

CHAPTER II

PERFORMANCE REVIEWS (URBAN LOCAL BODIES)

This chapter presents two performance reviews dealing with (a) Maintenance of Water Supply in Selected Municipalities, (b) Elementary Education Fund and Maintenance of Schools by Municipal Corporations other than Chennai and a mini review (c) Assigned Revenues to Urban Local Bodies.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

2.1 Maintenance of Water Supply in Selected Municipalities

Highlights

Water supply is one of the core functions of urban local bodies. Government of Tamil Nadu prescribed 90 litre per capita per day as norms for supply of protected drinking water for the people living in municipal areas. A performance audit conducted on maintenance of water supply in selected municipalities revealed various shortcomings.

- Thirumangalam Municipality met expenditure on maintenance of water supply during 2002-05 by diversion from other fund accounts due to non-availability of amount in water supply fund account.

(Paragraph 2.1.6.1)

- Of the 15 municipalities test checked, only seven municipalities could maintain water supply as per norms of 90 litre per capita per day and only five municipalities maintained daily water supply.

(Paragraph 2.1.7.1)

- The municipalities did not collect periodical water samples. The samples collected and tested by the Director of Public Health and Preventive Medicines revealed that the disinfection practice followed was not systematic, bleaching powder used was inert and the residual chlorine was excessive.

(Paragraph 2.1.7.2)

- Flow control valves were not fitted in 97,160 (out of total 1,08,815) house service connections thus not ensuring equitable distribution of water. Though meters were fixed in respect of 89,297 domestic

connections, the municipalities collected water charges at a flat rate and not with reference to actual consumption.

(Paragraphs 2.1.8.1 and 2.1.8.3)

➤ **In 13 municipalities which furnished the demand, collection and balance details, Rs 7.24 crore towards water charges and Rs 8.34 crore towards water tax were pending collection as of March 2007. The two other municipalities did not furnish details.**

(Paragraph 2.1.9.1)

➤ **Sixty eight posts of maintenance staff, like fitters, pump operators, tap inspectors, filter house cleaners, electricians, meter readers, etc., out of 122 posts sanctioned were vacant.**

(Paragraph 2.1.10.1)

2.1.1 Introduction

While water supply is the responsibility of urban local bodies (ULBs), Tamil Nadu Water Supply and Drainage (TWAD) Board, a statutory board of the State Government is vested with the responsibility of investigation, formulation and execution of water supply schemes, receipt of grants and raising of loans for such schemes in respect of all ULBs in the State except Chennai metropolitan area. Of the 103 municipalities (except 49 third grade municipalities), 53 municipalities maintained their own water supply systems after the systems were executed and handed over by TWAD Board. The other 50 municipalities were covered under combined water supply schemes. The source for water includes mini-power pumps and hand pumps in addition to major water supply schemes. Water supply is effected through house service connections, public taps. It is also effected through water lorries and tractors to uncovered areas and during water scarcity seasons.

2.1.2 Organisational set up

The municipalities come under the administrative control of the Secretary, Municipal Administration and Water Supply Department at Government level. The Commissioner of Municipal Administration (CMA) is the head of the department assisted by seven Regional Deputy Directors of Municipal Administration at regional level. The municipalities are governed by the respective councils of elected representatives assisted by Commissioners, who are the executive officers. The technical aspects in respect of maintenance of water supply in municipalities are looked after by the Municipal Engineers and the water supply maintenance staff at the municipal level. The Regional Executive Engineers are responsible for maintenance at the regional level and the Superintending Engineer, Commissionerate of Municipal Administration at the state level. The organisational chart is given in **Appendix 2.1**.

2.1.3 Audit Objectives

The audit objectives were to assess

- the effectiveness of policy initiatives for providing water supply in municipalities,
- the efficiency and effectiveness of performance of municipalities in maintaining water supply,
- whether the income from water supply is sufficient to meet the maintenance expenditure including debt servicing, and
- the adequacy of staff provided for maintenance of water supply.

