

## CHAPTER III

### AUDIT OF TRANSACTIONS (URBAN LOCAL BODIES)

Audit of transactions in the Municipal Administration and Water Supply Department in the Secretariat, twelve Municipalities and one Town Panchayat brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

#### ***MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT***

##### **3.1 Losses detected in Audit**

#### ***COLACHEL, MAYILADUTHURAI, NELLIKUPPAM, PERIYAKULAM AND PUDUKOTTAI MUNICIPALITIES***

##### ***3.1.1 Non-realisation of water supply deposit and water charges***

**Failure to collect deposit for water supply connection by five Municipalities and enhanced water charges by a municipality resulted in non-realisation of Rs 3.67 crore.**

Water supply is one of the basic amenities to be provided by the Municipalities. Municipal councils have the power to make by-laws for water supply under section 132A of Tamil Nadu District Municipalities Act, 1920. Such by-laws were to be approved and confirmed by State Government and published in District Gazette and would come into operation three months after they were so published as per section 310 of the Act *ibid*. The State Government has delegated the powers for approval and confirmation of water supply by-laws to Commissioner of Municipal Administration. While providing potable water service connection to residential/non-residential buildings and industrial undertakings, the Municipalities are required to collect a security deposit as per the water supply by-laws approved for water supply.

As per Accounting Manual for Urban Local Bodies in Tamil Nadu, the above deposits were to be invested in short term deposits and could be utilised for repayment of loan taken for water supply purposes, execution of specific schemes or for carrying out major repairs.

**(a) Non-collection of initial deposit**

Non-collection of deposits in respect of new water service connections or differential amount of deposit in respect of existing connections to the extent of Rs 3.51 crore (**Appendix 3.1**) was noticed in the following Municipalities.

**(i) Colachel Municipality**

The municipal council resolved (July 2002) to enhance deposit for domestic, commercial and industrial connections from Rs 1,500, Rs 3,000 and Rs 4,500 to Rs 2,000, Rs 5,000 and Rs 7,000 respectively. The revised by-laws incorporating the above enhancement was approved by Commissioner of Municipal Administration in December 2002. Even though the municipality published the revised rates of deposit in District Gazette in September 2004, it failed to collect the differential deposit of Rs 10.91 lakh in respect of 1,987 existing connections.

**(ii) Mayiladuthurai Municipality**

The municipality executed (May 2002) a new water supply scheme at a cost of Rs 11 crore. Out of 4,883 domestic water service connections, 3,581 were transferred to the new scheme. Though the municipality resolved to collect a deposit of Rs 4,000 per domestic connection, and the by-law was published (June 2002) in the District Gazette, it had collected only Rs 500 per connection so far (October 2008), resulting in non-realisation of revenue of Rs 1.25 crore.

**(iii) Nellikuppam Municipality**

The municipality executed (February 2003) water supply improvement works at a cost of Rs 94.31 lakh with grant from Government (Rs 24.33 lakh), loan from Life Insurance Corporation of India (Rs 64.88 lakh) and utilising water supply fund (Rs 5.10 lakh). The municipality was collecting deposit at Rs 30 per connection up to October 1992, at Rs 120 from November 1992 to May 1995 and at Rs 1,000 from June 1995. The municipality resolved (May 2000) to enhance the deposit to Rs 2,000. It also resolved (March 2003) not to collect the differential deposit for the existing connections. Though the municipality subsequently decided to collect the differential deposit as directed by the Commissioner of Municipal Administration while according final approval in March 2005 and published the revised rates in District Gazette in May 2005, it had not collected the differential deposit of Rs 43.49 lakh so far (August 2008).

**(iv) Periyakulam Municipality**

With a view to repay the loan proposed to be availed for taking up water supply improvement works under Golden Jubilee Water Supply Scheme, the municipality resolved (September 1999) to enhance the deposit for domestic connections from Rs 1,000 to Rs 4,000. Revised by-laws published in District Gazette in October 2000, after approval by Government, contained provision to collect the enhanced deposit in four quarterly instalments for the existing

connections also. Commissioner of Municipal Administration permitted (November 2001) payment of the deposit in three instalments of Rs 2,000, Rs 1,000 and Rs 1,000 in respect of new connections.

