

CHAPTER I

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

Highlights

Out of 18 functions listed for devolution to urban local bodies (ULBs) 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 ranged between 50 and 54 *per cent* in municipalities and municipal corporations and between 69 and 73 *per cent* in town panchayats.

The audit of accounts of most municipalities and town panchayats was pending from the year 2005-06. While the audit of one municipal corporation was pending because of defective accounts for the year 2004-05, audit is pending for all the six municipal corporations for the years 2005-06 and 2006-07.

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 ULBs in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution.

1.1.2 The number of urban local bodies (ULBs) at each level as on 31 March 2007 is given in **Table 1.1** along with the average population covered by each type of urban local body, as per the 2001 census.

Table 1.1: Number of ULBs with average population covered

		Number of urban 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	561	15,672

An overview of the accounts and finances of ULBs is presented in this chapter. A similar overview of the finances of panchayat raj institutions (PRIs) is presented in a separate chapter.

1.1.3 To enable 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. Of these, one municipality (Perambalur) was upgraded as a second grade municipality with effect from 15 November 2006, thus increasing the total number of second grade municipalities to 26. 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 given in **Table 1.2**.

Table 1.2: Income-wise classification of ULBs

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

1.2 Administrative arrangements

1.2.1 The overall administration of 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 1.1**.

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 and municipalities as per the orders of the Government of Tamil Nadu with effect from 2000-01 in a phased manner and in all town panchayats with effect from 2002-03 in a phased manner.

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.

Finalisation of Accounts

All the ULBs have to submit their accounts of each year to the Director of Local Fund Audit (DLFA) in the month of May of the succeeding year. The DLFA reported (August 2007) that all ULBs had compiled and submitted their annual accounts upto 2003-04.

The position of submission of accounts by ULBs to DLFA from 2004-05 is given in **Table 1.3**.

Table 1.3: Position of submission of accounts of ULBs

Nature of urban local body	Number of ULBs not submitted accounts relating to		
	2004-05	2005-06	2006-07
Corporations	1	3	6
Municipalities	38	104	152
Town Panchayats	15	164	561

Database formats

The State Government accepted (February 2005) the database formats on finances of ULBs recommended by the Comptroller and Auditor General of India and directed that they be adopted by all the ULBs with effect from 1 April 2004. The Commissioner of Municipal Administration (CMA) stated (March 2007) that a web-based software was designed and developed based on the approved format and launched during January 2006 after testing. The CMA also instructed all the Commissioners to implement the same from the financial year 2005-06 after completion of audit. Further action taken in this regard is yet to be received (November 2007). The Third State Finance Commission (TSFC) recommended that all ULBs/PRIIs should create a database in the prescribed format and the concerned Heads of Department should monitor the database on a quarterly basis at the end of April, July, October and January of each year. Government had accepted this (May 2007)

with a modification to implement this in respect of municipal corporations and municipalities. Further orders issued in this regard are yet to be furnished to Audit (January 2008).

1.4 Audit arrangements

1.4.1 The DLFA is the statutory auditor for ULBs (including town panchayats). Fifty *per cent* of the actual cost of audit¹ of DLFA is paid by the ULBs out of the Municipal fund. The municipal corporations and municipalities were yet to pay Rs 6.62 crore towards audit fees as of March 2007 as given in **Table 1.4**.

Table 1.4: Audit fees due to DLFA from ULBs

(Rupees in lakh)

Category of ULB	Audit fees due
Corporations (except Chennai City Municipal Corporation)	441.96
102 Municipalities (Grade I and Grade II)	219.28
Grade III Municipalities	0.91
Total	662.15 or 6.62 crore

Year-wise details are given in **Appendix 1.2**. The DLFA reported (August 2007) that the Commissioners of corporations and municipalities are being reminded periodically by the Deputy Directors and Assistant Directors of LFA Department. The CMA is also being informed of the arrears periodically with a request to recover the dues from the devolution of funds due to the concerned ULBs.

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

1.4.3 Audit of accounts of all ULBs was completed up to 2003-04. Position of arrears in completion of audit of ULBs as reported (November 2007) by DLFA as of October 2007 is as given in **Table 1.5**.

Table 1.5: Position of non completion of audit of ULBs

Category of urban local body	Total number	Number wherein Audit not completed								
		In progress	2004-05 Pending	Total	In progress	2005-06 Pending	Total	In progress	2006-07 Pending	Total
Municipal Corporations	6	1	Nil	1	5	1	6	Nil	6	6
Municipalities	151 (from 2004-05) 152 (from 2005-06)	17	Nil	17	38	60	98	Nil	152	152
Town Panchayats	562 561 (from 2005-06)	5	2	7	22	200	222	Nil	561	561

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

The main reasons attributed (August 2007) by DLFA for the arrears were non receipt of accounts on due dates from the ULBs and furnishing of defective accounts. The Director of Town Panchayats stated (February 2008) that due to the introduction of accrual based accounting system in all town panchayats from April 2002, the preparation of annual accounts and auditing of town panchayats were delayed considerably.

