

PART I
URBAN LOCAL BODIES

CHAPTER I
AN OVERVIEW OF THE
ACCOUNTS AND FINANCES OF
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Highlights

Out of 18 functions listed for devolution to urban local bodies as per Seventy-fourth Constitutional Amendment, 13 functions were transferred. Government is yet to transfer functionaries for carrying out the functions already transferred.

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

Collection of property tax was only between 50 and 53 per cent in municipalities and municipal corporations and between 59 and 62 per cent in town panchayats.

The audit of the accounts of most of the municipalities and town panchayats was pending from the year 2004-05. While the audit of two and three municipal corporations was pending due to submission of defective accounts, for the years 2002-03 and 2003-04 respectively, audit is yet to be taken up for all the six municipal corporations for the years 2004-05 and 2005-06.

1.1 Introduction

1.1.1 Consequent to the Seventy-fourth 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 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 urban local bodies at each level as on 31 March 2006 is given below along with the average population covered by each type of urban local body, as per the 2001 census.

| | | Number of local bodies | Average population covered per local body (as per 2001 census) |
|--------------------|------------------------------|------------------------|--|
| Urban local bodies | Municipal corporations | 6 | 13,18,810 |
| | Municipalities | 152 | 80,319 |
| | Town panchayats ¹ | 561 | 15,672 |

An overview of the accounts and finances of urban local bodies is presented in this Chapter. A similar overview of the finances of panchayat raj institutions (PRIs) is presented in a separate Chapter.

¹ These town panchayats for the period from June 2004 to July 2006 were reclassified as special village panchayats.

1.1.3 With a view to enabling town panchayats (TPs) to access Central funding under Rural Development Programmes, Government reclassified (June and July 2004), 561 out of 611 TPs as special village panchayats. However, subsequently in July 2006, these 561 special village panchayats have been reclassified again as TPs. The balance 50 TPs were simultaneously upgraded as Third Grade municipalities. 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 the annual income as follows:

| 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 | 25 |
| | Third grade | (Erstwhile town panchayats with population exceeding 30,000) | 50 |
| | Total | | 152 |
| Town panchayats | Special grade | Above Rs 20 lakh | 13 |
| | Selection grade | Above Rs 16 lakh | 245 |
| | Grade I | Above Rs 8 lakh | 221 |
| | Grade II | Above Rs 4 lakh | 82 |
| | Total | | 561 |

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 in **Appendix I**.

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

1.3 Accounting arrangements

1.3.1 Accrual-based system of accounting is being followed in all municipal corporations, municipalities and town panchayats, as per the orders of the Government of Tamil Nadu.

1.3.2 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 urban local bodies approved 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 the completion of audit.

1.4 Audit arrangements

1.4.1 The Director of Local Fund Audit (DLFA) is the statutory auditor for ULBs (including town panchayats). Fifty *per cent* of the actual cost of audit² of DLFA is paid by the ULBs out of the Municipal fund. The municipal corporations and municipalities were yet to pay Rs 6 crore towards audit fees as of March 2006. Year-wise details are given in **Appendix II**.

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 Devolution of functions, functionaries and funds

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 municipal corporations, Government stated (November 2006) that 10

² As per G.O. Ms. No. 62 dated 17.1.1994 of Finance (Local Fund) Department.

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. Transfer of the remaining functions to these local bodies was stated to be under the consideration of the State Government (**Appendix III**).

Urban planning including town planning was one of the functions reported as transferred to the ULBs. It was seen during audit that while the ULBs were delegated with powers to accord planning permission for residential buildings upto 200 sq.m. (ground floor and first floor) and commercial buildings upto 100 sq.m., all other powers of development such as zone regulation usage, parameters of development, detailed development plan scheme and layout conditions were still with the Town and Country Planning Department under the State Government.

Government in the Finance Department stated (November 2006) to Audit that transfer of functionaries is 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 (November 2006).

Government also reported that plan and non-plan discretionary grants were being transferred to local bodies outside State Finance Commission devolution. These earmarked grants were intended for specific functions such as water supply, roads, public health, street lighting, sanitation, etc., entrusted to local bodies. The local bodies were also empowered to revise and levy local taxes such as Property/House Tax, Professional Tax based on the recommendations of the State Finance Commission (SFC) as accepted by the Government and as per the Local Body Acts.