State Government, while according (December 1999) administrative sanction for the works, sanctioned 30 *per cent* of scheme cost as grant, which was enhanced (March 2000) to 45 *per cent*. The work was completed in June 2001 at cost of Rs 4.91 crore availing a loan of Rs 2.70 crore from Tamil Nadu Urban Finance and Infrastructure Development Corporation and State Government grant of Rs 2.21 crore.

Taking into account the increase in grant component, the municipal council resolved (April 2003) to reduce the deposit amount for domestic connection to Rs 2,200. The above resolution has not been approved by Commissioner of Municipal Administration so far (February 2009).

The municipality has not collected Rs 98.84 lakh out of Rs 2.09 crore due for collection though the by-laws for collection of enhanced deposit were in force from as far back as October 2000 (February 2009).

(v) ***Pudukottai Municipality***

The Municipality was one of the beneficiaries under Cauvery Combined Water Supply Scheme implemented (November 1994) at a cost of Rs 40.62 crore by Tamil Nadu Water Supply and Drainage Board; the share of the municipality being Rs 16.81 crore. The municipality was also required to pay maintenance charges of Rs 80 lakh per annum.

To meet out the above additional commitments and also as per instructions of the Commissioner of Municipal Administration, the municipality enhanced the rate of water supply deposit<sup>1</sup> from April 1995. The by-law was published in the District Gazette (December 1995) and came into effect from April 1995. The municipality has not collected the enhanced deposit amounting to Rs 73.03 lakh in respect of 3,464 domestic, 10 industrial and 115 commercial connections (March 2008).

The matter was referred to Government between September 2008 and March 2009. In respect of Colachel and Periyakulam Municipalities, the Government replied (May 2009) that Rs 18,000 and Rs 92,000 respectively were collected as deposits and action is being taken to collect the balance amount. Reply has not been received in respect of other three Municipalities (June 2009).

<sup>1</sup>

(In rupees)		
Nature of connection	Pre-revised deposit	Revised deposit
Domestic	60	2,000
Commercial	180	5,000
Industrial	120	3,000

**(b) Non-realisation of revenue due to failure to give effect to enhanced water charges**

Colachel Municipality enhanced (July 2002) the monthly water charges. The revised rates<sup>2</sup> were approved by Commissioner of Municipal Administration in December 2002 and the amended by-laws were published in District Gazette in May 2003. However, the municipality did not give effect to the revised rates until April 2008, resulting in non-realisation of revenue of Rs 16.43 lakh towards differential minimum water charges for the period from September 2003 to March 2008 for 3,219 connections.

The matter was referred to Government in December 2008. Government replied (May 2009) that revised rates would be collected from October 2007 when the final approval was given by Commissioner of Municipal Administration. The reply is not tenable as the revised rates were published in District Gazette in May 2003 itself and was in operation from September 2003 as per Section 310 of Tamil Nadu District Municipalities Act, 1920.

Non-collection of deposits in respect of new water service connections, differential amount of deposit in respect of existing connections and enhanced water charges resulted in non-realisation of Rs 3.67 crore.

**PALLADAM MUNICIPALITY**

**3.1.2 Loss of revenue due to non-provision of new water supply connections**

**Failure of the local body to provide new water supply connections, inspite of availability of sufficient water, resulted in loss of revenue of Rs 1.89 crore.**

Palladam Town Panchayat<sup>3</sup> was providing potable water to public through 3,507 connections (3,269 domestic, 145 commercial and 93 industrial connections) and 176 public fountains. The Town Panchayat was garnering 34.40 lakh litres of potable water per day (18.74 lakh litres through a combined water supply scheme and 15.66 lakh litres from its own sources). The Town Panchayat was collecting a minimum monthly water charges of Rs 80 and a deposit of Rs 3,000 for each domestic connection.