1.4.4 DLFA reported (August 2007) that the number of paragraphs relating to municipalities and municipal corporations, included in their Inspection Reports (IRs) that were pending settlement as of March 2007 aggregated to 3,11,234 paragraphs. The category wise pendency are as given in **Table 1.6**.

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

Category of ULB	Number of paras pending
Municipalities	1,20,678
Town Panchayats	1,02,865
Corporations	
Chennai	38,780
Coimbatore	10,321
Salem	6,478
Tiruchirappalli	6,716
Tirnelveli	4,222
Madurai	21,174
Total	3,11,234

The year-wise break-up details are given in **Appendix 1.3**.

Of the above, 1,95,325 paras pertains to periods prior to 2000-01. No action was taken on irregularities pointed out in various paragraphs.

1.4.5 Based on the recommendation of the Second State Finance Commission which was accepted by Government, District High Power Committees were formed. In spite of formation of such Committees, large number of audit objections were pending settlement which indicates inadequate response from the ULBs. Despite the instructions of CMA that all the Regional Directors of Municipal Administration and Municipal Corporation Commissioners should pay personal attention and prepare replies to all pending paragraphs immediately and to organise periodical joint sittings to reduce pendency, there was no improvement in settling the paras.

For settling long pending paragraphs relating to municipal corporations (except Chennai), Government ordered (May 2007) formation of two committees, one at state level and one at district level. Further action taken in this regard is yet to be received (November 2007).

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 listed in the Twelfth Schedule to be devolved on

the municipalities and municipal corporations, Government stated (November 2006) that 10 functions were statutory and were already vested in the ULBs while three other functions were transferred after the enactment of the Seventy-fourth amendment. In respect of Chennai City Municipal Corporation, out of 13 functions, water supply for domestic, industrial and commercial purposes was vested with Chennai Metropolitan Water Supply and Sewerage Board. In respect of town panchayats, 12 out of 18 functions were transferred. It was stated (October 2007) that transfer of the remaining functions to these ULBs was under consideration of the State Government (**Appendix 1.4**) and would be decided after perusing the report of the High Power Committee, constituted for this purpose.

Government of Tamil Nadu stated (November 2006) that transfer of functionaries was a major problem faced by Government, which could only be solved in a phased manner in due course of time. Government is yet to transfer functionaries to ULBs (November 2007). Government also reported that plan and non-plan discretionary grants were being transferred to ULBs in addition to successive 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 ULBs. The ULBs were also empowered to revise and levy local taxes such as Property/House Tax, Profession Tax based on the recommendations of the successive State Finance Commissions (SFCs) as accepted by the Government and as per the Local Bodies Acts.

Based on the announcement made on the floor of the Legislative Assembly on 11 August 2006, Government ordered (January 2007) the constitution of a High Level Committee under the Chairmanship of the Minister for Rural Development and Local Administration to make recommendations on devolution of powers to ULBs and on changes to be implemented in the existing system of administration in ULBs and PRIs. Government also mentioned in their orders that after examining the report of the Committee, suitable orders will be issued by the Government on devolution of further powers to ULBs and PRIs. The Committee had given their report to Government and the same was under the perusal of Government (January 2008).

1.6 Second State Finance Commission

The TSFC reported (September 2006) that out of the 386 recommendations relating to both ULBs and PRIs made by Second State Finance Commission (SSFC), the State Government so far considered 322 recommendations and accepted 282 recommendations. The remaining 64 are still under consideration of the Government.

Of the 282 recommendations accepted by the State Government, orders were issued in respect of 221 recommendations². For the remaining 61 recommendations final orders are yet to be issued by Government.

The TSFC reported that even though most of the SSFC's recommendations had been accepted there was laxity in implementing the same by the Administrative departments. Further it is also reported that a casual approach was noticed in case of the recommendations relating to improvement of the resource base of ULBs, as illustrated in **Appendix 1.5**.

1.7 Third State Finance Commission

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

Out of 309 recommendations relating to both ULBs and PRIs, Government accepted 124 in full and 25 with modification. While 10 recommendations were partially accepted, 17 recommendations were accepted in principle. Government negatived 81 recommendations in total. 52 recommendations have been kept pending. Government is yet to take a decision on 37 recommendations which are referred to the High Level Committee constituted to examine the delegation of powers to the ULBs.

The action taken report on various recommendations of TSFC was issued only in May 2007. Action taken on Government Orders issued subsequently is yet to be made available to Audit (January 2008).

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 by ULBs and its consolidation which is a major shortcoming.

