whether the figures for Demand include arrears are awaited (December 2005). The CMA attributed the shortfall in collection of user charges to the drought conditions that prevailed in the State. In the reference issued in December 2005 after analysing the monthly reports of Regional Directors of Municipal Administration (RDMAs) for November 2005, CMA observed that the pendency in collection of water charges was more than Rs 50 lakh in each of 24 Municipalities.

1.11 Central Finance Commission Grants

1.11.1 For Tamil Nadu, Eleventh Finance Commission (EFC) had allocated Rs 38.67 crore for ULBs for each of the five years (2000-05) for maintenance of civic services in ULBs and creation of database. However, GOI released Rs 31.43 crore per annum during 2001-02 to 2004-05 with instructions to treat the grants for creation of database as the first charge. Grants of Rs 47.48 lakh given for the creation of database for the period 2001-04 were withheld by State Government and the same were released only during 2004-05. The details of utilisation of this amount are yet to be made available by the Department to Audit.

1.12 Audit of urban local bodies by Director of Local Fund Audit

1.12.1 DLFA is the Statutory Auditor for all ULBs. The DLFA reported (August 2005) that all ULBs had compiled and submitted their annual accounts up to 2003-04.

1.12.2 Audit of accounts of all ULBs was completed up to 2000-01. As of July 2005, the certification of annual accounts was pending in respect of 55 municipalities for 2002-03, 101 municipalities for 2003-04 and all the 151 municipalities for 2004-05. The certification of annual accounts for the year 2001-02 was pending in respect of two corporations and for the years from 2002-03 to 2004-05, in respect of all the six corporations. Position of arrears in completion of audit of ULBs as of July 2005 and reasons therefor are given in **Appendix VIII**.

1.12.3 The number of paragraphs included in the Inspection Reports (IRs) of DLFA that were pending settlement as of March 2005 aggregated to 1,94,280 (**Appendix IX**) of which 1,31,759 related to period prior to 1997-98. As reported (August 2005) by DLFA, the value of the pending paras worked out to Rs 1076 crore. As a result of long pendency, serious irregularities pointed out in various paragraphs were not settled. Despite formation of District High Power Committees, based on the recommendation of SSFC accepted by Government, the continued existence of huge number of audit objections indicate inadequate response from the local bodies in settling them.

1.13 Response to Audit

1.13.1 Despite the instructions of the Committee on Public Accounts (PAC) for furnishing prompt reply to pending recommendations, there were 133 recommendations (9 Reports) relating to 1985-86 to 1996-97 of MAWS Department pending final settlement as of September 2005 (**Appendix X**). Of these, 83 recommendations related to 1992-93 Audit Report. No reasons were made available for such huge pendency. Discussion of Audit Reports pertaining to the year 1996-97 and afterwards are still to be completed.

1.13.2 The position regarding settlement of objections raised by PAG is given below:

➤ Eighty three IRs issued up to September 2004 containing 966 paragraphs for the period from as early as 1997-98 were pending settlement as of March 2005 for want of replies. Year-wise details of IRs/Paragraphs pending settlement are given in **Appendix XI**. Of these 8 IRs with 50 paragraphs are pending for more than five years. As a result of such pendency, serious irregularities were not settled. CMA replied (August 2005) that proposals were sent (July 2005) for formation of two High Level Committees, one at regional level and one at staff level for the settlement of Audit objections.

➤ Though Government had in April 1967 fixed a time limit of four weeks from the date of receipt of IRs for furnishing first replies by the Heads of Offices, even first replies were not furnished by 18 municipalities for 310 IR paras as shown in **Appendix XII**.

This indicated the lackadaisical approach of the departmental authorities and such inadequate response resulted in continued existence of the deficiencies and lapses pointed out, further eroding the accountability of the departmental officers.

Recommendations

➤ A Nodal agency for monitoring the submission of accounts may be earmarked.

- A special drive should be launched to reduce the arrears in the collection of taxes and due.
- A master register containing details relating to all traders, professionals and employers within the limits of the Corporation of Chennai should be maintained to check leakage of Professional tax.
- Arrangements for speedy settlement of audit objections and inspection paragraphs should be strengthened and the pendency in this regard be reduced in a phased manner.