Based on the announcement made on the floor of Legislative Assembly on 11 August 2006, Government ordered (February 2007) the constitution of a High Level Committee under the Chairmanship of the Minister for Rural Development and Local Administration in January 2007 for examining further devolution of powers and responsibilities to the ULBs and to give suitable recommendations. Government further stated that after the receipt of its recommendations, further devolution of powers to the local bodies would be considered.

1.6 Preparation of budget

The Second State Finance Commission (SSFC), in its Report, among other things, had stated that in the case of ULBs, detailed guidelines regarding preparation and presentation of the budget have been enumerated in Sections 70 and 71 of the Tamil Nadu Urban Local Bodies Act, 1998 and reiterated those guidelines as their recommendations. Though the operation of the whole of the said Act 1998 was suspended by Government in August 2000 through an Ordinance, the Government had accepted the above recommendations of the SSFC and included them in the Action Taken Report presented by the Finance Department in the Legislative Assembly. The CMA, when consulted by Government, had reported that the provisions made in the existing Tamil

Nadu District Municipalities Act, 1920 regarding preparation of budget by the municipalities was insufficient and requested the Government to issue fresh orders in this regard. Based on this, Government in the Municipal Administration and Water Supply Department, issued (December 2005) fresh instructions to all the municipalities for the preparation and presentation of the annual budget, duly prescribing the provisions and procedures to be adopted.

The preparation of the budget in certain selected municipalities was reviewed among other functions, under “Financial management in municipalities” and certain observations noticed are included under Paragraph 2.3.1

1.7 Source of revenue

1.7.1 Own revenue resources of ULBs (including town panchayats) comprise tax and non-tax revenues realised by them. Property Tax is the major source of tax revenue. Other resources comprise (a) funds released by the State Government based on the recommendation of SFC and (b) loans obtained by them 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 etc. A chart depicting various sources of revenues of ULBs is given in **Appendix IV**.

1.8 Receipts and expenditure of urban local bodies

1.8.1 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 and its consolidation which is a major shortcoming.

1.8.2 The details of receipts and expenditure (provisional) of ULBs (including town panchayats) during 2003-06, as reported by the CMA, Chennai City Municipal Corporation and Director of Town Panchayat (DTP) are given below in a table. However, 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.

(Rupees in crore)

| | 2003-04 | | 2004-05 | | 2005-06 | |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Receipts | Expenditure | Receipts | Expenditure | Receipts | Expenditure |
| Chennai City Municipal Corporation | 611.81 | 573.99 | 588.99 | 643.63 | 654.61 | 727.41 |
| Other municipal corporations | 377.67 | 365.39 | 409.57 | 369.89 | 463.77 | 488.12 |
| Municipalities | 888.93 | 946.31 | 924.97 | 906.32 | 1029.14 | 935.21 |
| Town panchayats | 492.45 | 310.72 | 476.03 | 461.05 | 602.94 | 479.46 |
| Total | 2370.86 | 2196.41 | 2399.56 | 2380.89 | 2750.46 | 2630.20 |

The data in the above table reveal the following:

While the total receipts of municipalities, five municipal corporations and town panchayats showed an increasing trend during 2003-06, the receipts of Chennai City Municipal Corporation which had decreased from Rs 611.81 crore in 2003-04 to Rs 588.99 crore in 2004-05 increased to Rs 654.61 crore in 2005-06 mainly because of the increase in assigned revenue and Central Finance Commission grant. Similarly the receipts of town panchayats decreased from Rs 492.45 crore in 2003-04 to Rs 476.03 crore in 2004-05 mainly because of decline in the receipt of grants and loans during 2004-05. However, the total receipts of town panchayats increased steeply to Rs 602.94 crore in 2005-06 mainly because of the increase in grants and assigned revenue.

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

1.9 Receipts of urban local bodies

1.9.1 Own revenue realised

Details of own revenue realised by ULBs (including town panchayats) during 2003-06 as furnished by the CMA are given below:

(Rupees in crore)

| Category of ULB | 2003-04 | | | 2004-05 | | | 2005-06 | | |
|--|---------------|----------------------------|----------------|---------------|----------------------------|----------------|---------------|----------------------------|----------------|
| | Tax | Non-tax and other revenues | Total | Tax | Non-tax and other revenues | Total | Tax | Non-tax and other revenues | Total |
| Chennai City Municipal Corporation (1) | 236.88 | 50.69 | 287.57 | 267.42 | 54.22 | 321.64 | 272.82 | 65.81 | 338.63 |
| Other municipal corporations (5) | 111.82 | 84.06 | 195.88 | 115.87 | 89.50 | 205.37 | 125.53 | 98.24 | 223.77 |
| Municipalities | 222.12 | 179.40 | 401.52 | 238.78 | 191.83 | 430.61 | 250.36 | 190.82 | 441.18 |
| Town panchayats | 105.73 | 117.69 | 223.42 | 113.42 | 117.79 | 231.21 | 115.62 | 116.23 | 231.85 |
| Total | 676.55 | 431.84 | 1108.39 | 735.49 | 453.34 | 1188.83 | 764.33 | 471.10 | 1235.43 |