1.8.2 The details of receipts and expenditure of ULBs (including town panchayats) during 2004-07 as reported by the CMA, Chennai City Municipal Corporation and Director of Town Panchayat (DTP) are given in **Table 1.7**. However, in the absence of data compiled from the audited accounts of the ULBs by the Department/Government, the accuracy of these figures could not be authenticated.

² Fully accepted: 133, accepted with modifications: 37, accepted in principle: 13 and not accepted: 38.

Table 1.7: Revenue and Expenditure of ULBs during 2004-07

Chennai City Municipal Corporation

(Rupees in crore)

	2004-05	2005-06	2006-07
Own Revenue	322	339	326
Assigned Revenue	95	118	116
Grants	157	160	187
Loans	15	38	3
Total Receipts	589	655	632
Revenue Expenditure	508	584	622
Capital Expenditure	136	143	121
Total Expenditure	644	727	743

Other Municipal Corporation

(Rupees in crore)

	2004-05	2005-06	2006-07
Own Revenue	205	224	233
Assigned Revenue	56	43	56
Grants	145	173	140
Loans	4	24	38
Total Receipts	410	464	467
Revenue Expenditure	265	288	303
Capital Expenditure	105	200	180
Total Expenditure	370	488	483

Municipalities

(Rupees in crore)

	2004-05	2005-06	2006-07
Own Revenue	431	441	489
Assigned Revenue	115	95	94
Grants	318	437	490
Loans	61	56	42
Total Receipts	925	1,029	1,115
Revenue Expenditure	520	545	617
Capital Expenditure	386	390	484
Total Expenditure	906	935	1,101

Town Panchayats

(Rupees in crore)

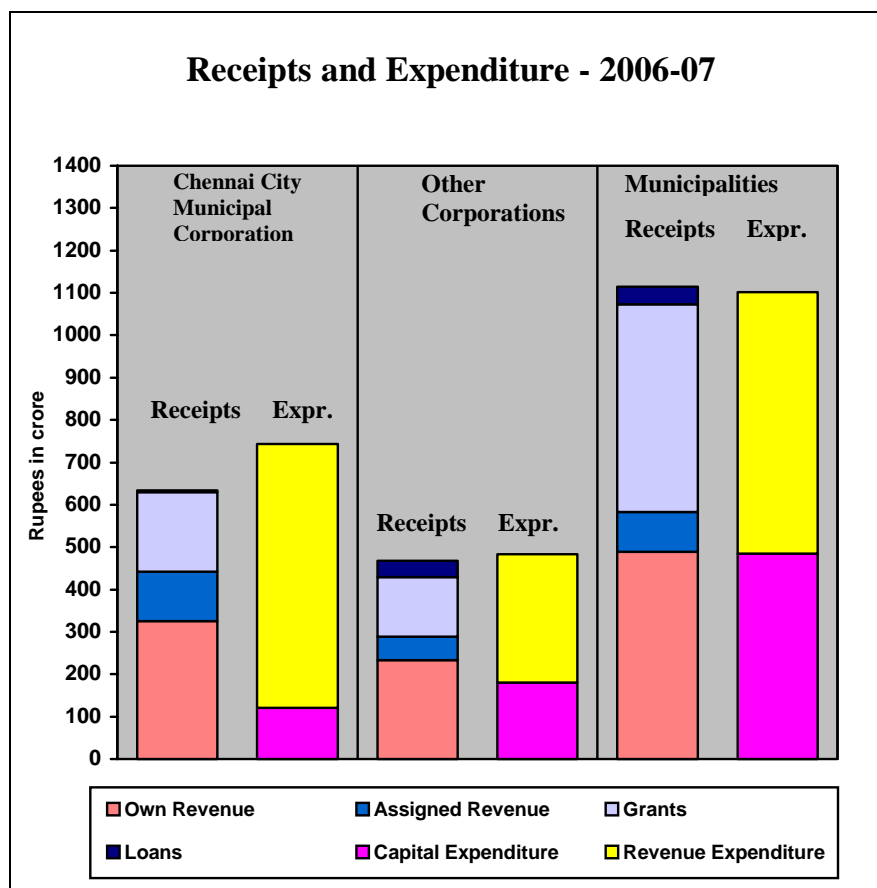
	2004-05	2005-06	2006-07
Own Revenue	231	232	1,733
Assigned Revenue	91	112	32
Grants	150	256	894
Loans	4	3	67
Total Receipts	476	603	2,726
Revenue Expenditure	250	272	NA
Capital Expenditure	211	207	90
Total Expenditure	461	479	NA

NA: Not available

The data in the above table reveal the following:

While the total receipts of municipalities and five municipal corporations showed an increasing trend during 2004-07, the receipts of Chennai City Municipal Corporation decreased slightly from Rs 655 crore in 2005-06 to Rs 632 crore in 2006-07 mainly because of the decrease in its own revenue and assigned revenue. The receipts of town panchayats increased many fold. In response to an audit query seeking reasons for such an increase, the Director of Town Panchayats stated (February 2008) without assigning specific reasons that the figures were compiled from the details furnished by Assistant Directors of 16 zones under his control and were provisional and unaudited. He had further stated that the discrepancies could be reconciled only on receipt of audited annual accounts from zonal offices.

