

## CHAPTER I

### AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

#### Highlights

As against 18 functions listed in the Twelfth Schedule of the Constitution, only 13 functions were transferred to Municipalities and Municipal Corporations and 12 functions to Town Panchayats.

No nodal agency exists for monitoring submission of accounts and for their consolidation.

During 2007-08, own revenue collection of the Urban Local Bodies was Rs 1,368 crore of which tax-revenue was Rs 822 crore. During last three years, revenue collection by the Urban Local Bodies, instead of showing increasing trend, was widely fluctuating under Tax revenue, Non-Tax revenue including professional tax and property tax.

The audit of accounts of Urban Local Bodies was pending from 2005-06 onwards mainly due to submission of defective accounts.

#### 1.1 Introduction

**1.1.1** Consequent to the 74<sup>th</sup> amendment of the Constitution, the State Government amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to Urban Local Bodies (ULBs) in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution.

**1.1.2** The number of ULBs at each level as on 31 March 2008 is given in **Table 1.1** along with the average population as per the 2001 census, covered by each type of urban local body.

**Table 1.1: Number of ULBs with average population covered**

	Number of Urban Local Bodies	Population (as per 2001 census)	Average population covered per local body (as per 2001 census)
Municipal Corporations	6*	84,39,451	10,54,931
Municipalities	152**	96,89,255	64,595
Town Panchayats	561	76,46,386	13,720

\* In addition two new corporations (Erode and Tiruppur) formed from January 2008

\*\* Including 49 Grade III Municipalities

An overview of the accounts and finances of ULBs is presented in this chapter. A similar overview of the finances of Panchayat Raj Institutions (PRIs) is presented in a separate chapter.

**1.1.3** Two existing Special Grade Municipalities *viz.*, Erode and Tiruppur have been upgraded as Municipal Corporations and started functioning from 1 January 2008.

Tamil Nadu is the most urbanised state in India. The urban population of the State as per the 2001 census was 2.75 crore constituting 44 *per cent* of the total State population (6.24 crore). While the decadal growth rate of total population was 11 *per cent* during 1991-2001, the urban population grew at 43 *per cent*.

**1.1.4** The Municipalities and Town Panchayats are classified into different grades based on their annual income, as given in **Table 1.2**.

**Table 1.2: Income-wise classification of ULBs**

Category of ULB	Grade	Annual income	Number
Municipalities	Special grade	Above Rs 5 crore	13*
	Selection grade	Rs 2 crore and above but below Rs 5 crore	28
	First grade	Rs 1 crore and above but below Rs 2 crore	36
	Second grade	Below Rs 1 crore	26
	Third grade	(Erstwhile Town Panchayats with population exceeding 30,000)	49
	<b>Total</b>		<b>152</b>
Town Panchayats	Special grade	Above Rs 20 lakh	13
	Selection grade	Above Rs 16 lakh but below Rs 20 lakh	245
	Grade I	Above Rs 8 lakh but below Rs 16 lakh	221
	Grade II	Above Rs 4 lakh but below Rs 8 lakh	82
	<b>Total</b>		<b>561</b>

\* Including two special grade Municipalities (Tiruppur and Erode) upgraded to Municipal Corporations from January 2008

## **1.2 Administrative arrangements**

### **1.2.1 Administration of ULBs**

The overall administration of ULBs vests with the Principal Secretary to Government, Municipal Administration and Water Supply (MAWS) Department at Government level. While the Municipal Corporations and Municipalities are under the administrative control of the Commissioner of Municipal Administration, the Town Panchayats are under the control of Commissioner of Town Panchayats. An organisational chart on the administration of ULBs is given in **Appendix 1.1**.

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

### **1.2.2 Enactment of a common Urban Local Bodies Act**

Government proposed to enact new common Urban Local Bodies Act to simplify procedures and improve urban governance by making necessary amendments to the Tamil Nadu Urban Local Bodies Act, 1998. Six working groups headed by senior officers of the Commissionerate of Municipal Administration with Regional Directors, Corporation Commissioners, Senior Municipal Commissioners as members of the working group were constituted. The working groups studied and discussed all aspects of the Tamil Nadu Urban Local Bodies Act, 1998, along with the Model Municipal Laws circulated by Government of India and finalised their recommendations. The reports of the working groups are under the examination of Government.

## **1.3 Accounting arrangements**

**1.3.1** Accrual-based system of accounting is being followed in all Municipal Corporations and Municipalities as per the orders of the Government of Tamil Nadu with effect from 2000-01 and in all Town Panchayats with effect from 2002-03 in a phased manner.

### **1.3.2 Accounts maintained by Municipal Corporations**

Apart from the General Fund Account, the following accounts are maintained under the accrual-based system of accounting by all the Municipalities, five Municipal Corporations (excluding Chennai) and Town Panchayats:

- Revenue Fund and Capital Fund,
- Water Supply and Drainage Fund (except Town Panchayats),
- Elementary Education Fund (except Town Panchayats), and
- Provident Fund Account (by Town Panchayats only).

The cash balance of each of the above funds is maintained in a separate bank account.

The Chennai City Municipal Corporation maintains (i) a General Fund comprising both Revenue and Capital Funds and (ii) an Elementary Education Fund.

### **1.3.3 Database formats**

The State Government accepted (February 2005) the database formats on finances of ULBs recommended by the Comptroller and Auditor General of India and directed that they be adopted by all the ULBs with effect from 1 April 2004. The Commissioner of Municipal Administration (CMA) stated (March 2007) that a web-based software was designed and developed based on the approved format and launched during January 2006 after testing. The CMA also instructed all the Commissioners to implement the same from the financial year 2005-06 after completion of audit. The current position in this regard is yet to be made available to Audit (March 2009).

The Third State Finance Commission (TSFC) also recommended that all ULBs/PRIs should create the database in the prescribed format and the concerned heads of departments should monitor the database on a quarterly

basis. Government accepted the recommendation (May 2007) with a modification to implement this only in respect of Municipal Corporations and Municipalities. Final orders are yet to be issued in this regard (December 2008).

#### 1.3.4 Finalisation of Accounts

All the ULBs have to submit their accounts of each year to the Director of Local Fund Audit (DLFA) in the month of May of the succeeding year.

The position of non-submission of accounts by ULBs to DLFA from 2005-06 is given in **Table 1.3**.

**Table 1.3: Position of non-submission of accounts of ULBs**

Nature of urban local body	Number of ULBs not submitted accounts relating to		
	2005-06	2006-07	2007-08
Corporations	Nil	Nil	Nil
Municipalities	1	44	152
Town Panchayats	1	27	561

### 1.4 Audit arrangements

**1.4.1** The DLFA is the statutory auditor for ULBs (including Town Panchayats). Fifty *per cent* of the actual cost of audit<sup>1</sup> of DLFA is paid by the ULBs out of the Municipal fund. The Municipalities were yet to pay Rs 93.84 lakh towards audit fees relating to 2002-03 to 2006-07 as of March 2008 is given in **Table 1.4**.