The percentage of own revenue of the ULBs to total receipts decreased from 47 per cent in 2003-04 to 45 per cent in 2005-06. Details of own revenue of various categories of local bodies revealed that in respect of five municipal corporations, the percentage of own revenue to total receipts decreased from 52 per cent in 2003-04 to 48 per cent in 2005-06 and that of Chennai City Municipal Corporation increased from 47 per cent in 2003-04 to 52 per cent in 2005-06.

1.9.2 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.

1.9.3 Property Tax

The position of cumulative demand (including arrears), collection and balance of Property Tax during the last three years viz., 2003-04 to 2005-06 in the municipalities and municipal corporations (except Chennai City Municipal Corporation), as reported by CMA and DTP, is given below:

(Rupees in crore)

| | | | Demand | Collection | Balance |
|---|---------|--------------|---------------|-------------------|---------------|
| Municipalities | 2003-04 | Arrear | 135.72 | 61.53(45) | 74.19 |
| | | Current | 224.95 | 131.32(58) | 93.63 |
| | | Total | 360.67 | 192.85(53) | 167.82 |
| | 2004-05 | Arrear | 167.82 | 70.75(42) | 97.07 |
| | | Current | 233.15 | 139.52(60) | 93.63 |
| | | Total | 400.97 | 210.27(52) | 190.70 |
| | 2005-06 | Arrear | 190.70 | 83.15(44) | 107.55 |
| | | Current | 250.67 | 136.35(54) | 114.32 |
| | | Total | 441.37 | 219.50(50) | 221.87 |
| Five municipal corporations (excluding Chennai) | 2003-04 | Arrear | 94.55 | 27.16(29) | 67.39 |
| | | Current | 98.92 | 75.69(77) | 23.23 |
| | | Total | 193.47 | 102.85(53) | 90.62 |
| | 2004-05 | Arrear | 90.62 | 25.65(28) | 64.97 |
| | | Current | 109.54 | 78.14(71) | 31.40 |
| | | Total | 200.16 | 103.79(52) | 96.37 |
| | 2005-06 | Arrear | 96.37 | 40.40(42) | 55.97 |
| | | Current | 128.16 | 72.35(56) | 55.81 |
| | | Total | 224.53 | 112.75(50) | 111.78 |
| Town panchayats | 2003-04 | Total | 72.38 | 42.76 (59) | 29.62 |
| | 2004-05 | Total | 75.11 | 44.15 (59) | 30.96 |
| | 2005-06 | Total | 75.77 | 46.94 (62) | 28.83 |

(Break-up details for the demand, collection and balance were not furnished by the DTP)

The above position indicates that in terms of percentage of Property Tax collected *vis-à-vis* that demanded, the performance of municipalities and five municipal corporations was the same. The percentages of collection compared to the total demand during the last three years in these bodies were 53, 52 and 50 respectively, and thus on a declining trend. Further scrutiny of data given revealed that

- in municipalities, the percentage of collection against arrear demands was relatively poor and ranged only between 42 and 45, whereas the percentage of collection against current demand was between 54 and 60 during the period 2003-06 and
- in five municipal corporations, the percentage of collection of arrear demand was poor as compared to the percentage of collection of current demand. During audit it was noticed 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 RDMA in their regions. Seven officers of Commissionerate of Municipal Administration had been 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 and municipal corporations actually increased during 2003-06.

- In town panchayats, the percentage of collection increased from 59 in 2004-05 to 62 in 2005-06.

The CMA stated (December 2006) that the main reason for poor collection was the litigation in Courts relating to assessment of Property Tax, non-payment of Property Tax by State Government departments resulting in mounting arrears and the involvement of the field staff of ULBs in urgent works like election and flood relief works during 2005-06. The CMA further stated that necessary instructions had been issued in April 2006 to identify the defaulters and issue warrant notices for collecting the arrears and all the Regional Directors were instructed to review the collection of arrears during their monthly review meetings.