A bar chart representing component wise receipts and expenditure for 2006-07 in respect of Chennai City Municipal Corporation, other corporations, and municipalities are given below:



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

1.9 Receipts of Urban Local Bodies

A chart depicting various sources of revenues of ULBs is given in **Appendix 1.6**.

1.9.1 Own revenue realised

Details of own revenue realised by ULBs (including town panchayats) during 2004-07 as furnished by the CMA are given in **Table 1.8**.

Table 1.8: Own revenue of ULBs

Category of ULB	2004-05			2005-06			2006-07		
	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)	267.42	54.22	321.64	272.82	65.81	338.63	264.85	61.36	326.21
Other municipal corporations (5)	115.87	89.50	205.37	125.53	98.24	223.77	134.48	98.73	233.21
Municipalities	238.78	191.83	430.61	250.36	190.82	441.18	292.70	196.30	489.00
Town Panchayats	113.42	117.79	231.21	115.62	116.23	231.85	905.62	827.44	1,733.06
Total	735.49	453.34	1,188.83	764.33	471.10	1,235.43	1,597.65	1,183.83	2,781.48

While the own revenue of municipal corporations (except Chennai) and the municipalities increased during 2004-07, that of Chennai City Municipal Corporation decreased in 2006-07 as compared to 2005-06. As mentioned in Para 1.8.2, no reasons were furnished by the Director of Town Panchayats for the steep increase in both tax and non-tax revenues of town panchayats.

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 Property Tax in ULBs as a percentage of total revenue and own revenue is illustrated in **Table 1.9** below.

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

Category of urban local body	Percentage of Property Tax to					
	Total revenue			Own revenue		
	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
Municipalities	23	21	23	49	50	53
Chennai City Municipal Corporation	36	33	37	66	64	71
Other five corporations	25	24	26	51	50	52
Town Panchayats	15	13	8	32	34	12

The percentage of Property Tax fluctuates slightly during 2004-07 excepting town panchayats wherein it drastically declined due to significant increase in total revenue reported during 2006-07 as furnished in **Table 1.7**. The DTP had not furnished any reasons for this decline.

The position of cumulative demand (including arrears), collection and balance of Property Tax during the last three years *viz.*, 2004-05 to 2006-07 in the municipalities and municipal corporations as reported by CMA and DTP, is given in **Appendix 1.7**.

The figures in **Appendix 1.7** indicate that in terms of percentage of Property Tax collected *vis-à-vis* that demanded, the performance of municipalities and five municipal corporations was almost the same with slight variation. The percentages of collection compared to the total demand during the last three years in municipalities and municipal corporations (except Chennai) ranged between 50 and 54. In Chennai Municipal Corporation, the percentage of collection was slightly better at 75, 75 and 77 during these years. In town panchayats the percentage of collection after increasing from 70 in 2004-05 to 73 in 2005-06 decreased to 69 in 2006-07.

Further scrutiny of data revealed that

- 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 Regional Director of Municipal Administration 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 2004-07.
- In town panchayats, the overall percentage of collection decreased from 73 in 2005-06 to 69 in 2006-07 because of decline in collection against arrear demands.

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 is given in **Appendix 1.8**.

The data in **Appendix 1.8** clearly reveal the following:

- The percentage of collection of Profession Tax by five municipal corporations increased from 70 in 2004-05 to 72 in 2005-06 and remained at 72 also in 2006-07. For municipalities, the percentage of

collection of Profession Tax declined from 59 in 2004-05 to 54 in 2006-07.

- The percentage of collection in town panchayats after slightly increasing from 85 in 2004-05 to 87 in 2005-06 steeply declined to 70 in 2006-07 as the demand made during 2006-07 towards Profession Tax was much lower than the demand made during previous years. This obviously indicates that Profession Tax was not demanded from all those who were liable to pay the tax.

No specific reasons were furnished for this by the Director of Town Panchayats.

In Chennai City Municipal Corporation the fact that collections were in excess of demands clearly showed that the demands were not issued correctly.

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

For bringing all traders, professionals and self employed persons into the Profession Tax net and to tap tax net and to tap the full potential, Government should provide the required man power. The date from which the maximum rate of Rs 2,500 per annum to be levied from industrial establishments has to be decided immediately to commence the collection of the same.

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 in **Appendix 1.9**.

