

## Chapter III- Role of Parastatals

### 3.1 What is a Parastatal

Parastatals are institutions/organisations, which are wholly or partially owned and managed by the Government (formed as autonomous or through a specific legislation) and discharge some of the functions of ULBs. Some of the parastatals which are performing significant roles with regard to ULBs are detailed in **Annexure 19**. Audit analysed the role of some of the parastatals affecting the ULB's performance and findings are discussed below:

### 3.2 Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (TUFIDCO)

Government, while accepting the recommendation of the 5<sup>th</sup> Finance Commission, established a Capital Grant Fund<sup>1</sup> (CGF) to replace the Infrastructure Gap Filling Fund (IGFF). IGFF had a provision of seven *per cent* which was substituted with CGF for 15 *per cent* of the net devolved amount. This fund shall be utilised to support capital works linked to basic functions and services of ULBs. Accordingly, the Government set aside an amount of ₹ 1,875.65 crore as capital grant during the period 2017-20.

Audit scrutiny revealed that the system adopted for CGF was to disburse the amount to TUFIDCO which in turn releases the fund to the ULBs based on Empowered Committee's proceedings. However, this system has been changed from the year 2020-21 and the amount is kept within the Government account itself and are released to the ULBs by the HODs (CMA and DTP) based on the empowered committee's proceedings, instead of routing through TUFIDCO. However, audit noticed that even though TUFIDCO had no role from 2020-21 in release of funds, an amount of ₹ 141.48 crore (source fund ₹ 78.63 crore and interest ₹ 62.85 crore) being the amount pertaining to the earlier years was not returned by TUFIDCO to the Government Account, thereby funds belonging to ULBs were blocked.

Further, Audit noted that while IGFF can be utilised for construction of office building but the same was specifically excluded from CGF<sup>2</sup> (the fund which replaced IGFF). The Finance Department has also recommended that the CGF should not be utilised for construction of office buildings.

However, audit scrutiny revealed that the Department had utilised the CGF for the construction of office buildings and sanitary workers' quarters which is not envisaged in the CGF scheme. The amount so utilised during 2017-20 in respect of nine ULBs was ₹ 29.49 crore. Even though the work was sanctioned by the

<sup>1</sup> G.O.No.84 dated 31 March 2017

<sup>2</sup> GO 399 dated 27 September 2017

Government based on the empowered committee approval (February 2018), the same do not fall under any of the criteria mentioned in the CGF Scheme.

The Department replied (October 2020) that even though the approved guidelines for utilisation of Capital Grant given vide GO 399 dated 27 September 2017 did not permit construction of office buildings, the same was again permitted in GO 84 dated 2 March 2018. Further construction of sanitary workers' quarters was taken up under other needy scheme which is essential for the upliftment of sanitary workers. The Empowered Committee approved the sanitary workers' quarters under CGF.

The reply is not tenable for the reason that GO 84 dated 2 March 2018, granting permission as a one-time measure, was deviation from the CGF guidelines issued, which specifically prohibited construction of office buildings out of CGF. According permission by the Government as a one time measure will not justify such deviation as the fund is primarily earmarked for public welfare such as water supply, Storm Water Drains, Road and Bridge works, *etc.* It is pertinent to note that the Finance Department have also opined that construction of Office Buildings under CGF was not justified.

### **3.3 Tamil Nadu Urban Infrastructure Financial Services Limited**

The Government of Tamil Nadu have created a non-lapsable fund in the name of Tamil Nadu Urban Road Infrastructure Fund (TURIF) in 2011<sup>3</sup> for implementation of works related to improvement/renovation/relay of roads and other related infrastructure in ULBs. The fund is managed by Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL), a Parastatal.

The major source of fund for TURIF is the allocation of a portion of the surcharge of Stamp duty (assigned revenue of the ULBs). A surcharge on Stamp duty (SD) is being collected by the Registration Department, which has to be transferred to the ULBs within the ULB's area. At present, 50 *per cent* of the surcharge is being diverted to TURIF and the remaining is transferred to the concerned ULBs.

During the period 2015-20, an amount of ₹ 1,673.63 crore was transferred to TURIF being the 50 *per cent* of the assigned revenue payable to the ULBs. An amount of ₹ 1,723.68 crore has been released to the ULBs during the said period.

#### **3.3.1 Utilisation of Assigned Revenue**

Detailed instruction regarding release of surcharge on Stamp Duty to the ULBs by the Commissioner of Municipal Administration and the Director of Town Panchayat was issued vide GO cited *ibid.* Prior to this arrangement, the fund was released based on the report of the District Collectors (DC).

The CMA and the DTP has recommended to the Government that the tentative allocation be sanctioned based on the actual amount due to the ULBs in the

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<sup>3</sup> *vide* G.O.(Ms.) No.64 MA & WS (Election) Department dated 28.2.2011

previous year and the difference between the tentative allocation and the actual entitlement may be adjusted in the succeeding financial year.