The Commissioner, Chennai City Municipal Corporation intimated that Rs 206.61 crore, Rs 220.55 crore and Rs 218.07 crore were collected towards Property Tax during the last three years 2003-04 to 2005-06. However, no details for the demand issued during these three years and the balance at the end of each year (both for arrear and current demands) were furnished to Audit (December 2006).

In response to an audit enquiry, the DTP stated (December 2006) that no periodical meetings with the Executive Officers of town panchayats were conducted so far, for discussing the collection of revenues including tax revenues. Such periodical meetings are necessary for monitoring the extent of revenues realised and for taking further action in collecting the revenue.

1.9.4 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 are given below:

(Rupees in crore)

| Year | Chennai City Municipal Corporation | | | Other municipal corporations (except Chennai) | | | Municipalities | | | Town panchayats | | |
|---------|------------------------------------|-------|----|---|-----------|------|----------------|------------|-------|-----------------|-----------|------|
| | D | C | B | D | C | B | D | C | B | D | C | B |
| 2003-04 | NA | 29.48 | NA | 13.94 | 8.97(64) | 4.97 | 43.97 | 29.37 (67) | 14.60 | 18.58 | 14.33(77) | 4.25 |
| 2004-05 | NA | 46.22 | NA | 17.29 | 12.08(70) | 5.21 | 48.35 | 28.51 (59) | 19.84 | 20.19 | 16.54(82) | 3.65 |
| 2005-06 | NA | 54.25 | NA | 17.75 | 12.78(72) | 4.97 | 57.65 | 30.86 (54) | 26.79 | 21.61 | 18.20(84) | 3.41 |

(D: Demand, C: Collection, B: Balance, NA: Not Available)

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

The above data clearly reveal that the percentage of collection of Profession Tax by five municipal corporations and town panchayats was on the increase while for municipalities it declined from 67 in 2003-04 to 54 in 2005-06.

The Town Panchayats, Municipalities and Municipal Corporations (Collection of Tax on Professions, Trades, Callings and Employments) Rules, 1999 require all these ULBs to maintain a master register containing details relating to traders, professionals and employers within their municipal limits. The failure of the Chennai City Municipal Corporation to maintain such a register resulted in demand notices not being issued.

1.9.5 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, 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 below:

(Rupees in crore)

| Year | Municipalities | | | Five municipal corporations (excluding Chennai) | | | Town panchayats | | |
|---------|----------------|----------------|-------|---|---------------|-------|-----------------|---------------|-------|
| | D | C | B | D | C | B | D | C | B |
| 2003-04 | 154.39 | 109.71 (71) | 44.68 | 32.37 | 21.97 (68) | 10.40 | 117.69 | 99.18 (84) | 18.50 |
| 2004-05 | 160.36 | 114.40 (71) | 45.96 | 41.57 | 24.83 (60) | 16.74 | 117.79 | 98.26 (83) | 19.53 |
| 2005-06 | 171.64 | 117.64 (69) | 54.00 | 45.70 | 26.15 (57) | 19.55 | 116.23 | 98.09 (84) | 18.14 |

(D: Demand, C: Collection, B: Balance)

The percentage of collection of non-tax revenues both by municipalities and five municipal corporations was on the decline. Consequently, the quantum of pending non-tax revenue at the end of each year during 2003-06 increased. In respect of town panchayats, the percentage of collection after decreasing from 84 to 83 *per cent* in 2004-05, again increased to 84 *per cent* in 2005-06.

Rupees 170.72 crore were collected as non-tax revenue by Chennai City Municipal Corporation during 2003-06. The break-up details for the collected non-tax revenue were not furnished by the Chennai City Municipal Corporation.

The CMA, to increase the collection of both tax and non-tax revenues, had issued orders (December 2006) that the Commissioners of municipalities have to fix daily/monthly target to field officers for collecting the dues and to have weekly reviews to enhance the progress of collection.