With a view to enhancing the number of domestic connections due to increase of residences and industries, the Town Panchayat council resolved (October 2003) to provide 2,500 additional water supply connections. Based on the resolution, Palladam Town Panchayat requested (November 2003) the

<sup>2</sup>

(In rupees)

Nature of connection	Water charges	
	Pre-revised	Revised
Domestic	40	50
Commercial	80	120
Industrial	120	180

<sup>3</sup> Upgraded as third grade municipality in July 2004.

Director of Town Panchayat (DTP) to sanction additional 2,500 connections stating that sufficient water was available and that more than 3,000 applications were received from the public for new water supply connections. The Town Panchayat also worked out (November 2003) that water can be supplied to the entire population of about 40,000 at 86 litres per capita per day (lpcd). The DTP accorded sanction (December 2003) for 2,500 new connections. However, the municipality did not provide any new water supply connections so far (October 2008).

The failure of the local body to provide new water supply service connections even after a lapse of nearly five years resulted in a revenue loss of Rs 1.89 crore<sup>4</sup> besides denial of water connection to willing applicants (September 2008).

The municipality stated (October 2008) that if additional connections were provided it would reduce the quantum of water now supplied which could lead to public agitation and hence the new council did not favour giving new connections.

The reply of the municipality is not tenable as (i) election for local bodies was held only in October 2006 i.e. 33 months after sanction by DTP, and (ii) the municipality could also maintain water supply at prescribed norms<sup>5</sup> with the quantity of water available as worked by it.

The matter was referred to Government in December 2008; reply has not been received (June 2009).

### **KODAIKANAL MUNICIPALITY**

#### **3.1.3 Loss of revenue due to inaccurate amendment of by-law**

##### **Inaccurate amendment of by-law for enhancement of deposit for water supply resulted in loss of revenue of Rs 57.18 lakh.**

Kodaikanal Municipality (municipality) resolved (February 2000) to enhance the deposit for water supply from Rs 2,000 for domestic connections and Rs 6,000 for non-domestic connections to Rs 4,000 and Rs 12,000 respectively. However, due to displeasure of the public against the

<sup>4</sup> Monthly water charges to be collected @ Rs 80 per month per connection from January 2004 to September 2008: Rs 1.14 crore; Deposit to be collected @ Rs 3,000 per connection: Rs 75 lakh; Total: Rs 1.89 crore.

<sup>5</sup> Quantity of water available	34.40 lakh litres per day
(Less) Supply to commercial and industrial connections	0.83 lakh litres
Balance quantity	33.57 lakh litres
Projected population in 2011 with decadal growth rate of 14 per cent as per Eleventh Five Year Plan Document	33,907
Water available to public	99 lpcd (33.57 lakh litres/33,907 )

enhancement, the council again resolved (October 2000) to reduce the deposit amount to Rs 3,500 for domestic connections.

The municipality while assessing (October 2000) the revenue to be realised by enhancing the charges took into account the total number of water supply connections (domestic: 2,740 and non-domestic: 268) available in the municipality. However, while submitting (November 2000) the draft by-law to the Commissioner of Municipal Administration (CMA) the municipality stated that the enhancement of deposit was only for new connections. The CMA also approved the draft by-law (February 2002) and the amended by-law was published in the District Gazette in August 2004.

The inaccurate amendment of by-law restricting the scope of enhanced deposits only to new connections resulted in loss of revenue of Rs 57.18 lakh<sup>6</sup> for the 3,008 connections.

The municipality admitted (November 2008) that there was an error in the by-law notification published in the District Gazette. It also stated that action would be taken to place the subject in the forthcoming council meeting; publish the rectified by-law in the District Gazette and collect the deposit amount as per the revised rate for old connections also immediately after passing the municipal council resolution.

The matter was referred to Government in December 2008; reply has not been received (June 2009).