In order to overcome the delay in fund release, based on the recommendation of the CMA and DTP (as prevalent in Rural Development Department), the Government formulated that 50 *per cent* of the surcharge on SD collected based on the report of the Inspector General of Registration will be placed at the disposal of the CMA and DTP and the remaining 50 *per cent* to be released as contribution to the TURIF.

Audit scrutiny revealed the following:

- The changed procedure denied ULBs of their discretion to spend the amount based on their own independent assessment of their needs and they had to spend it only for road works.
- Further, ULBs get only 50 *per cent* of their entitled amount. The remaining 50 *per cent* of the amount is spent only for road works based on the recommendations of the empowered committee through TURIF. In the period between 2015-16 and 2019-20, in respect of four out of 124 municipalities and 140 out of 528 TPs, no road works has been undertaken, even though a portion of their share has also been pooled in the TURIF thus denying them of the rightful capital work in their jurisdiction in the last five years.
- The earlier system of disbursement based on the report of the DCs was quicker and the entire amount was apportioned to the ULBs within two months from the last date of the previous quarter. However, as per the present procedure, the ULBs get only 50 *per cent* of their entitlement and that too with a delay in the release of the fund which ranged between eight and 30 months.
- It is pertinent to mention that the fourth SFC while discussing the issue of Surcharge has observed that Assigned Revenue may be distributed as per entitlement, as at the local body level it reflects the need for higher investments for creating infrastructure facilities and for maintenance by the local bodies. Based on the above, the assigned revenue need to be transferred to ULBs as per the entitlement without any diversion to TURIF or any other scheme.

**Recommendation:**

- **The Government may consider implementing the recommendation of the SFC in transferring the Assigned Revenue fully to the ULBs and install a convenient mechanism for arriving at the amount due to each ULBs and transferring the same without delay.**
- **The Government may establish an independent assessment mechanism in consultation with the ULBs for implementation of road works in ULBs.**

### **3.4 Tamil Nadu Water Supply and Drainage Board and Chennai Metropolitan Water Supply and Sewerage Board**

One of the basic/primary functions of a ULB is to provide water supply to the public and end users. However, besides creating own source of water supply under various schemes viz., Mini Power Pump and Hand pumps etc., ULBs are more reliant on the Combined/Comprehensive Water Supply schemes (CWSS) viz., augmentation and supply from River water and tank water from storage areas. These schemes are executed by parastatal viz., Chennai Metropolitan Water Supply and Sewerage Board<sup>4</sup> (CMWSSB) and Tamil Nadu Water Supply and Drainage Board<sup>5</sup> (TWAD Board) respectively. Though the approval of the schemes was done through respective council's resolution, the work has been entrusted to parastatals by the Government. This is due to the fact that the source of water and its usage are in different ULBs/Rural Local Bodies. As such it requires co-ordination of all the local bodies which can be done only through a parastatal. Further, these parastatals are also vested with the responsibility of promoting planned development and regulation of water supply and sewerage services including its operation and maintenance.

#### **3.4.1 Water Supply Scheme**

During the years from 2015-16 to 2019-20, the above Boards had completed 51 Water Supply projects/works involving an amount of ₹ 847.28 crore and 34 Underground Sewerage Scheme (UGSS) works involving an amount of ₹1,048.54 crore. Further, 39 water supply projects/works involving an amount of ₹ 2,803.41 crore and 40 UGSS works involving an amount of ₹ 2,661.62 crore are in progress.

In the test checked ULBs, Audit noticed that, out of 12 water supply schemes executed with a project cost of ₹ 780.37 crore, only two projects were completed within the scheduled time and the remaining ten projects were completed with a delay ranging between three months and nine years. Due to delay in completion, on the one hand the public were denied of getting protected and assured water supply in time and the ULBs on the other hand were forced to incur additional expenditure on water supply from the due date till the completion of the project. Four test checked projects are mentioned below:

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<sup>4</sup> Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB), a statutory organisation, was established in 1978.

<sup>5</sup> The Tamil Nadu Water Supply and Drainage Board (TWAD Board) is a statutory organization formed by the Government of Tamil Nadu in April 1971.

**Table 3.1 – Additional Expenditure incurred due to delay in completion**

S. No.	Name of the ULB	Due date of completion <sup>6</sup> of WSS	Date of completion of the project (Delay in completion)	Period	Expenditure incurred on water supply (₹ in crore)	Water Supply Demand (₹ in crore)
1	Avadi (executed by CMWSSB)	December 2011	December 2020 (108 months)	Between 2015-16 and 2019-20	8.60	0.39
2	Ooty (executed by TWAD Board)	February 2013	April 2018 (62 months)		27.72	12.08
3	Coimbatore Corporation (Executed by TWAD)	September 2018	January 2021 (18 months)	2018-19 and 2019-20	174.06	72.65
4	Pallavapuram Municipality (Executed by CMWSSB)	July 2015	October 2020 (63 months)	2015-16 to 2019-20	9.25	6.17
<b>Total</b>					<b>219.63</b>	<b>91.29</b>