1.9.6 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 to ULBs during 2003-06 as reported by CMA, Commissioner, Chennai City Municipal Corporation and DTP are shown below:

(Rupees in crore)

| Category of ULBs | 2003-04 | | | 2004-05 | | | 2005-06 | | |
|------------------------------------|---------|--------|--------|---------|-------|--------|---------|--------|--------|
| | ET | SS | Total | ET | SS | Total | ET | SS | Total |
| Chennai City Municipal Corporation | 6.42 | 112.75 | 119.17 | 20.09 | 75.27 | 95.36 | 13.06 | 105.12 | 118.18 |
| Other municipal corporations | 14.06 | 48.02 | 62.08 | 13.96 | 41.67 | 55.63 | 7.27 | 35.76 | 43.03 |
| Municipalities | 24.42 | 86.57 | 110.99 | 18.77 | 96.24 | 115.01 | 15.92 | 78.95 | 94.87 |
| Town panchayats | * | * | 89.68 | * | * | 90.49 | * | * | 112.31 |

* Break-up details not made available

The above table shows that the proceeds of ET in municipal corporations (except Chennai) and in municipalities were on a declining trend since 2003-04. No specific reasons for the decline in ET were furnished by the CMA (November 2006). Similarly, the assigned SS for the five municipal corporations was on a declining trend since 2003-04 and the decline was attributed by CMA to reduction in the rate of surcharge from five to two *per cent* with effect from November 2003. In respect of municipalities, the SS after increasing from Rs 86.57 crore in 2003-04 to Rs 96.24 crore in 2004-05, declined again to Rs 78.95 crore in 2005-06. No specific reasons were given for this decline.

1.9.7 Grants and loans released to local bodies

Apart from the devolution-grants³ based on the recommendations of SSFC, various grants were given to ULBs by the Central and State Government for implementation of 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 2003-06, as compiled and reported by the CMA and DTP, are given below:

³ SSFC grants to the extent of actual receipts after adjustment.

(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 |
| 2003-04 | 139.75 | 65.32 | 205.07 | 109.17 | 7.32 | 116.49 | 308.22 | 71.26 | 379.48 | 168.97 | 10.38 | 179.35 |
| 2004-05 | 156.59 | 15.40 | 171.99 | 144.49 | 4.08 | 148.57 | 318.25 | 61.10 | 379.35 | 150.45 | 3.88 | 154.33 |
| 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 |

The CMA stated (November 2006) that the utilisation certificates for grants up to 2003-04 had been issued while the utilisation certificates from 2004-05 were yet to be issued.

1.9.7.1 State Finance Commission grants

In the Budget speech for 2002-03, 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.
- 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.

The details of SSFC grant released to ULBs during 2003-04 to 2005-06 is given below:

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 |
| 2003-04 | 186.12 | 36.57 | 149.55 | 78.90 | 61.58 | 9.07 |
| 2004-05 | 182.34 | 34.02 | 148.32 | 79.98 | 59.45 | 8.89 |
| 2005-06 | 216.41 | 16.99 | 199.42 | 97.58 | 91.00 | 10.84 |

Municipalities

(Rupees in crore)

| Year | Grants sanctioned | Adjusted before release | Net grant released to municipalities |
|---------|-------------------|-------------------------|--------------------------------------|
| 2003-04 | 202.83 | 71.27 | 131.56 |
| 2004-05 | 201.72 | 82.94 | 118.78 |
| 2005-06 | 235.35 | 84.79 | 150.56 |

Third grade municipalities

(Rupees in crore)

| Year | Grants sanctioned | Adjusted before release | Net grant released to municipalities |
|---------|-------------------|-------------------------|--------------------------------------|
| 2003-04 | 23.50 | 5.98 | 17.52 |
| 2004-05 | 46.20 | 6.77 | 39.43 |
| 2005-06 | 48.60 | 7.12 | 41.48 |

Town panchayats

(Rupees in crore)

| Year | Grants sanctioned | Adjusted before release | Net grant released |
|---------|-------------------|-------------------------|--------------------|
| 2003-04 | 93.15 | NIL | 93.15 |
| 2004-05 | 83.49 | 0.21 | 83.28 |
| 2005-06 | 105.82 | 0.65 | 105.17 |

The devolution of funds through SSFC grants was meant to cover the salary and wages of the sanctioned staff of the local bodies 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 library cess, pension payment, electricity consumption charges, principal and interest on Government/TUFIDCO loans, maintenance charges to Tamil Nadu Water Supply and Drainage Board towards water supply, etc. Such deduction automatically reduced the availability of grants devolved by SSFC to the local bodies.