**Table 1.4: Audit fees due to DLFA from ULBs**

(Rupees in lakh)

Category of ULB	Audit fees due	Period relating to
102 Municipalities (Grade I and Grade II)	81.15	2002-03 to 2006-07 <sup>2</sup>
Grade III Municipalities	12.69	2002-03 to 2006-07 <sup>3</sup>
<b>Total</b>	<b>93.84</b>	

The DLFA reported (October 2008) that the Commissioners of Municipalities are being reminded periodically to remit the audit fees. Further, the Commissioner of Municipal Administration (CMA) is also being informed of the arrears periodically with a request to recover the dues from the devolution of funds due to the concerned ULBs.

**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's order of March 2003.

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

<sup>2</sup> 2002-03: Rs 0.85 lakh, 2003-04: Rs 5.09 lakh, 2004-05: Rs 17.31 lakh, 2005-06: Rs 39.45 lakh, 2006-07: Rs 18.45 lakh.

<sup>3</sup> 2002-03: Rs 2.23 lakh, 2005-06: Rs 7.92 lakh, 2006-07: Rs 2.54 lakh.

**1.4.3** Audit of accounts of all ULBs was completed by DLFA up to 2004-05. Position of arrears in completion of audit of ULBs, as reported (January 2009) by DLFA as of October 2008 is as given in **Table 1.5**.

**Table 1.5: Position of non-completion of audit of ULBs**

Category of urban local body	Total number	2005-06 Number of units			2006-07 Number of units			2007-08 Number of units		
		Completed accounts	Audit completed	Audit pending	Completed accounts	Audit completed	Audit pending	Completed accounts	Audit completed	Audit pending
Corporations	6	6	3	3	6	0	6	0	0	6
Municipalities	152	101	64	37	107	28	123	0	NIL	152
Town Panchayats	561	560	447	114	534	163	398	0	NIL	561

The main reasons attributed (October 2008) by DLFA for the arrears were non-receipt of accounts on due dates from the ULBs and furnishing of defective accounts. Although the due date of submission of accounts for Municipal Corporations is 30 June 2008 and for Municipalities and Town Panchayats is 15 May 2008, none of these ULBs had submitted their accounts for 2007-08 (April 2009).

**1.4.4** DLFA reported (October 2008) that the number of paragraphs relating to Municipalities, Town Panchayats and Municipal Corporations, included in their Inspection Reports (IRs) issued upto the year 2006-07 that were pending settlement as of March 2008 aggregated to 3,36,239 paragraphs. The category wise pendency are as given in **Table 1.6**.

**Table 1.6: Category-wise pendency of inspection paragraphs of DLFA**

Category of ULB	Number of paras pending
Municipalities	1,39,588
Town Panchayats	1,06,457
<b>Corporations</b>	
Chennai	38,195
Coimbatore	11,218
Salem	8,052
Tiruchirappalli	6,899
Tirunelveli	4,656
Madurai	21,174
<b>Total</b>	<b>3,36,239</b>

The year-wise break-up details are given in **Appendix 1.2**.

Of the above, 1,85,880 paras pertained to periods prior to 2002-03. No action was taken on irregularities pointed out in various paragraphs. The details of inspection paragraphs issued during 2007-08 are yet to be compiled by DLFA and made available to Audit.

**1.4.5** Based on the recommendation of the Second State Finance Commission which was accepted by Government, two high power committees, one at district level for settling the long pending paragraphs of DLFA relating to Municipal Corporations and another at state level for monitoring the working of the said district committee were formed (June 2007) as per Government orders issued in May 2007. For Municipalities, district committees were already in existence for settling the long pending paragraphs raised by DLFA. In spite of formation of such Committees, large number of audit objections were pending settlement which indicates inadequate response from the ULBs. Despite the instructions of CMA that all

the Regional Directors of Municipal Administration and Commissioners of Municipal Corporations should pay personal attention and prepare replies to all pending paragraphs immediately and to organise periodical joint sittings to reduce pendency, there was no improvement in settling the paras.

Regarding the pending audit paragraphs relating to Town Panchayats, 16 meetings were convened and 630 objections were settled. This is much meagre, as compared to the pendency of huge number of paragraphs.

### **1.5 Devolution of functions, functionaries and funds**

Out of the 18 functions listed in the Twelfth Schedule to be devolved on the Municipalities and Municipal Corporations, in terms of the 74<sup>th</sup> Amendment to the Constitution of India (June 1993), Government stated (November 2006) that 10 functions were statutory and were already vested in the ULBs while three other functions were transferred after the enactment of the Seventy-fourth amendment. In respect of Chennai City Municipal Corporation, out of 13 functions, water supply for domestic, industrial and commercial purposes was vested with Chennai Metropolitan Water Supply and Sewerage Board. In respect of Town Panchayats, 12 out of 18 functions were transferred. It was stated (October 2007) that transfer of the remaining functions (**Appendix 1.3**) to these ULBs was under consideration of the State Government and would be decided after perusing the report of the High Power Committee, constituted for this purpose. Even as of March 2009, the position remains the same.

The Committee presented its report to Government in December 2007. Most of the recommendations of the committee related to devolution of powers to Panchayat Raj Institutions, which are discussed in Chapter IV of this report under Paragraph 4.4.3. Certain major recommendations relating to Urban Local Bodies are

- enhancement of administrative and financial powers of various authorities of Municipalities and Town Panchayats for effective and speedy implementation of schemes,
- enhancement of sitting fees<sup>4</sup> and
- decentralisation of permission for additional drinking water house service connection.

Subsequently in February 2009, Government enhanced the delegated powers to sanction estimates in the value range, exceeding Rupees one crore but not exceeding Rupees five crore to the Director of Municipal Administration in respect of Municipal Corporations other than Chennai.

Government of Tamil Nadu stated (November 2006) that transfer of functionaries was a major problem faced by Government, which could only be solved in a phased manner in due course of time. Government is yet to transfer functionaries to ULBs (March 2008) to carry out the devolved functions. Government also reported that plan and non-plan discretionary grants were being transferred to ULBs in addition to successive State Finance

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<sup>4</sup> Corporations : Mayors and Councilors : Rs 800  
Municipalities : Chairpersons and Councilors : Rs 600  
Third Grade Municipalities : Chairpersons and Councilors : Rs 500

Commission grants. These earmarked grants were intended for specific functions such as water supply, roads, public health, street lighting, sanitation, etc., entrusted to ULBs. The ULBs were also empowered to revise and levy local taxes such as Property/House Tax, Profession Tax based on the recommendations of the State Finance Commissions (SFCs), as accepted by the Government and as per the Local Bodies Acts.