Source: Data furnished by the Department

In this connection Audit observed that:

- As per the recommendations of the Fifth SFC which was also accepted by the Government, water consumption charges should be levied at a rate that utmost ensures the recovery of operation and maintenance cost. However, as seen from the test checked four projects, as against the expenditure of ₹ 219.63 crore, the amount collected from the public by way of user charges was only ₹ 91.29 crore, which is 41.49 *per cent* of the expenditure on water supply. Had the projects been completed in time, the probable additional user charges that would have accrued to the above ULBs, was ₹ 35.83 crore *per annum* (**Annexure 20**).
- While the water tariff was increased periodically by the Parastatals for the existing water supply, the ULBs were not in a position to raise the water charges (User Charges) since the supply of lesser quantity of water (litres per capita per day) directly impact the decision to increase the water charges. Had the projects been completed in time, the increased water supply would have paved the way for revision of user charges by the ULBs much earlier and would have helped augmenting its own revenue for meeting its revenue expenditure as explained earlier.

<sup>6</sup> Two years for regular water supply scheme and three years for CWSS

### 3.4.2 Underground Sewerage Scheme

An underground sewerage system is an underground pipe or tunnel system for transporting sewage from houses and commercial buildings to a sewage treatment plant or disposal. The advantage of sanitary sewer systems is that they avoid sewer overflows.

Audit noted, in two test checked ULBs, that two projects relating to UGSS were completed belatedly with a delay ranging from 48 to 60 months. Audit further noticed that due to the delay in the completion of the projects, the two ULBs were denied additional revenue to the tune of ₹ 12.50 crore as detailed in **Annexure 21**.

In both the cases, the contractors were engaged by the Parastatal. The delay with regard to Thirumazhisai Town Panchayat was due to improper selection of location alongwith non-fulfilling of contractual obligations by the Contractor which was later forced upon the TP to complete the same by incurring additional expenditure of ₹ 21.74 lakh.

Thus, the inordinate delay in completion/partial completion of the UGSS by CMWSSB has defeated the very objective of total sanitation as well as denial of rightful basic services in time to the stake holders of the ULB.

Audit scrutiny revealed that while the parastatals are executing the work on behalf of ULBs as per the directions of the Government, they are not accountable to the ULBs. The parastatals execute the work by engaging contractors who are in contractual agreement only with them and not with ULBs even though they are the ultimate beneficiary as well as the aggrieved party if the work got delayed. The ULBs not being a party to the contract has no say in execution, timely implementation, quality control and supervision of the progress of the projects.

**Recommendation: The Government may consider more stringent time frame for execution of work. Further, there could be a tripartite agreement wherein the ULB could also be made part of the agreement and each parties roles and accountabilities may be specified clearly.**

### 3.5 Chennai Metropolitan Development Authority and Directorate of Town and Country Planning

The Chennai Metropolitan Development Authority (CMDA) was constituted in 1975 as a body corporate under the Tamil Nadu Town and Country Planning Act, 1971 for the Chennai Metropolitan Area<sup>7</sup>. The major functions of CMDA are preparation of Master Plans, Detailed Development Plans, issue of planning permits, *etc.* For other areas, Directorate of Town and Country Planning (DTCP) is the authority for issuing planning permission.

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<sup>7</sup> Chennai Metropolitan Area comprises the GCC, eight Municipalities, 11 Town Panchayats and 10 Panchayat Unions consisting of 179 villages.

The following charges are collected for issuing Planning Permission and Building Licence as detailed below:

- i) Open Space Reservation Charges (in lieu of land transferred through gift deed)
- ii) Development Charges
- iii) Infrastructure and amenities charges
- iv) Regularisation charges

The Third SFC has recommended for transfer of 75 *per cent* of Development charges and Open Space Regulation charges to the respective ULBs, for the development of the area and the same was accepted by the Government.

Audit scrutiny of the transfer of OSR and Development Charges to the ULBs revealed that during the period from 2015-16 to 2019-20, as against an amount of ₹ 351.81 crore (75 *per cent* of ₹ 469.07 crore collected) (detailed in **Annexure 22**), only ₹ 126.53 crore has been transferred (by CMDA). The balance amount of ₹ 225.28 crore was retained by CMDA and DTCP till date (September 2021) which denied the ULBs of their rightful share of funds and which could have been utilised for development of infrastructure facilities (*viz.*, creation of parks out of OSR funds) in the urban locality.

Further, the Third SFC has also recommended that CMDA/DTCP be brought under one umbrella under the control of Municipal Administration and Water Supply Department to avoid dual control and to obviate the administrative difficulties faced by the ULBs which is yet to be implemented. The Government in reply (September 2006) had stated that a High-Level Committee constituted to examine the issue the delegation of powers to the local bodies.

**Recommendation: The Government may formulate a mechanism for transferring the due share of OSR Charges and Development Charges to the ULBs in a timely manner.**