1.9.7.2 Central Finance Commission grants

The details of grants received from Government of India by the State Government during 2003-04 to 2005-06 are given below:

(Rupees in crore)

| Year | Grants released to | | | Total |
|---------|------------------------|----------------|-----------------|--------|
| | Municipal corporations | Municipalities | Town panchayats | |
| 2003-04 | 11.95 | 16.21 | 13.53 | 41.69 |
| 2004-05 | 11.95 | 16.21 | 10.78 | 38.94 |
| 2005-06 | 35.46 | 46.84 | 32.10 | 114.40 |

CMA and DTP reported that the entire grant received in this connection during the last three years was utilised.

1.9.8 Position of outstanding loans

As of March 2006, the CMA reported that loan to the tune of Rs 788.49 crore (Principal: Rs 446.02 crore and Interest: Rs 342.47 crore) was outstanding against the consolidated Government loan relating to ULBs (except Chennai City Municipal Corporation) as indicated below:

(Rupees in crore)

| Sl. No. | Nature of local bodies | Position of consolidated loan | | | | | | |
|---------|---|------------------------------------|---------------|------------------------------------|-------------------------------|--------------|-------------------------------------|---------------|
| | | Opening balance as on 1 April 2005 | | Fresh loans availed during 2005-06 | Repayment made during 2005-06 | | Closing balance as on 31 March 2006 | |
| | | Principal | Interest | | Principal | Interest | Principal | Interest |
| 1. | Municipalities | 275.66 | 211.82 | - | 5.10 | 11.88 | 270.56 | 199.94 |
| 2. | Five municipal corporations (excluding Chennai) | 202.15 | 150.77 | - | 26.69 | 8.24 | 175.46 | 142.53 |
| | Total | 477.81 | 362.59 | - | 31.79 | 20.12 | 446.02 | 342.47 |

Though this consolidated loan amount was directed to be repaid in 40 half yearly instalments with effect from 1 April 1998, due to the precarious financial position of many ULBs, the repayment of loans was not made by those ULBs. The quantum of such outstanding loan as of 31 March 2006, as reported by CMA, is given below:

(Rupees in crore)

| | Over due loan amount | | |
|--|----------------------|----------|--------|
| | Principal | Interest | Total |
| Municipalities | 81.58 | 199.65 | 281.23 |
| Municipal corporations (Other than Chennai City Municipal Corporation) | 55.52 | 142.53 | 198.05 |

The CMA reported that recovery towards repayment of consolidated Government loans in respect of the concerned ULBs is being adjusted from the SSFC grants payable to those ULBs. However, as other deductions such as pension payment, recovery towards loans obtained from TUFIDCO, TNUDF, etc., were also being made from the SSFC grants, the entire loans outstanding in respect of the concerned ULBs could not be adjusted because of non-availability of sufficient funds for recovery in most of the cases of ULBs.

1.9.9 Outstanding loan

The position of outstanding loan in respect of town panchayats at the end of 2005-06 as reported by DTP is given below:

(Rupees in crore)

| | |
|-------------------------------------|--------|
| Opening Balance as on 1 April 2005 | 171.45 |
| Loans availed during 2005-06 | 2.81 |
| Loans repaid during 2005-06 | 19.63 |
| Closing Balance as on 31 March 2006 | 154.63 |

Specific reasons for pendency and the action taken for collecting the outstanding loan were not furnished by DTP (November 2006).

1.9.10 Loans from financial agencies

Position of loans obtained by municipalities and five municipal corporations from various financial agencies and pending repayment as of 31 March 2006 are given below:

(Rupees in crore)

| | Loan obtained from | Opening balance as on 1 April 2005 | | Amount of loans availed during the year | Repaid during the year | | Closing balance as on 31 March 2006 | |
|---|--------------------|------------------------------------|-------------|---|------------------------|--------------|-------------------------------------|-------------|
| | | Principal | Interest | | Principal | Interest | Principal | Interest |
| Five municipal corporations (excluding Chennai) | TUFIDCO | 126.09 | 0.11 | 13.25 | 17.04 | 10.07 | 122.30 | 9.54 |
| | TNUDF | 0.48 | - | 10.32 | 0.17 | - | 10.63 | - |
| Total | | 126.57 | 0.11 | 23.57 | 17.21 | 10.07 | 132.93 | 9.54 |
| Municipalities | TUFIDCO | 178.74 | 1.95 | 27.59 | 11.69 | 15.61 | 194.64 | 1.07 |
| | TNUDF | 28.96 | - | 15.91 | 4.46 | - | 40.41 | - |
| Total | | 207.70 | 1.95 | 43.50 | 16.15 | 15.61 | 235.05 | 1.07 |

DTP had not furnished the details of loans received from the financial agencies.