## 1.6 Third State Finance Commission

The Third State Finance Commission (TSFC), constituted in December 2004, submitted its report with recommendations in September 2006 after reviewing the financial position of ULBs. The report of the TSFC together with the explanatory memorandum on the action taken on the recommendations was laid on the table of the Legislative Assembly in May 2007.

Out of 309 recommendations relating to both ULBs and PRIs, Government accepted 124 in full and 25 with modification. While 10 recommendations were partially accepted, 17 recommendations were accepted in principle. Government negatived 81 recommendations in total. 52 recommendations have been kept pending. 37 recommendations relating to the issue of delegation of powers to local bodies and connected with it were referred to the High Level Committee constituted to examine the delegation of powers to the local bodies.

## 1.7 Receipts and expenditure of Urban Local Bodies

**1.7.1** 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. There is no nodal agency to monitor the submission of accounts by ULBs and its consolidation, which is a major shortcoming.

**1.7.2** The details of receipts and expenditure of ULBs during 2005-08 as reported by the Commissioner of Municipal Administration (January 2009), Chennai City Municipal Corporation (August 2008) and Director of Town Panchayats (January 2009) are given in **Table 1.7**. However, in the absence of data compiled from the audited accounts of the ULBs by the Department/Government, the accuracy of these figures could not be authenticated.

**Table 1.7: Revenue and Expenditure of ULBs during 2005-08**

### Chennai City Municipal Corporation

(Rupees in crore)

	2005-06	2006-07	2007-08
Own Revenue	339	292*	358
Assigned Revenue	118	116	138
Grants	160	187	213
Loans	38	3	4
<b>Total Receipts</b>	<b>655</b>	<b>598*</b>	<b>713</b>
Revenue Expenditure	584	622	632
Capital Expenditure	143	121	199
<b>Total Expenditure</b>	<b>727</b>	<b>743</b>	<b>831</b>

\* Figures differ from previous year's Report due to revised figures furnished by Commissioner of Chennai City Municipal Corporation.

**Other Municipal Corporations**

(Rupees in crore)

	2005-06	2006-07	2007-08
Own Revenue	224	233	283
Assigned Revenue	43	56	67
Grants	173	140	511
Loans	24	38	19
<b>Total Receipts</b>	<b>464</b>	<b>467</b>	<b>880</b>
Revenue Expenditure	288	303	367
Capital Expenditure	200	181*	318
<b>Total Expenditure</b>	<b>488</b>	<b>484*</b>	<b>685</b>

\* Figures differ from last year's report due to adoption of revised figures given by the department now.

**Municipalities**

(Rupees in crore)

	2005-06	2006-07	2007-08
Own Revenue	441	489	535
Assigned Revenue	95	94	166
Grants	437	490	673
Loans	56	42	53
<b>Total Receipts</b>	<b>1,029</b>	<b>1,115</b>	<b>1,427</b>
Revenue Expenditure	545	617	678
Capital Expenditure	390	484	611
<b>Total Expenditure</b>	<b>935</b>	<b>1,101</b>	<b>1,289</b>

**Town Panchayats**

(Rupees in crore)

	2005-06	2006-07*	2007-08
Own Revenue	232	1,733	192
Assigned Revenue	112	32	69
Grants	256	923	480
Loans	3	67	68
<b>Total Receipts</b>	<b>603</b>	<b>2,755</b>	<b>809</b>
Revenue Expenditure	272	105	425
Capital Expenditure	207	90	230
<b>Total Expenditure</b>	<b>479</b>	<b>195</b>	<b>655</b>

\* Figures included as furnished by the Director of Town Panchayats, which are unreconciled.

The data in the above table reveal the following:

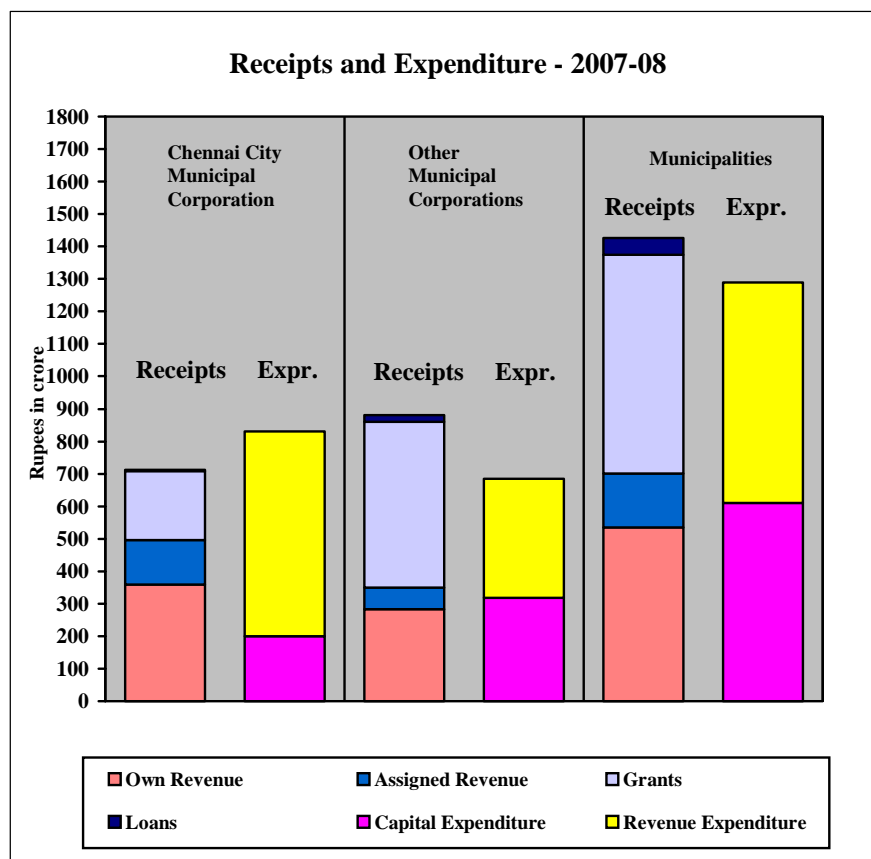
While the total receipts of Municipalities and other Municipal Corporations showed an increasing trend during 2005-08, the receipts of Chennai City Municipal Corporation decreased from Rs 655 crore in 2005-06 to Rs 598 crore in 2006-07 mainly because of the decrease in its own revenue and assigned revenue and then increased to Rs 713 crore consequent to the increase under all components.