The data in **Appendix 1.9** showed that the percentage of collection of non-tax revenues by five municipal corporations was on the decline. Consequently, the quantum of pending non-tax revenue at the end of each year during 2004-07 increased. In respect of town panchayats the percentage of collection decreased from 87 in 2005-06 to 78 in 2006-07. No specific details were furnished for the decline by the Director of Town Panchayats.

Rupees 181.39 crore was collected as non-tax revenue by Chennai City Municipal Corporation during 2004-07. The break-up details for the demands raised and the amount collected were not furnished by the Chennai City Municipal Corporation.

1.9.6 Assigned revenue

A portion of the proceeds arising from Entertainment Tax (ET) and Stamp Duty Surcharge on transfer of property (SSD) is assigned to ULBs. The amounts assigned to ULBs during 2004-07 as reported by CMA, Commissioner, Chennai City Municipal Corporation and DTP are shown in **Table 1.10**.

Table 1.10: Assigned revenue to ULBs

(Rupees in crore)

Category of ULBs	2004-05			2005-06			2006-07		
	ET	SSD	Total	ET	SSD	Total	ET	SSD	Total
Chennai City Municipal Corporation	20.09	75.27	95.36	13.06	105.12	118.18	3.50	112.22	115.72
Other municipal corporations	13.96	41.67	55.63	7.27	35.76	43.03	7.30	48.86	56.16
Municipalities	18.77	96.24	115.01	15.92	78.95	94.87	8.78	85.55	94.33
Town Panchayats	*	*	90.49	*	*	112.31	4.89	26.70	31.59

* Break-up details not made available

The above table shows that the proceeds of ET in municipal corporations and in municipalities were on a declining trend since 2004-05. No specific reasons for the decline in ET were furnished by the CMA (November 2007).

A review on the assigned revenue to ULBs has been conducted and under Chapter II as paragraph 2.3 in this report.

1.9.7 Grants and loans released to urban 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 (IDSMT), Integrated Urban Development Programme (IUDP), National Slum Development Programme (NSDP), National River Conservation Programme (NRCP), 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 2004-07, as compiled and reported by the CMA and DTP, are given in **Table 1.11**.

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

Table 1.11: Grants and loans released to ULBs

Year	(Rupees in crore)											
	Chennai City Municipal Corporation			Other municipal corporations			Municipalities			Town Panchayats		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
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
2006-07	186.69	3.57	190.26	139.64	37.59	177.23	489.41	42.16	531.57	894.24	67.53	961.77

Grants released to ULBs showed an increasing trend during 2004-07.

As a percentage of total revenue during 2004-07, grants constituted 24 to 30 percent in Chennai City Municipal Corporation, 30 to 37 percent in five corporations, 34 to 44 percent in municipalities and 32 to 42 percent in town panchayats. This clearly indicated that grants are the major source of receipts in municipalities and in town panchayats.

Regarding loans, while the quantum of loans given to five municipal corporations increased during 2004-07, the same given to municipalities declined.

The percentage of loans given to ULBs as compared to their total receipts during the last three years is given in **Table 1.12**.

Table 1.12: Percentage of loans given to ULBs compared to their total receipts

	2004-05	2005-06	2006-07
Chennai City Municipal Corporation	3	6	1
Other Municipal Corporations	1	5	8
Municipalities	7	5	4
Town Panchayats	1	0.5	2

The above table indicate that loans were not the major source of revenue during 2006-07 and at the maximum it constituted eight *per cent* of total receipts of five municipal corporations during 2006-07.

Specific reasons for the increase both in grants and loans to town panchayats during 2006-07 were not made available to Audit.

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 PRIs and ULBs would receive eight *per cent* of the State's own tax revenues after excluding the Entertainment Tax receipts. The vertical sharing of resources between PRIs and ULBs would be in the ratio of 58:42.

- Of the total devolutions to the ULBs, the resources would be shared between the municipal corporations, municipalities and town panchayats in the ratio 31:34:35.

The devolution of funds through SSFC grants was meant to cover the salary and wages of the sanctioned staff of the ULBs and maintenance of assets, office maintenance etc. Audit scrutiny of records relating to the release of funds revealed that Government had deducted at source most of the funds to be released to cover dues on account of pension payment, electricity consumption charges, principal and interest on Government/TUFIDCO loans, etc. Such deduction automatically reduced the availability of grants devolved by SSFC to the urban local bodies. The details of net grants released to ULBs during 2004-05 to 2006-07 is given in **Tables 1.13 to 1.16**.