1.9.11 User charges

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

Municipal corporations (excluding Chennai City Municipal Corporation)

(Rupees in crore)

| Year | Demand | | | Collection | | | Balance | | |
|---------|--------|---------|-------|------------|-----------|-----------|---------|---------|-------|
| | Arrear | Current | Total | Arrear | Current | Total | Arrear | Current | Total |
| 2003-04 | 18.86 | 24.07 | 42.93 | 10.83(57) | 18.16(75) | 28.99(68) | 8.03 | 5.91 | 13.94 |
| 2004-05 | 13.94 | 28.68 | 42.62 | 9.39(67) | 18.83(66) | 28.22(66) | 4.55 | 9.85 | 14.40 |
| 2005-06 | 14.40 | 32.09 | 46.49 | 11.01(76) | 23.27(73) | 34.28(74) | 3.39 | 8.82 | 12.21 |

Municipalities

(Rupees in crore)

| Year | Demand | | | Collection | | | Balance | | |
|---------|--------|---------|-------|------------|------------|------------|---------|---------|-------|
| | Arrear | Current | Total | Arrear | Current | Total | Arrear | Current | Total |
| 2003-04 | 29.83 | 45.62 | 75.45 | 13.06 (44) | 33.55 (74) | 46.61 (62) | 16.77 | 12.07 | 28.84 |
| 2004-05 | 28.84 | 51.32 | 80.16 | 17.30 (60) | 39.01 (76) | 56.31 (70) | 11.54 | 12.31 | 23.85 |
| 2005-06 | 23.85 | 53.36 | 77.21 | 16.31 (68) | 36.73 (69) | 53.04 (69) | 7.54 | 16.63 | 24.17 |

The percentage of collection of water charges in municipal corporations (except Chennai City Municipal Corporation) and municipalities ranged between 66 and 74 and 62 and 70 respectively during 2003-06.

The minutes issued by CMA after the review of performance of municipalities towards collection of water charges for the year 2005-06 revealed that

- there were no water connections in three municipalities (Avadi, Kathivakkam and Madhavaram),
- one municipality (Tiruvottiyur) had not raised current demand; and
- the pendency under arrear demand was higher than the pendency under current demand in 70 municipalities.

CMA had mentioned (December 2006) that the quantum of Water Tax pending collection at the end of October 2006 was above Rs 4 crore in Tiruppur Municipality, Rs 3 crore in Thanjavur Municipality, Rs 1 crore in five municipalities (Kancheepuram, Tiruchengode, Dindigul, Vellore and Thoothukudi) and had instructed to take proper action for reducing the dues.

The Second State Finance Commission had recommended the revision of water charges through a cost-cum-water tariff fixation committee which is under consideration of the Government.

1.10 Expenditure of urban local bodies

1.10.1 Revenue expenditure

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

(Rupees in crore)

| | Year | | |
|---|---------------|---------------|---------------|
| | 2003-04 | 2004-05 | 2005-06 |
| Municipalities | | | |
| Salaries and Pension | 237.61 (45) | 236.08 (45) | 252.94 (46) |
| O & M expenditure | 290.52 | 283.82 | 292.49 |
| Total | 528.13 | 519.90 | 545.43 |
| Five municipal corporations | | | |
| Salaries and Pension | 128.94 (53) | 140.40 (53) | 142.30 (49) |
| O & M expenditure | 112.81 | 124.38 | 145.72 |
| Total | 241.75 | 264.78 | 288.02 |
| Chennai City Municipal Corporation | | | |
| Salaries and Pension | 200.00 (49) | 207.05 (41) | 224.05 (38) |
| O & M expenditure | 205.78 | 301.19 | 360.20 |
| Total | 405.78 | 508.24 | 584.25 |
| Town panchayats | | | |
| Salaries and Pension | 64.07 (31) | 63.68 (25) | 72.63 (27) |
| O & M expenditure | 142.09 | 186.52 | 199.69 |
| Total | 206.16 | 250.20 | 272.32 |

(Figures in brackets indicate the percentage to total revenue expenditure)

1.10.2 Capital expenditure

The reported capital expenditure of all the ULBs during the last three years is given below:

(Rupees in crore)

| Year | Capital expenditure | | | |
|---------|---------------------|-----------------------------|------------------------------------|-----------------|
| | Municipalities | Five municipal corporations | Chennai City Municipal Corporation | Town panchayats |
| 2003-04 | 418.18 | 123.64 | 168.21 | 104.56 |
| 2004-05 | 386.42 | 105.11 | 135.39 | 210.85 |
| 2005-06 | 389.78 | 200.10 | 143.16 | 207.14 |

The capital expenditure of the municipalities and the Chennai City Municipal Corporation had decreased during 2005-06 as compared to the expenditure during 2003-04.