The increase in total receipts of other Municipal Corporations during 2007-08 was because of receipt of more grants under Jawaharlal Nehru Urban Renewal Mission by Coimbatore and Madurai Municipal Corporations.

The receipts of Town Panchayats increased manifold during 2006-07. In response to an audit query seeking reasons for such an increase, the Director of Town Panchayats stated (February 2008), without assigning specific reasons, that the figures were compiled from the details furnished by Assistant Directors of 16 zones under his control and were provisional and unaudited. It was further stated that the discrepancies could be reconciled only on receipt of audited annual accounts from zonal offices. Since the details given (January 2009) for 2007-08 by the Director of Town Panchayats are incomplete, full particulars have been called for, which are yet to be received (February 2009).

A bar chart representing component-wise receipts and expenditure for 2007-08 in respect of Chennai City Municipal Corporation, other corporations and Municipalities are given below:



1.7.3 The component-wise details of receipts and expenditure are discussed in the succeeding paragraphs.

## 1.8 Receipts of Urban Local Bodies

A chart depicting various sources of revenues of ULBs is given in **Appendix 1.4**.

### 1.8.1 Own revenue realised

Details of own revenue realised by ULBs (including Town Panchayats) during 2005-08 as furnished by the Commissioner of Municipal Administration (January 2009) and Chennai City Municipal Corporation (August 2008) and Commissioner of Town Panchayats (January 2009) are given in **Table 1.8**.

**Table 1.8: Own revenue of ULBs**

(Rupees in crore)

Category of ULB	2005-06			2006-07			2007-08		
	Tax revenue	Non-tax and other revenues	Total	Tax revenue	Non-tax and other revenues	Total	Tax revenue	Non-tax and other revenues	Total
Chennai City Municipal Corporation (1)	272.82	65.81	338.63	227.71*	64.14*	291.85*	283.80	74.33	358.13
Other Municipal Corporations (5)	125.53	98.24	223.77	134.48	98.73	233.21	156.74	126.01	282.75
Municipalities	250.36	190.82	441.18	292.70	196.30	489.00	304.34	230.81	535.15
Town Panchayats	115.62	116.23	231.85	905.62	827.44	1,733.06	77.57	114.33	191.90
<b>Total</b>	<b>764.33</b>	<b>471.10</b>	<b>1,235.43</b>	<b>1,560.51</b>	<b>1,186.61</b>	<b>2,747.12</b>	<b>822.45</b>	<b>545.48</b>	<b>1,367.93</b>

\* Figures differ from last year's report due to revised figures furnished by Commissioner of Chennai City Municipal Corporation.

While the own revenue of Municipal Corporations (except Chennai) and the Municipalities increased during 2005-08, that of Chennai City Municipal Corporation after decreasing in 2006-07 increased during 2007-08.

As mentioned in Paragraph 1.7.2, no reasons were furnished by the Director of Town Panchayats for the steep increase in both tax and non-tax revenues of Town Panchayats during 2006-07 and for the subsequent steep decline in 2007-08.

### 1.8.2 Tax revenue

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

### 1.8.3 Property Tax

The mainstay of revenue income to Urban Local Bodies is from the levy of Property Tax. The Property Tax in ULBs as a percentage of total revenue and own revenue is illustrated in **Table 1.9** below.

**Table 1.9: Property Tax as a percentage of total revenue and own revenue in ULBs**

Category of urban local body	Percentage of Property Tax to					
	Total revenue			Own revenue		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Municipalities	21	23	18	50	53	48
Chennai City Municipal Corporation	33	36	40	64	70	79
Other five corporations <sup>5</sup>	24	26	16	50	52	51
Town Panchayats	13	8	8	34	12	32

<sup>5</sup> Does not include Municipal Corporations of Erode and Tiruppur which are formed in January 2008.

The percentage of Property Tax collected by Municipalities and five Municipal Corporations to their total revenue as well as their own revenue declined during 2007-08 as compared to 2006-07 figures. In Town Panchayats the percentage of total revenue declined to 8 *per cent* in 2006-07 and remained at the same percentage during 2007-08 also. The DTP had not furnished any reasons for this decline. However, as a percentage to own revenue, it increased during 2007-08, as compared to 2006-07 figures. In Chennai City Municipal Corporation, the percentage of Property Tax collected to total revenue as well as to own revenue is on the increasing trend.

The position of cumulative demand (including arrears), collection and balance of Property Tax during the last three years *viz.*, 2005-06 to 2007-08 in the Municipalities and Municipal Corporations as reported by CMA and DTP, is given in **Appendix 1.5**.

The figures in **Appendix 1.5** indicate that in the percentage of Property Tax collected *vis-à-vis* that demanded in Municipalities and five Municipal Corporations increased from 50 to 54 and from 52 to 60 respectively during 2005-08. In Chennai City Municipal Corporation, as per the revised figures furnished, the percentage of collection increased from 50 in 2005-06 to 55 in 2007-08. In Town Panchayats the percentage of collection after decreasing from 73 in 2005-06 to 69 in 2006-07 increased to 82 in 2007-08.

Further scrutiny of data revealed that

- The CMA had been holding frequent meetings with the Commissioners of all the five Municipal Corporations and Municipalities to monitor and improve the collection of Property Tax by them in addition to the monthly review meetings conducted by the Regional Director of Municipal Administration in their regions. Seven officers of Commissionerate of Municipal Administration had been earlier nominated as Zonal (Nodal) Officers for supervising the entire activities of ULBs including tax collection. The absence of any tangible progress indicates that such meetings did not have the desired impact as arrears of Property Tax due for collection in Municipalities continued to be high at Rs 221.87 crore, Rs 217.21 crore and Rs 223.97 crore respectively at the end of 2005-06, 2006-07 and 2007-08.
- In Chennai City Municipal Corporation, the arrears demand steadily increased from Rs 211.59 crore in 2005-06 to Rs 229.53 crore at the end of 2007-08.

As the expenditure for providing infrastructure and maintenance is on the increase, the Urban Local Bodies are bound to take action for augmenting their revenue income. One of the steps is general revision of Property Tax. The revision of Property Tax is to be done quinquennially. The revision of Property Tax, which was last done in October 2003, is due in October 2008. Government had already issued necessary orders for revising Property Tax with effect from April 2008 and necessary action is being taken by all Urban Local Bodies individually at present.

#### **1.8.4 Profession Tax**

The position of demand (inclusive of arrears), collection and balance of Profession Tax as reported by CMA and DTP during the last three years is given in **Appendix 1.6**.