## ***SURAMPATTI MUNICIPALITY***

### **3.1.4 Loss of anticipated revenue from a shopping complex**

**Construction of shops without assessing the demand resulted in loss of anticipated revenue of Rs 36.16 lakh besides unproductive investment of Rs 14.18 lakh.**

Commissioner of Municipal Administration (CMA) accorded technical sanction (February 2001) for construction of a shopping complex consisting of 19 shops, 17 stalls and four show rooms in Surampatti Town Panchayat (upgraded as Grade III municipality with effect from 24 August 2004) at an estimated cost of Rs 62 lakh under Integrated Development of Small and Medium Town Scheme (IDSMT). The project was taken up (March 2001) with a loan of Rs 56 lakh from Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited. The projected annual income from the shopping complex was Rs 7.84 lakh. Construction of the shopping complex was completed in February 2003 at a cost of Rs 52.68 lakh. No pre demand survey was conducted before taking up the project.

---

<sup>6</sup> Domestic: 2,740 connections x Rs 1,500 = Rs 41.10 lakh; Non-domestic: 268 connections x Rs 6,000 = Rs 16.08 lakh ; Total : Rs 57.18 lakh.

Surampatti Municipality (municipality) conducted 21 auctions for leasing out the shops, stalls and show rooms between March 2003 and April 2008. The municipality could lease out only four to 10 shops<sup>7</sup> during the period 2003-08 at rent ranging from Rs 720 to Rs 1,300 per month. While all the four show rooms were leased out at Rs 450 per month, all the 17 stalls and nine shops were yet to be leased out (June 2008).

As against the anticipated revenue of Rs 39.20 lakh for the period 2003-08, the municipality could earn only Rs 3.04 lakh from the shops and four show rooms, resulting in loss of anticipated revenue of Rs 36.16 lakh as of March 2008 besides unproductive investment of Rs 14.18 lakh<sup>8</sup> being the proportionate construction cost of nine shops and 17 stalls not leased out. Further, the objective of the scheme to improve the financial position of the municipality was also not achieved.

The loss of anticipated revenue is attributable to the failure of the municipality to conduct pre demand survey before taking up the project. The municipality accepted the fact (November 2008) that no pre demand survey was made before construction of the shopping complex.

The matter was referred to the Government in January 2009; reply has not been received so far (June 2009).

### **PAMMAL MUNICIPALITY**

#### **3.1.5 Loss of revenue due to non-collection of Property Tax**

**Failure of Pammal Municipality to invoke provisions of Tamil Nadu District Municipalities Act, 1920 for collection of Property Tax led to accumulation of arrears of Rs 26.10 lakh, which were eventually written off.**

According to Section 344 read with Schedule IV of the Tamil Nadu District Municipalities Act, 1920 the executive authority by issuing distraint warrant may seize and sell the movable property of the defaulter by public auction and recover any sum due on account of any tax not paid by him or prosecute the defaulter by filing a suit in the Court of Law.

Pammal Municipality (municipality) resolved (March 2005) to write off arrears of Property Tax amounting to Rs 35.58 lakh for the period from 1987-88 to 1998-99 as the amount could not be collected from the owners. The municipality did not, however, take any distraint action or file suit in the Court of Law against the defaulters as envisaged in Section 344 of the Act

<sup>7</sup> Shops leased out: 2003-04: 5; 2004-05: 10; 2005-06: 6; 2006-07: 4 and 2007-08: 4.

<sup>8</sup> Construction cost per sq.m. = Total expenditure/total plinth area = Rs 52,68,429/804.16m<sup>2</sup> = Rs 6,551.47; Plinth area for nine shops and 17 stalls = 216.4 m<sup>2</sup>; Proportionate construction cost of nine shops and 17 stalls = Rs 14,17,738 or Rs 14.18 lakh.

before writing off the dues. The municipality did not also maintain any records for action taken for collection of arrears.

On this being pointed out the municipality accepted (September 2008) that distraint proceedings were not taken and attributed the failure to absence of adequate collection machinery.

Government stated (February 2009) that the Executive Officer of the municipality has been instructed to initiate distraint and prosecution action to recover the amount. The Executive Officer of the municipality has stated (February 2009) that records pertaining to the period from 1987-88 to 1998-99 first half year were not available as they were destroyed by termites. He had also reported (March 2009) that only one Bill Collector was available from 1987-88 as against the sanctioned strength of three and one Bill Collector was appointed from December 2007.