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

1.11.1 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.

1.11.2 Audit of accounts of all ULBs was completed up to 2001-02. Position of arrears in completion of audit of ULBs as reported (October 2006) by DLFA as of 30 September 2006 is as given below:

| | Total number | Number wherein Audit not completed for | | | |
|-------------------------------|--------------|--|---------|---------|---------|
| | | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
| Municipal corporations | 6 | 2* | 3*** | 6 | 6 |
| Municipalities (I & II grade) | 102 | 1** | 9 | 84 | 102 |
| Municipalities (III grade) | 50 | - | - | 14 | 47 |
| Town panchayats | 561 | - | 25 | 194 | 519 |

* Revised annual accounts of Madurai and Coimbatore City Municipal Corporations were not submitted to DLFA.

** Annual accounts of Vridachalam Municipality were not furnished.

*** While the accounts of Coimbatore City Municipal Corporation were not received, the accounts of Madurai and Tiruchirappalli City Municipal Corporations returned for rectification of defects.

The main reasons attributed (October 2006) by DLFA for non completion of audit from 2003-04 were delayed submission of accounts by the ULBs and furnishing of defective accounts.

1.11.3 The number of paragraphs relating to municipalities and municipal corporations included in the Inspection Reports (IRs) of DLFA that were pending settlement as of March 2006 aggregated to 2,05,246 (Appendix V) of which 1,22,616 related to periods prior to 1998-99. No action was taken on irregularities pointed out in various paragraphs.

1.11.4 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 indicates inadequate response from the local bodies. The CMA had instructed all the Regional Directors of Municipal Administration and Municipal Corporation Commissioners to pay personal attention and prepare replies to all pending paragraphs immediately and to organise periodical joint sittings to reduce pendency. The CMA had

mentioned in the Review meeting held on 12 November 2005 that 1,10,994 paragraphs of Local Fund Audit Department relating to municipalities involving Rs 1,076 crore are pending on that date and the number of paragraphs settled through joint sittings for the past six months was very meagre.

1.11.5 The number of paragraphs included in the IRs on town panchayats of DLFA, which were pending settlement as of March 2006, as reported by DLFA in June 2006, is given below:

| Year | Number of paragraphs pending |
|----------------|------------------------------|
| Upto 1999-2000 | 47,691 |
| 2000-2001 | 8,613 |
| 2001-2002 | 10,859 |
| 2002-2003 | 15,424 |
| 2003-2004 | 14,301 |
| 2004-2005 | 2,479 |
| Total | 99,367 |

No action was taken on the irregularities pointed out.

1.12 Response to Audit

Audit Reports up to 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 March 2006, there were 133 recommendations (9 C&AG Reports) relating to 1985-86 to 1996-97 of the MAWS Department pending final settlement. Of these, 83 recommendations related to the Audit Report for 1992-93.

1.13 Conclusion

Out of 18 functions to be devolved to urban local bodies as per the Seventy-fourth Amendment to the Constitution of India, 13 functions alone were transferred. However, Government had not transferred the functionaries required to carry out these functions. During the period 2003-04 to 2005-06, the percentage of collection of Property Tax as against the demands raised ranged from 50 to 53 in municipalities and five municipal corporations and from 59 to 62 in town panchayats, and needs improvement. Chennai City Municipal Corporation had not furnished the details of demands raised and the balance to be collected towards Property Tax. The collection of Profession Tax by the urban local bodies was relatively satisfactory. While the accounts of a large number of municipalities and town panchayats were pending audit by the Director of Local Fund Audit from 2004-05, mainly due to delayed submission of accounts and submission of defective accounts, the audit of accounts of two and three municipal corporations was pending from 2002-03 and 2003-04 respectively and of all the six municipal corporations from 2004-05.

1.14 Recommendations

- A nodal agency for monitoring the submission of accounts and for its consolidation needs to be nominated.
- A specific drive should be conducted to reduce the arrears in collection of various taxes and dues.
- To ensure the collection of Profession Tax from all eligible persons, a master register containing details of all traders, professionals and employers in the local body area has to be maintained by the Chennai City Municipal Corporation, as prescribed.
- 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.