The data in **Appendix 1.6** reveal the following:

- The percentage of collection of Profession Tax as compared to the demands made, decreased from 72 in 2006-07 to 71 in 2007-08 in five Municipal Corporations and increased from 54 in 2006-07 to 66 in 2007-08 in the Municipalities.
- The percentage of collection in Town Panchayats steadily increased from 79 in 2005-06 to 94 *per cent* in 2007-08.
- In Chennai City Municipal Corporation the fact that collections were in excess of demands during 2005-07 clearly showed that the demands were not issued correctly.

The Third State Finance Commission had indicated in their report (May 2007) that during the interaction with the District Collectors and municipal authorities it was brought to their notice that traders, professionals and self employed persons could not be brought into tax net. This was due to the absence of stringent provisions and owing to the lack of man power. Thus the tax potential from this source could not be tapped. The revised slab suggested by the Commission for levying Profession Tax from salaried class, traders and business establishments was also not accepted by Government. Another recommendation made on levying the maximum rate of Rs 2,500 per annum for industrial establishment from 1 April 2007 was accepted with the condition that the date of effect would be decided by Government. However, the date is yet to be decided by Government.

#### **1.8.5 Non-tax revenue**

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

The position of demand, collection and balance of non-tax revenue during the last three years in respect of Municipalities, five Municipal Corporations and Town Panchayats, as reported by CMA and DTP is given in **Appendix 1.7**.

The data in **Appendix 1.7** showed that the percentage of collection of non-tax revenues as against the demand raised by five Municipal Corporations after declining from 60 in 2005-06 to 54 in 2006-07, slightly recovered to 56 during 2007-08. In respect of Town Panchayats, the percentage of collection increased from 87 in 2005-06 to 93 in 2007-08.

Rupees 216.83 crore was collected as non-tax revenue by Chennai City Municipal Corporation during 2005-08. The break-up details for the demands raised and the amount collected were not furnished by the Chennai City Municipal Corporation.

### 1.8.6 Assigned revenue

A portion of the proceeds arising from Entertainment Tax (ET) and Stamp Duty Surcharge on transfer of property (SSD) is assigned to ULBs. The amounts assigned to ULBs during 2005-08 as reported by CMA, Commissioner, Chennai City Municipal Corporation and DTP are shown in **Table 1.10**.

**Table 1.10: Assigned revenue to ULBs**

(Rupees in crore)

Category of ULBs	2005-06			2006-07			2007-08		
	ET	SSD	Total	ET	SSD	Total	ET	SSD	Total
Chennai City Municipal Corporation	13.06	105.12	118.18	3.50	112.22	115.72	17.08	121.24	138.32
Other Municipal Corporations	7.27	35.76	43.03	7.30	48.86	56.16	7.46	59.66	67.12
Municipalities	15.92	78.95	94.87	8.78	85.55	94.33	16.64	149.78	166.42
Town Panchayats	*	*	112.31	4.89	26.70	31.59	5.77	63.63	69.40

\* Break-up details not made available

The above table shows that the proceeds of ET in Chennai City Municipal Corporation after decreasing from Rs 13.06 crore in 2005-06 to Rs 3.50 crore in 2006-07, increased Rs 17.08 crore in 2007-08. While the ET in other Municipal Corporations marginally increased from Rs 7.27 crore in 2005-06 to Rs 7.46 crore in 2007-08, the same in Municipalities after decreasing from Rs 15.92 crore in 2005-06 to Rs 8.78 crore in 2006-07 increased to Rs 16.64 crore in 2007-08.

However, the collection of Surcharge on Stamp Duty is on the increasing trend in all categories of local bodies during 2005-08.

### 1.8.7 Grants and loans released to Urban Local Bodies

#### 1.8.7.1 Grants released

Apart from the devolution-grants<sup>6</sup> based on the recommendations of SSFC, various grants were given to ULBs by the Central and State Government for implementation of schemes. 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 2005-08, as compiled and reported by the CMA and DTP, are given in **Table 1.11**.

<sup>6</sup> SSFC grants to the extent of actual receipts after adjustment.

**Table 1.11: Grants and loans released to ULBs**

(Rupees in crore)

Year	Chennai City Municipal Corporation			Other Municipal Corporations			Municipalities			Town Panchayats		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
2005-06	159.70	38.10	197.80	173.40	23.57	196.97	436.81	56.28	493.09	255.97	2.81	258.78
2006-07	186.69	3.57	190.26	139.64	37.59	177.23	489.41	42.16	531.57	922.80*	67.53	990.33
2007-08	213.32	4.06	217.38	511.13	18.51	529.64	673.35	53.03	726.38	480.43	67.85	548.28

\* Figures differ from previous year as forwarded by DTP

The figures in the above table reveal the following:

- Grants released to ULBs showed an increasing trend during 2005-08.
- As a percentage of total revenue during 2005-08, grants constituted 24 to 31 *per cent* in Chennai City Municipal Corporation, 30 to 58 *per cent* in other Municipal Corporations, 42 to 47 *per cent* in Municipalities and 42 to 59 *per cent* in Town Panchayats. This clearly indicated that grants are the major source of receipts in Municipalities and in Town Panchayats.
- The steep increase in grants during 2006-07 and 2007-08 was mainly due to receipt of grants under Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

#### 1.8.7.2 State Finance Commission grants

The norms recommended by the Second and Third State Finance Commissions for the devolution of funds to Urban Local Bodies are furnished in the **Table 1.12**.

**Table 1.12: Norms recommended by State Finance Commissions for devolution of funds to ULBs**

As recommended by Second State Finance Commission	As recommended by Third State Finance Commission
The PRIs and ULBs would receive eight <i>per cent</i> of the State's own tax revenues after excluding the Entertainment Tax receipts. The vertical sharing of resources between PRIs and ULBs would be in the ratio of 58:42.	The PRIs and ULBs would receive nine <i>per cent</i> of the State's own tax revenues after excluding the Entertainment Tax receipts. The vertical sharing of resources between PRIs and ULBs would be in the ratio of 58:42.
Of the total devolutions to the ULBs, the resources would be shared between the Municipal Corporations, Municipalities and Town Panchayats in the ratio 31:34:35.	Of the total devolutions to the ULBs (42 <i>per cent</i> ), the resources would be shared between the Municipal Corporations, Municipalities and Town Panchayats in the ratio of 30:41:29, from 1 April 2007.

The devolution of funds through SSFC grants was meant to cover the salary and wages of the sanctioned staff of the ULBs and maintenance of assets, office maintenance etc. Audit scrutiny of records relating to the release of

funds revealed that Government had deducted at source most of the funds to be released to cover dues on account of pension payment, electricity consumption charges, principal and interest on Government/TUFIDCO loans, etc. Such deduction automatically reduced the availability of grants devolved by SSFC to the Urban Local Bodies.

The details of net grants released to ULBs as reported by the respective heads of departments during 2005-06 to 2007-08 is given in **Tables 1.13 to 1.15**.