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

(Rupees in crore)

Year	Grants sanctioned	Adjusted before release	Net release	Released to		
				Chennai City Municipal Corporation	Five municipal corporations	CMWSSB
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
2006-07	239.20*	25.88	213.32	120.15	79.81	13.36

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

Table 1.14: SFC grants to municipalities (102 Grade I and II municipalities)

(Rupees in crore)

Year	Grants sanctioned	Adjusted before release	Net grant released to municipalities
2004-05	201.72	82.94	118.78
2005-06	235.35	84.79	150.56
2006-07	262.34**	135.70	126.64

** Out of the total allocation of Rs 301.54 crore, 13 per cent being Equalisation and Incentive fund (Rs 39.20 crore) was drawn in March 2007 and released only in 2007-08.

Table 1.15: SFC grants to Third grade municipalities

(Rupees in crore)

Year	Grants sanctioned	Adjusted before release	Net grant released to municipalities
2004-05	46.20	6.77	39.43
2005-06	48.44	7.12	41.32
2006-07	53.54@	4.32	49.22

@ Out of the total allocation of Rs 61.54 crore, 13 per cent being Equalisation and Incentive fund (Rs 8 crore) was drawn in March 2007 and released only in 2007-08.

Table 1.16: SFC grants to Town Panchayats

(Rupees in crore)

Year	Grants sanctioned	Adjusted before release	Net grant released
2004-05	83.49	0.21	83.28
2005-06	105.82	0.65	105.17
2006-07	49.25	13.29	35.96

The position of utilisation of State Finance Commission grants by the ULBs during the last three years are given in **Table 1.17**.

Table 1.17: Position of utilisation of SFC grants by ULBs

(Rupees in crore)

Nature of urban local body	Year	Net release made	Utilised grant	Unutilised grant	Remarks
Municipal Corporations except Chennai City	2004-05	59.45	59.45	Nil	-
	2005-06	91.00	81.80	9.20	Utilised during the subsequent year
Municipal Corporation	2006-07	79.81	70.60	9.21	-
Grade I and Grade II Municipalities	2004-05	118.78	118.78	Nil	-
	2005-06	150.56	119.56	31.00	Utilised during the subsequent year
	2006-07	126.64	104.20	22.44	-
Grade III Municipalities	2004-05	39.43	39.43	Nil	-
	2005-06	41.32	38.86	2.46	Utilised during the subsequent year
	2006-07	49.21	43.91	5.30	-do-
Town Panchayats	2004-05	83.28	83.28	Nil	-
	2005-06	105.17	105.17	Nil	-
	2006-07	35.95	35.95	Nil	-

1.9.7.2 Central Finance Commission grants

(a) The details of Central Finance Commission grants received from Government of India and utilised during 2004-05 to 2006-07 are given in **Table 1.18**.

Table 1.18: Central Finance Commission grants to ULBs

(Rupees in crore)

Year	Chennai City Municipal Corporation			Other Municipal corporations			Municipalities			Town Panchayats		
	Released	Utilised	Un-utilised	Released	Utilised	Un-utilised	Released	Utilised	Un-utilised	Released	Utilised	Un-utilised
2004-05	6.37	6.37	Nil	8.77	8.77	Nil	16.21	16.21	Nil	10.78	10.78	Nil
2005-06	19.10	19.10	Nil	16.36	16.36	Nil	46.83	40.10	6.73	32.10	32.10	Nil
2006-07	19.10	19.10	Nil	16.36	14.50	1.86	46.83	38.26	8.57	32.10	NA	NA

(NA: Not available)

CMA reported that the entire grant received in this connection during 2004-05 and 2005-06 were utilised except by municipalities which had an unutilised balance of Rs 6.73 crore from the 2005-06 grants.

While the municipal corporations (other than Chennai) had Rs 1.86 crore as unutilised grant at the end of 2006-07, the municipalities had Rs 8.57 crore as unutilised.

The main reasons attributed for non-utilisation of Central Finance Commission grants during 2006-07 were belated release of funds, conduct of elections to Tamil Nadu State Legislature in May 2006 and to ULBs in October 2006.

Commissioner of Chennai City Municipal Corporation stated (December 2007) that utilisation certificates for the TFC grants for 2005-06 and 2006-07 are yet to be received from the engineering department.

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

A test check of connected records revealed that TFC grants were released to ULBs belatedly with delays ranging between 2 days to 196 days as indicated in **Table 1.19**.

Table 1.19: Period of delay in release of TFC grants to ULBs

Category of ULB	Period of delay in release (Delay beyond 15 days from the due date)	
	First instalment	Second instalment
Corporations	62 days (6 Corporations)	2 days (Trichy Corporation)
Municipalities	29 to 41 days (17 municipalities)	3 to 5 days (3 municipalities)
Town Panchayats	83 to 196 days (56 TPs)	23 to 98 days (56 TPs)

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

Amount of interest for belated release of TFC grants by the State Government released during 2005-06 worked out to Rs 23.07 lakh at the rate of 6 per cent based on compilation from the details relating to 5 corporations, 17 municipalities and 56 town panchayats as shown in **Table 1.20**.