Verification (March 2009) by Audit revealed that arrears of Rs 9.48 lakh pertaining to 1998-99 second half year were taken back into Demand Collection Balance Register.

Failure of the municipality to initiate distraint action resulted in writing off of arrears amounting to Rs 26.10 lakh for the period from 1987-88 to 1998-99 first half year. The collection performance was just 15 to 29 *per cent* of the total demand including arrears during 2004-07 which necessitates action at appropriate level.

## **3.2 Wasteful/Unfruitful expenditure**

### ***PALLADAM MUNICIPALITY***

#### **3.2.1 Unfruitful expenditure on construction of over head tank**

**Failure to ascertain technical feasibility before taking up construction of an over head tank by Palladam Municipality resulted in unfruitful expenditure of Rs 15.51 lakh.**

Tamil Nadu Water Supply and Drainage Board (TWAD) supplies 18.74 lakh litres of potable water daily to Palladam Municipality (municipality) under Pillur Combined Water Supply Scheme. As water supplied through the existing water tank was not reaching three wards situated at a higher altitude in the town, the municipality resolved (July 2003) to construct an over head tank (OHT) with a capacity of two lakh litres at CTC Colony. The municipality requested TWAD Board (September 2003) to supply two lakh litres of water to the above OHT (from out of the total quantity of water supplied) through the main pipelines laid in Ganapathy Nagar from the Tiruchirappalli Main Road. However, TWAD Board did not accede to the request (October 2003) stating that such connection from the main line would result in damage to the main pipeline due to changes in water/air pressure. The municipality commenced construction of OHT in October 2003 and completed the same in August 2004 at a cost of Rs 15.51 lakh. The municipality again



requested TWAD Board (February 2004) to consider supply of water to the above OHT and TWAD Board reiterated (March 2004 and August 2005) that the supply of water to the new OHT was not technically feasible. Thus, the OHT was not put to use so far (August 2008).

The municipality stated (August 2008) that water will be supplied to the OHT constructed at CTC colony after implementation of a new combined water supply scheme for which action was being taken by TWAD Board. As the OHT was constructed without ensuring the supply of water and inspite of TWAD Board's refusal to supply water both prior to construction and during construction, it could not be put to use for the past four years. Further, the OHT was not used for almost one eighth of its estimated life time i.e. four years out of 33 years. Thus improper planning resulted in unfruitful expenditure of Rs 15.51 lakh.

The matter was referred to Government in September 2008; reply has not been received (June 2009).

### 3.3 Avoidable expenditure

#### *DINDIGUL MUNICIPALITY*

##### 3.3.1 Avoidable expenditure due to failure to maintain required power factor

**Failure of Dindigul Municipality to maintain the power factor at the required level resulted in avoidable expenditure of Rs 19.59 lakh.**

According to Tamil Nadu Electricity Board (TNEB) Tariff Order (March 2003), the average power factor in respect of High Tension Service connections of the consumers installation shall not be less than 0.90 lag i.e. 90 *per cent* of the permitted maximum demand. For any reduction in the power factor compensation charges as fixed<sup>9</sup> by TNEB shall be payable by the consumers.

Dindigul Municipality (municipality) has three High Tension Service connections for Peranai water supply schemes situated in Sithargal Natham (SC<sup>10</sup> No:71), Nilakkottai (SC No:72) and Kuttiyapatti (SC No:88) areas of the municipality.

During the period 2003-05 (24 months) the municipality paid compensation charges only for three months, three months and one month in respect of

<sup>9</sup> Below 0.90 lag and upto 0.85 lag	One <i>per cent</i> of the current consumption charges for every reduction of 0.01 in power factor from 0.90 lag
Below 0.85 lag to 0.75 lag	One and half <i>per cent</i> of the current consumption charges for every reduction of 0.01 in power factor from 0.90 lag
Below 0.75 lag	Two <i>per cent</i> of the current consumption charges for every reduction of 0.01 in power factor from 0.90 lag

<sup>10</sup> SC : Service Connection

SC No.71, SC No. 72 and SC No. 88 respectively. However during the period from June 2005 to December 2008 (43 months) the municipality has paid compensation charges for reduction in power factor for 40 months, 27 months and 36 months in respect of SC No.71, SC No. 72 and SC No. 88 respectively. The payment towards compensation charges during the above period was Rs 19.59 lakh.