**Table 1.13: SFC grants to Municipal Corporations  
(including Chennai City Municipal Corporation)**

(Rupees in crore)

Year	Grants sanctioned	Adjusted before release	Net release	Released to		
				Chennai City Municipal Corporation	Five Municipal Corporations	CMWSSB
2005-06	216.41	16.99	199.42	97.58	91.00	10.84
2006-07	239.20*	25.88	213.32	120.15	79.81	13.36
2007-08	327.85	NA	NA	158.94	138.29	NA

\* Out of the total allocation of Rs 274.94 crore, 13 per cent being Equalisation and Incentive Fund (Rs 35.74 crore) was drawn in March 2007 and released only in 2007-08.

**Table 1.14: SFC grants to Municipalities**

(Rupees in crore)

Year	Grants sanctioned	Adjusted before release	Net grant released to Municipalities	Grants utilised	Unutilised grants
2005-06	283.79	91.91	191.88	158.42	33.46*
2006-07	315.88	140.02	175.86	148.11	27.75*
2007-08	448.06	123.63	324.43	324.43	Nil

\* Unutilised grants were utilised fully during subsequent year.

**Table 1.15: SFC grants to Town Panchayats**

(Rupees in crore)

Year	Grants sanctioned	Adjusted before release	Net grant released	Grants utilised	Unutilised grants
2005-06	105.82	0.65	105.17	105.17	Nil
2006-07	49.25	13.29	35.96	35.96	Nil
2007-08	187.82	33.60	154.22	NA	NA

NA: Not available

### 1.8.7.3 Central Finance Commission grants

(a) Twelfth Finance Commission (TFC) recommended Rs 870 crore as grants for the five year period from 2005-06 to 2009-10. Government of India also issued instructions that the TFC grants are to be utilised for solid waste management through public - private partnership, maintenance of roads and storm water drains and miscellaneous works such as creation of database, payment of electricity charges etc.

The details of Central Finance Commission grants received from Government of India and utilised during 2005-06 to 2007-08, as reported by the respective heads of departments, are given in **Table 1.16**.

**Table 1.16: Central Finance Commission grants to ULBs**

(Rupees in crore)

Year	Chennai City Municipal Corporation			Other Municipal Corporations			Municipalities			Town Panchayats		
	Released (A)	Utilised (B)	Unutilised (C)	(A)	(B)	(C)	(A)	(B)	(C)	(A)	(B)	(C)
2005-06	19.10	19.10	Nil	16.36	16.36	Nil	46.83	40.10	6.73	32.10	32.10	Nil
2006-07	19.10	19.10	Nil	16.36	14.50	1.86	46.83	38.26	8.57	32.10	NA	NA
2007-08	19.10	19.10	Nil	16.36	13.05	3.31	46.83	40.32	6.51	32.10	NA	NA

(NA: Not available)

However test check of records relating to other Municipal Corporations, 17 Municipalities and 41 Town Panchayats revealed that out of TFC grants released during 2005-06 and 2006-07, Rs 6.25 crore and Rs 18.08 crore respectively were lying unutilised as of 31 March 2007, as shown in **Table 1.17**.

**Table 1.17: Unutilised Central Finance Commission grants**

(Rupees in crore)

Category of ULB and numbers	2005-06		2006-07	
	Grants received	Unutilised	Grants received	Unutilised
Corporations (5)	16.36	3.97	16.36	12.05
Municipalities (17)	5.10	1.65	6.01	4.17
Town Panchayats (41)	2.34	0.63	2.58	1.86
<b>Total</b>	<b>23.80</b>	<b>6.25</b>	<b>24.95</b>	<b>18.08</b>

(b) According to para 6.1 of guidelines issued by GOI on release and utilisation of TFC grants, States have to mandatorily transfer the grants released by GOI to the ULBs within 15 days of their date of credit to State Government account. In case of delayed transfer the State Government should also provide interest for the period of delay at the rate equal to the interest rate of Reserve Bank of India.

A test check of connected records revealed that TFC grants were released to ULBs belatedly with delays ranging between 40 days to 240 days in respect of the release of first instalment to ULBs and 2 to 316 days in respect of the release of second instalment to Town Panchayats, as indicated in **Table 1.18**.

**Table 1.18: Period of delay in release of TFC grants to ULBs during 2006-07**

Category of ULB	Period of delay in release (Delay beyond 15 days from the due date)	
	First instalment	Second instalment
Corporations	42 to 50 days (6 Corporations)	No delay
Municipalities	40 to 58 days (17 Municipalities)	No delay
Town Panchayats	40 to 240 days (41 TPs)	2 to 316 days (41 TPs)

However no interest was paid by Government for the delayed release of grants.

Amount of interest for belated release of TFC grants by the State Government released during 2006-07 worked out to Rs 18.47 lakh at the rate of 6 per cent based on the compiled details relating to 4 corporations, 17 Municipalities and 41 Town Panchayats as shown in **Table 1.19**.



**Table 1.19: Amount of interest due for the delayed release of TFC grants during 2006-07**  
(Rupees in lakh)

Category of ULB	Number	Amount of interest due for the belated release of		
		First instalment	Second instalment	Total
Corporations	4	13.16	Nil	13.16
Municipalities	17	2.45	Nil	2.45
Town Panchayats	41	1.72	1.14	2.86
<b>Total</b>	<b>62</b>	<b>17.33</b>	<b>1.14</b>	<b>18.47</b>

#### 1.8.7.4 Loans released

The percentage of loans given to ULBs as compared to their total receipts during the last three years is given in **Table 1.20**.

**Table 1.20: Percentage of loans given to ULBs compared to their total receipts**

	2005-06	2006-07	2007-08
Chennai City Municipal Corporation	6	1	1
Other Municipal Corporations	5	8	2
Municipalities	5	4	4
Town Panchayats	1	2	8

The above table indicate that loans were not the major source of revenue during 2005-08 and at the maximum it constituted eight *per cent* of total receipts of Town Panchayats during 2007-08 and in five Municipal Corporations during 2006-07 respectively.

Specific reasons for the increase both in grants and loans to Town Panchayats during 2005-08 were not made available to Audit.

#### 1.8.8 Position of outstanding loans

(a) As of March 2007, the CMA reported that loan to the tune of Rs 787.42 crore (Principal: Rs 429.84 crore and Interest: Rs 357.58 crore) was outstanding against the consolidated Government loan relating to ULBs (except Chennai City Municipal Corporation) as indicated in **Table 1.21**.