Table 1.20: Amount of interest due for the delayed release of TFC grants

(Rupees in lakh)

Category of ULB	Number	Amount of interest due for the belated release of		
		First instalment	Second instalment	Total
Corporations	5	16.51	0.05	16.56
Municipalities	17	2.60	0.02	2.62
Town Panchayats	56	2.64	1.25	3.89
Total	78	21.75	1.32	23.07

1.9.8 Position of outstanding loans

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

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

(Rupees in crore)

Sl. No.	Nature of urban local bodies	Opening balance as on 1 April 2006		Fresh loans availed during the year 2006-07	Position of consolidated loan			Closing balance as on 31 March 2007		
		Principal	Interest		Interest accrued during the year	Repayment made during 2006-07	Principal	Interest	Outstanding Principal	Interest overdue
1.	Municipalities	270.37	199.94	-	28.63	11.42	24.60	258.95	203.97	462.92
2.	Five municipal corporations (excluding Chennai)	175.46	142.53	-	23.11	4.57	12.03	170.89	153.61	324.50
Total		445.83	342.47	-	51.74	15.99	36.63	429.84	357.58	787.42

The break-up details of pendency on 31 March 2007 were given below in **Table 1.22.**

Table 1.22: Region-wise details of loans outstanding with interest overdue

(Rupees in crore)

Sl. No.	Category of ULB	Region	Number of Municipalities	Outstanding Principal	Interest overdue	Total pendency
1	Municipalities	Chengleput	14	33.74	19.59	53.33
		Vellore	13	23.11	16.80	39.91
		Salem	11	30.52	27.52	58.04
		Tiruppur	10	47.94	30.67	78.61
		Thanjavur	13	53.79	56.23	110.02
		Madurai	16	33.93	27.02	60.95
		Tirunelveli	14	35.92	26.14	62.06
		Total	91	258.95	203.97	462.92
2	Corporations	Coimbatore	1	42.63	20.56	63.19
		Madurai	1	81.96	91.68	173.64
		Tiruchirappalli	1	-	3.64	3.64
		Salem	1	32.43	34.39	66.82
		Tirunelveli	1	13.87	3.34	17.21
		Total	5	170.89	153.61	324.50
Grand Total			96	429.84	357.58	787.42

Due to the precarious financial position of many ULBs, the repayment of loans was not made by the ULBs. However, though the recovery towards repayment of consolidated Government loans in respect of the concerned ULBs is being adjusted from the SSFC grants payable to those ULBs, 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. Stating that the quantum of these due loans resulted in a heavy financial burden to ULBs, Government issued (November 2007) orders for the waiver of Rs 787.42 crore (Principal: Rs 429.84 crore and Interest: Rs 357.58 crore) being the loans of the municipalities and five municipal corporations due on 31 March 2007. CMA requested (February 2008) the Government to clarify the accounting procedure to be followed by ULBs in

adjusting the Government loans in their book of accounts and the relevant heads of account under which debit/credit entries were to be made as the same were not indicated in the Government order. He had further stated that the ULB-wise outstanding principal and interest due as on 31 March 2007 has to be indicated in the Government order so as to make necessary provision in the budget for the value of Government loans and interest to be written off. Further action taken in this regard is awaited (February 2008).

(b) The Commissioner, Chennai City Municipal Corporation, had furnished the amount of loan pending as on 31 March 2007, without giving the details of interest due as given in **Table 1.23**.

Table 1.23: Position of outstanding loans of Chennai City Municipal Corporation (Rupees in lakh)

Opening balance of loans as on 1 April 2006	108.38
Fresh loans received during 2006-07	3.57
Loans repaid during 2006-07	10.02
Closing balance of loans as on 31 March 2007	101.93

(c) Similarly, the Director of Town Panchayats had furnished the amount of loan pending as on 31 March 2007 relating to the town panchayats without giving the amount of interest due on the pending loan as shown in **Table 1.24**.

Table 1.24: Position of outstanding loans of town panchayats (Rupees in crore)

Opening balance of loans as on 31 March 2007	73.04
Fresh loans received during 2006-07	67.53
Loans repaid during 2006-07	121.19
Closing balance of loans as on 31 March 2007	19.38

1.9.9 Loans from Financial agencies

The details of loans received from the financial institutions like TUFIDCO and TNUDF during 2006-07 and the closing balance of outstanding loans on 31 March 2007 are not available with the Commissionerate of Municipal Administration.

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 in **Table 1.25**.