The Commissioner, Dindigul Municipality stated (September 2008) that due to frequent break down and repairs of the water supply systems the power factor of 0.90 lag could not be achieved and Tamil Nadu Electricity Board will be approached to have the technical guidance for maintaining power factor. Reply is not tenable as the details of break down of water supply system have not been recorded by the municipality and it should have taken steps to install required capacitors to maintain the power factor at the required level.

Failure of the municipality to maintain the water supply system in good condition and take action to install the required capacitors resulted in avoidable expenditure of Rs 19.59 lakh towards compensation charges for reduction in power factor during the period from June 2005 to December 2008.

The matter was referred to Government in November 2008; reply has not been received (June 2009).

### ***ARCOT MUNICIPALITY***

#### **3.3.2 Avoidable interest liability due to failure to settle the overdue amount**

**Failure of the Arcot Municipality to settle the overdue loan liability even though sufficient funds were available resulted in avoidable interest liability of Rs 16.63 lakh.**

Arcot Municipality (municipality) availed loan assistance from Tamil Nadu Urban Development Fund at interest rates of 15 and 15.50 *per cent* per annum for execution of works such as improvement of roads, provision of street lights, construction of storm water drains, water supply etc., between December 1995 and May 1997. The loan repayable as of April 2006 was Rs 1.28 crore, which included Rs 30 lakh overdue. Tamil Nadu Urban Development Fund informed (April 2006) the municipality that if the overdue amount was settled, the interest rate for the loans would be reset at 8.75 *per cent* per annum. However the municipality did not settle the overdue amount and continued to pay interest at the rate of 15 and 15.50 *per cent* per annum for the outstanding loans.

The municipality had a bank balance of Rs 74.04 lakh<sup>11</sup> as of March 2006. Further, the municipality had Rs 64.91 lakh as arrears in collection of Property Tax (Rs 35.30 lakh) and Tax on Profession (Rs 29.61 lakh) as of March 2006. Had the municipality settled the overdue amount of Rs 30 lakh with the available funds and also by gearing up collection of arrears, the interest rate would have been reduced to 8.75 *per cent* per annum.

Failure of the municipality to repay the overdue amount resulted in avoidable interest liability of Rs 24.22 lakh, of which Rs 14.18 lakh have already been paid as of December 2008. The net avoidable interest liability<sup>12</sup> up to December 2012 when the last annuity was due, worked out to Rs 16.63 lakh.

The matter was referred to Government in January 2009; reply has not been received (June 2009).

### 3.4 Idle investment

#### SIVAKASI MUNICIPALITY

##### 3.4.1 Idle investment due to injudicious selection of site

**Failure to assess the suitability of the site before constructing the shopping complex under the IDSMT scheme by the Sivakasi Municipality resulted in idle investment of Rs 74.57 lakh.**

Sivakasi Municipality (municipality) forwarded a proposal for various infrastructure development works including construction of shopping complex under Integrated Development of Small and Medium Towns (IDSMT) Scheme to Government of India.

Government of India requested the municipality to reconsider the proposal for construction of shopping complex as the site appeared to be away from the urban area. The municipality, however, resolved (January 2002) to implement the scheme stating that the site was located in a developing locality with water bound macadam (WBM) roads and storm water drain facilities. The shopping complex was to have 72 open stalls and 54 shops. The Regional Director of Municipal Administration opined (June 2002) that the location of the site would not fetch the desired rent and deposit for the stalls and shops. The municipality conducted (July 2002) a meeting with the vendors' association in which the vendors suggested that the new stalls and shops would fetch Rs 1,500 and Rs 20,000 as monthly rent and deposit respectively. The municipality, however, did not obtain any written undertaking from them.