**Table 1.21: Position of outstanding loans in ULBs as of March 2007**

(Rupees in crore)

Sl. No.	Nature of Urban Local Bodies	Position of consolidated loan			
		Opening balance as on 1 April 2007	Fresh loans availed during the year 2007-08	Repayment made during 2007-08	Closing balance as on 31 March 2008
1.	Municipalities	462.92	53.03	131.02	384.93
2.	Five Municipal Corporations (excluding Chennai)	324.50	18.51	24.15	318.86

(Breakup of Principal and interest not made available by CMA).

The Commissioner of Municipal Administration stated (January 2009) that the balance of Rs 462.92 crore and Rs 324.50 crore being the loan amount of Municipalities and Municipal Corporations pending on 1 April 2007 was ordered to be waived by Government in November 2007. As the process of waiver was going on, Rs 131.02 crore and Rs 24.15 crore were collected by Municipalities and five corporations subsequent to the waiver order during 2007-08, as mentioned above.

The commissioner also stated that the figures mentioned in the above table were compiled based on the particulars received from ULBs and these figures are being reconciled with TUFIDCO and TNUIFSL. The waiver of loans in all ULBs had enabled them to come out of their debt obligations and help them in concentrating on improving their essential services.

(b) The Commissioner, Chennai City Municipal Corporation, had furnished the amount of loan pending as on 31 March 2007, without giving the details of interest due, as given in **Table 1.22**.

**Table 1.22: Position of outstanding loans of Chennai City Municipal Corporation**

**(Rupees in lakh)**

Opening balance of loans as on 1 April 2007	101.94 *
Fresh loans received during 2007-08	4.06
Loans repaid during 2007-08	11.90
Closing balance of loans as on 31 March 2008	94.10

\* Differ from last year CB due to adoption of correct rounding

(c) The details of amount of loan pending as on 31 March 2008 relating to the Town Panchayats were not furnished by the Commissioner of Town Panchayats.

### **1.8.9 Loans from financial agencies**

The details of loans received from the financial institutions like TUFIDCO and TNUDF during 2007-08 and the closing balance of outstanding loans on 31 March 2008 are not furnished by the Commissionerate of Municipal Administration.

## **1.9 Expenditure of Urban Local Bodies**

### **1.9.1 Revenue expenditure**

Revenue expenditure consists of expenditure on salaries and pension and operation and maintenance (O&M) expenditure. The revenue expenditure incurred by all ULBs during the last three years is given in **Table 1.23**.

**Table 1.23: Revenue expenditure of ULBs**

(Rupees in crore)

	Year		
	2005-06	2006-07	2007-08
<b>Municipalities</b>			
Salaries and Pension (Percentage to total revenue expenditure)	252.94 (46)	323.41 (52)	359.91 (53)
O & M expenditure	292.49	293.19	318.21
<b>Total (Percentage to total expenditure)</b>	<b>545.43</b> <b>(58)</b>	<b>616.60</b> <b>(56)</b>	<b>678.12</b> <b>(53)</b>
<b>Five Municipal Corporations</b>			
Salaries and Pension (Percentage to total revenue expenditure)	142.30 (49)	170.90 (56)	200.05 (54)
O & M expenditure	145.72	131.89	166.81
<b>Total (Percentage to total expenditure)</b>	<b>288.02</b> <b>(59)</b>	<b>302.79</b> <b>(63)</b>	<b>366.86</b> <b>(54)</b>
<b>Chennai City Municipal Corporation</b>			
Salaries and Pension (Percentage to total revenue expenditure)	224.05 (38)	259.82 (42)	293.25 (46)
O & M expenditure	360.20	361.96*	338.36
<b>Total (Percentage to total expenditure)</b>	<b>584.25</b> <b>(80)</b>	<b>621.78</b> <b>(84)</b>	<b>631.61</b> <b>(76)</b>
<b>Town Panchayats</b>			
Salaries and Pension (Percentage to total revenue expenditure)	72.63 (27)	NA	101.46 (24)
O & M expenditure	199.69	NA	323.46
<b>Total (Percentage to total expenditure)</b>	<b>272.32</b> <b>(57)</b>	<b>104.56</b> <b>(54)</b>	<b>424.92</b> <b>(65)</b>

(Source: CMA, Commissioner of TPs and Commissioner of Chennai City Municipal Corporation).

NA Not Available

\* Figures since differ from the figures given in the report of last year due to furnishing of revised figures by the Commissioner, Chennai City Municipal Corporation.

Break-up details of revenue expenditure for 2006-07 were not furnished by the DTP. The revenue expenditure of Chennai City Municipal Corporation declined from 84 *per cent* of total expenditure in 2006-07 to 76 *per cent* in 2007-08. While the percentage of revenue expenditure of five Municipal Corporations declined from 63 in 2006-07 to 54 in 2007-08, that of Municipalities declined from 58 in 2005-06 to 53 in 2007-08.

### 1.9.2 Capital expenditure

The break-up details of capital expenditure of the ULBs as reported by the respective heads of Departments during 2005-08 are given in **Table 1.24**.

**Table 1.24: Break-up details of Capital expenditure of ULBs**

(Rupees in crore)

Name of the core sector	Municipalities			Corporations (except Chennai City Municipal Corporation)			Chennai City Municipal Corporation			Town Panchayats		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Roads	137.47	188.71	216.66	59.43	77.21	134.15	84.62	72.20	110.52	119.96	30.75	108.62
Street lights	15.41	21.91	30.23	3.74	4.26	22.82	7.04	6.12	13.05	9.70	5.02	12.89
Water supply	62.65	85.40	111.14	28.51	23.21	73.36	-	-	-	18.88	38.89	27.75
Storm water drains	66.35	84.11	89.12	18.88	17.62	28.19	9.98	11.88	27.91	11.69	6.51	28.12
Solid waste management	17.20	17.77	28.65	23.55	18.41	19.27	0.02	0.54	2.53	4.06	1.87	9.77
Other Capital expenditure	90.70	86.47	135.37	65.99	39.95	40.16	41.50	30.22	44.86	42.85	6.75	43.26
<b>Total</b>	<b>389.78</b>	<b>484.37</b>	<b>611.17</b>	<b>200.10</b>	<b>180.66</b>	<b>317.95</b>	<b>143.16</b>	<b>120.96</b>	<b>198.87</b>	<b>207.14</b>	<b>89.79</b>	<b>230.41</b>

The break up details of other capital expenditure were not furnished by the ULBs except Chennai City Municipal Corporation. The increase in capital expenditure of Chennai City Municipal Corporation during 2007-08 was mainly due to more expenditure under roads, storm water drains and other capital expenditure as compared to the capital expenditure for 2006-07. The increase in capital expenditure of other five Municipal Corporations in 2007-08 was mainly due to more expenditure under roads, water supply, street lights and storm water drains.

The increase in capital expenditure in Town Panchayats during 2007-08 was mainly due to implementation of the new scheme of “Anaithu Peruratchi Anna Marumalarchi Thittam” in all 561 Town Panchayats in a span of four years commencing from the year 2007-08 at a cost of Rs 280.50 crore.