Table 1.25: Revenue expenditure of ULBs

(Rupees in crore)

	Year		
	2004-05	2005-06	2006-07
Municipalities			
Salaries and Pension	236.08 (45)	252.94 (46)	323.41 (52)
O & M expenditure	283.82	292.49	293.19
Total	519.90 (57)	545.43 (58)	616.60 (56)
Five municipal corporations			
Salaries and Pension	140.40 (53)	142.30 (49)	170.90 (56)
O & M expenditure	124.38	145.72	131.89
Total	264.78 (72)	288.02 (59)	302.79 (63)
Chennai City Municipal Corporation			
Salaries and Pension	207.05 (41)	224.05 (38)	259.82 (42)
O & M expenditure	301.19	360.20	362.46
Total	508.24 (79)	584.25 (80)	622.28 (84)
Town Panchayats			
Salaries and Pension	63.68 (25)	72.63 (27)	NA
O & M expenditure	186.52	199.69	NA
Total	250.20 (54)	272.32 (57)	NA

(Figures in brackets indicate the percentage to total expenditure)

Details of revenue expenditure for 2006-07 were not furnished by the DTP. The revenue expenditure of Chennai City Municipal Corporation constitutes about 79 to 84 per cent of total expenditure during 2004-07. While the percentage of revenue expenditure of five municipal corporations declined from 72 to 63 during 2004-07, that of municipalities was fluctuating between 56 and 58 during the above period.

1.10.2 Capital expenditure

The reported capital expenditure of all the ULBs during the last three years is given in **Table 1.26**.

Table 1.26: Capital expenditure of ULBs

(Rupees in crore)

Year	Capital expenditure			
	Municipalities	Five municipal corporations	Chennai City Municipal Corporation	Town Panchayats
2004-05	386.42	105.11	135.39	210.85
2005-06	389.78	200.10	143.16	207.14
2006-07	484.37	180.66	120.96	89.79

As compared to 2005-06 figures, the capital expenditure of the ULBs except municipalities had declined during 2006-07.

The break-up details of capital expenditure during 2005-07 are given in **Table 1.27**.

Table 1.27: Break-up details of Capital expenditure of ULBs

(Rupees in crore)

Name of the core sector	Municipalities		Corporations (except Chennai City Municipal Corporation)		Chennai City Municipal Corporation		Town Panchayats	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
	Roads	137.47	188.71	59.43	77.21	84.62	72.20	119.96
Street lights	15.41	21.91	3.74	4.26	7.04	6.12	9.70	5.02
Water supply	62.65	85.40	28.51	23.21	-	-	18.88	38.89
Storm water drains	66.35	84.11	18.88	17.62	9.98	11.88	11.69	6.51
Solid waste management	17.20	17.77	23.55	18.41	0.02	0.54	4.06	1.87
Other Capital expenditure	90.70	86.47	65.99	39.95	41.50	30.22	42.85	6.75
Total	389.78	484.37	200.10	180.66	143.16	120.96	207.14	89.79

The break up details of other capital expenditure were not furnished by the ULBs except Chennai City Municipal Corporation. The decline in capital expenditure of Chennai City Municipal Corporation during 2006-07 was mainly due to lesser expenditure under Roads and other capital expenditure on bridges, buildings, parks, godowns and ward improvement works, as compared to the capital expenditure for 2005-06. The decline in capital expenditure of other five municipal corporations was mainly due to lesser expenditure under water supply, solid waste management and other capital expenditure on buildings, etc.

1.11 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 December 2007, there were 131 recommendations (8 C&AG Reports) relating to 1985-86 to 1996-97 of the MAWS Department pending final settlement, which *inter-alia* consisted of paragraphs relating to ULBs. Of these, 83 recommendations related to the Audit Report for 1992-93.

1.12 Conclusion

Out of 18 functions to be devolved to ULBs as per the Seventy-fourth Amendment to the Constitution of India, 13 functions were transferred to municipalities and 12 functions were transferred to town panchayats and Chennai City Municipal Corporation. The functionaries required to carry out these functions are yet to be transferred. During the period 2004-05 to

2006-07, the percentage of collection of Property Tax as against the demands raised ranged from 50 to 54 in municipalities and five municipal corporations and needs improvement. In town panchayats the percentage of collection varied between 69 and 73 during 2004-07. In Chennai City Municipal Corporation the percentage collection of Property Tax was slightly better and ranged between 75 and 77 during the same period. The collection of Profession Tax by the ULBs was relatively satisfactory except in the municipalities wherein the percentage of collection declined from 59 to 54 during 2004-07 and needs improvement. The accounts of all six municipal corporations and a large number of municipalities and town panchayats were pending audit by the Director of Local Fund Audit from 2005-06 mainly due to delayed submission of accounts and submission of defective accounts.

1.13 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.
- Immediate arrangements are to be made for bringing traders, professionals and self employed persons into the Profession Tax net to tap full tax potential.
- To ensure the collection of Profession Tax from all eligible persons, adequate manpower has to be provided so that registers containing details of all traders, professionals and employers in the local body area can be maintained and raise demands accurately.
- 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.