The municipal council further passed a resolution (July 2002) authorising the Commissioner of the municipality to construct a shopping complex under the

<sup>11</sup> Revenue Fund : Rs 50.56 lakh; Water Supply and Drainage Fund : Rs 23.48 lakh; Total: Rs 74.04 lakh (Balance in Water Supply and Drainage Fund also taken into account as the loans availed includes loans for water supply and storm water drains).

<sup>12</sup> After allowing for interest on Rs 30 lakh at 3.5 *per cent* per annum compounding half yearly.

IDSMT Scheme with loan assistance from Government of Tamil Nadu (Rs 21.70 lakh at 10 *per cent*) and Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCO) (Rs 68.19 lakh at 12.75 *per cent*).

The work was completed in January 2006 at a cost of Rs 74.57 lakh with a loan assistance of Rs 71.50 lakh from TUFIDCO. Even after conducting 13 auctions between December 2005 and August 2007, all the stalls remained vacant as of December 2007. The municipality resolved (October 2007) to reduce the rent/deposit to Rs 300/Rs 3,000 for stalls and Rs 500/Rs 5,000 for shops respectively and addressed Commissioner of Municipal Administration for approval of the proposal. Commissioner of Municipal Administration advised (January 2008) the municipality to approach TUFIDCO in the matter and TUFIDCO stated (August 2008) that the proposed reduction would be considered, provided the local body and Commissioner of Municipal Administration gave assurance for prompt payment of quarterly dues.

The municipality stated (December 2008) that the council had resolved in November 2008 to lease out six shops at Rs 550 per month and collect deposit at Rs 5,000 per shop. The shops were yet to be leased out (December 2008).

Thus, the construction of shops/stalls by the municipality, not agreeing with the suggestion of GOI, at a place which was away from the urban area, without assessing the demand correctly and obtaining commitment from the vendors for allotment of shops at the meeting held in July 2002, resulted in idle investment of Rs 74.57 lakh. Further, the municipality has paid (September 2008) Rs 57.50 lakh to TUFIDCO towards repayment of loan and interest.

The matter was referred to Government in January 2009; reply has not been received (June 2009).

## ***HARUR TOWN PANCHAYAT***

### **3.4.2 Idle investment due to non-leasing out of shops**

<b>Construction of shops without assessing demand by Harur Town Panchayat resulted in idle investment of Rs 17.07 lakh.</b>
---

Harur Town Panchayat (Town Panchayat) constructed (March 2001 - May 2002) 24 shops in the daily market area at a cost of Rs 20.48 lakh by availing loan assistance of Rs 19.84 lakh from Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCO). The balance amount was met from their own funds. The projected revenue through leasing out the shops was Rs 5.76 lakh per annum at Rs 2,000 per month per shop.

Scrutiny of records revealed that TUFIDCO requested (March 2000) the Town Panchayat to make demand assessment of the proposed project before commencement of the project and to get commitment from trade association for taking the shops on lease as prescribed by the local body. However,

neither demand assessment was conducted by the Town Panchayat nor commitment was obtained from trade association.

After visiting the project area, TUFIDCO suggested (November 2001) to fix the monthly minimum rent per shop as Rs 1,500 and one year rent as advance to make the project financially viable. Though the Town Panchayat fixed the monthly rent as suggested by TUFIDCO, it could lease out only four shops at rent ranging from Rs 200 to Rs 350 between March 2002 and March 2008 due to lack of demand. The revenue realised out of these four shops as of March 2008 was Rs 0.09 lakh only.

Thus, non-assessment of demand for shops before taking up construction resulted in non-realisation of anticipated revenue of Rs 4.32 lakh<sup>13</sup> per annum. Further it also resulted in idle investment of Rs 17.07 lakh being the proportionate cost of 20 shops not leased out.

The Town Panchayat accepted (September 2008) the fact that no demand survey was made before taking up the project.

The matter was referred to Government in December 2008; reply has not been received (June 2009).

---

<sup>13</sup> At the rates suggested by Tamil Nadu Urban Finance and Infrastructure Development Corporation i.e. Rs 1,500 per month per shop.