## **1.10 Position under major core sectors**

The problems faced by ULBs to cope with the urban challenge are mainly the unmet demands for drinking water, solid waste management and the inadequacy of the transportation corridors to handle the burgeoning traffic.

Taking into account the existing service levels into consideration, the targets fixed for the Eleventh Five Year Plan are given in **Appendix 1.8**.

The position under the major core activities in the Urban Local Bodies are discussed in the succeeding paragraphs.

### **1.10.1 Water Supply**

The present status of water supply in Urban Local Bodies, as reported by the respective heads of departments, is as given in **Table 1.25**.

**Table 1.25: Status of water supply in Urban Local Bodies**

Category of local bodies	Norms (in lpcd)	Good (above norms)	Average	Below average	Total
Corporations (Except Chennai City Municipal Corporation)	110	1	6 (70 to 109 lpcd)	0 (less than 70 lpcd)	7
Municipalities	90	37	99 (50 to 89 lpcd)	14 (less than 50 lpcd)	150
Town Panchayats	70	350	193 (40 to 69 lpcd)	18 (less than 40 lpcd)	561
<b>Total</b>		<b>388</b>	<b>298</b>	<b>32</b>	<b>718</b>

During 2007-08, water supply schemes in 55 urban towns comprising two Municipalities and 53 Town Panchayats have been completed at an estimated cost of Rs 75.58 crore. Water supply improvement schemes funded by Government of India and State Government under various programmes like Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), Tamil Nadu Urban Development Project (TNUDP) and Minimum Needs Programme (MNP) are under implementation in 84 towns comprising 25 Municipalities and 59 Town Panchayats. It has been programmed to complete water supply improvement schemes in another 60 urban towns during 2008-09.

### **1.10.2 Solid Waste Management**

#### **a) Municipalities**

Solid Waste Management is one of the obligatory functions of Urban Local Bodies. On the directions given by the Supreme Court of India, the Ministry of Environment and Forest had issued “Municipal Solid Wastes (Management and Handling) Rules, 2000” which is mandatory to be followed by Urban Local Bodies. Government of Tamil Nadu had issued instructions to all Urban Local Bodies to procure land for waste processing and disposal facilities by December 2003 or earlier. However, even as of 2008, only about 80 Municipalities and seven corporations had adequate land for compost yard for the anticipated population in 2025 and the purchase of land was at various stages in 22 Grade III Municipalities. Besides 48 Municipalities are taking action to purchase additional lands.

#### **b) Town Panchayats**

The solid waste management programme in Town Panchayats emphasise on segregation of waste at source of generation, waste reduction, reuse, recycling and composting of the organic waste and encouraging the house hold composting. As per the statistics seen from the hand book (June 2008) for the district level officers of Town Panchayats, out of 561 Town Panchayats, 457 were producing compost, of which 110 produced vermi compost. The compiled data also revealed the following:

	Numbers
Town Panchayats adopting house to house collection and source segregation	468
Town Panchayats having land fill sites	461

100 Town Panchayats did not have lands for land fill sites. While clearance of Tamil Nadu Pollution Control Board (TNPCB) was already granted to 114 Town Panchayats, 216 Town Panchayats are awaiting the required no objection certificate from TNPCB. The details relating to the remaining Town Panchayats are not available.

During 2007-08, solid waste management works were taken up in 561 Town Panchayats involving an expenditure of Rs 16.05 crore and the same are under progress.

### c) **Municipal Corporations**

A review on solid waste management in Chennai Corporation has been conducted along with health, family welfare and sanitation activities and comments are included in a separate review in Chapter II (Paragraph 2.2).

Three major projects are proposed to be implemented during the Eleventh plan period in Chennai Corporation for Rs 230.77 crore, Coimbatore and Madurai Corporations for Rs 237.80 crore and Salem Corporation at a cost of Rs 10 crore.

During 2007-08, a project sanctioned for modernisation of primary solid waste collection system of Chennai Corporation under Jawaharlal Nehru National Urban Renewal Mission is under implementation.

## **1.11 Response to Audit**

Audit Reports upto the year 1996-97 were discussed by the Committee on Public Accounts (PAC) and recommendations were issued. Despite the directions of the PAC for furnishing prompt replies to pending recommendations, the response from the MAWS Department was poor. As of December 2008, there were 121 recommendations (7 C&AG Reports) relating to 1985-86 to 1996-97 of the MAWS Department pending final settlement, which *inter-alia* consisted of paragraphs relating to ULBs. Of these, 83 recommendations related to the Audit Report for 1992-93 alone.

## **1.12 Conclusion**

Out of 18 functions to be devolved to ULBs as per the 74<sup>th</sup> Amendment to the Constitution of India, 13 functions were transferred to Municipalities and 12 functions were transferred to Town Panchayats and Chennai City Municipal Corporation. The functionaries required to carry out these functions are yet to be transferred. There were delays in transfer of funds to ULBs under TFC

grants. During the period 2005-06 to 2007-08, the percentage of collection of Property Tax as against the demands raised ranged from 50 to 54 in Municipalities and 52 to 60 in other Municipal Corporations. In Town Panchayats the percentage of collection varied between 69 and 82 during the same period. In Chennai City Municipal Corporation the percentage collection of Property Tax increased from 50 in 2005-06 to 55 in 2007-08. The collection of Profession Tax by the ULBs was relatively satisfactory except in the Municipalities wherein the percentage of collection ranged between 54 and 66 during 2005-08. The accounts of Municipal Corporations, Municipalities and Town Panchayats were pending audit by the DLFA from 2005-06 onwards mainly due to delayed submission of accounts and submission of defective accounts. Huge number of paragraphs relating to Municipalities, Town Panchayats and Municipal Corporations included in the audit reports of DLFA were pending settlement as of March 2008.

### **1.13 Recommendations**

- Thrust should be given on devolution of funds, functions and functionaries.
- A nodal agency for monitoring the submission of accounts and for its consolidation needs to be nominated.
- There is a need to ensure timely release of funds under TFC grants.
- A specific drive should be conducted to reduce the arrears in collection of various taxes and dues.
- Immediate arrangements should be made for bringing traders, professionals and self employed persons into the Profession Tax net to tap full tax potential.
- Adequate manpower has to be provided to ensure collection of Profession Tax from all eligible persons.
- The date from which the enhanced rate of professional tax to be levied on industrial establishments has to be immediately decided.
- Arrangements for speedy settlement of audit objections and inspection paragraphs of Local Fund Audit Department should be made and the pendency reduced in a phased manner.

The above points were referred to Government in March 2009; reply has not been received (June 2009).