2.1.4 Audit criteria

The criteria used to assess the effectiveness of the municipalities in maintenance of water supply were:

- Government policies regarding water supply to urban population.
- Norms fixed by Government for supply of water in litre per capita per day (lpcd).
- By-laws and council resolutions for supply of water.
- Guidelines issued by Government and CMA.

2.1.5 Audit methodology and scope

Performance audit of the maintenance of water supply by the selected municipalities covering the period 2002-07 was conducted during June to August 2007. Fifteen municipalities (**Appendix 2.2**) out of 53 municipalities¹ which maintain their own water supply system were selected for audit scrutiny through stratified sampling method. Audit was conducted through test check of records of the municipalities such as financial statements, water supply maintenance records, asset registers, purchase files, demand, collection and balance statements, test reports of water samples, etc. Records relating to budget and expenditure, manpower for water supply maintenance were also reviewed. The methodology of the review was discussed with Financial Advisor, Commissionerate of Municipal Administration during August 2007 and the findings with CMA during the exit conference in October 2007. The findings of the performance audit are given in the succeeding paragraphs.

2.1.6 Maintenance of water supply fund account

A separate and distinct account is maintained in municipalities for Water Supply and Drainage Fund. Water Supply and Drainage Tax component of Property Tax, water charges for house service connections (HSC), deposits

¹ Special grade : 9; Selection grade :11; First grade :17 and Second grade : 16; Total : 53 municipalities.

received for new water connections, centage charges collected for providing new water supply connections, etc., are credited to the fund. The expenditure on maintaining water supply schemes like salary of maintenance staff, operation and maintenance, debt servicing and depreciation are to be debited to the account.

The details of year-wise receipts and expenditure on water supply under revenue account for all municipalities in the State during 2002-07 was as follows:

(Rupees in lakh)

Year	Receipts			Expenditure		
	Total	Under water supply	Percentage	Total	For water supply	Percentage
2002-03	415.80	55.48	13.34	547.32	53.46	9.77
2003-04	450.61	57.21	12.70	693.51	84.68	12.21
2004-05	430.61	58.75	13.64	519.90	64.15	12.34
2005-06	441.18	64.63*	14.65	545.43	71.45	13.10
2006-07	NA	NA	--	NA	NA	--

Source : Performance Budget Report for the years 2003-04 and 2006-07 of Municipal Administration and Water Supply Department and Report of the TSFC (September 2006)

* Estimated figures

NA: Not made available by the department

As may be seen, the receipts towards water supply ranged between 12.70 per cent to 14.65 per cent of total receipts and expenditure on water supply ranged between 9.77 per cent to 13.10 per cent of total expenditure during 2002-06.

2.1.6.1 Excess expenditure over income

The above table also showed that the expenditure is more than the receipts since 2003-04. The excess expenditure was met by diverting other funds.

The details of receipt and expenditure in respect of test checked municipalities are furnished in **Appendix 2.3**.

Perusal of connected records revealed that only Thirumangalam Municipality could not meet the expenditure on maintenance of water supply with the income earned under water supply and drainage fund resulting in excess expenditure over income and had a negative balance of Rs 1.85 crore at the end of 2004-05. The excess expenditure was met by diverting funds from other accounts. All the remaining sample municipalities had surplus funds as of March 2005 in this fund account.

2.1.7 Policy initiatives for providing water supply in municipalities

Government of Tamil Nadu prescribed 90 litre per capita per day (lpcd) as the norm for supply of protected drinking water for people living in municipal

areas. The deficiencies noticed in this regard are discussed in the succeeding paragraphs.

2.1.7.1 Supply of water far below prescribed norms

More than 50 per cent of the test checked municipalities did not maintain daily water supply at the rate of 90 lpcd.

The municipalities arrived at the daily water supply service level by dividing the total quantity of water supplied from all sources by the present population or the population of the municipalities as per 2001 census. During normal seasons, out of 15 sample municipalities five² municipalities supplied water daily; eight³ municipalities on alternate days; one municipality (Arni) once in three days and one municipality (Nagercoil) once in four days. Only seven⁴ municipalities maintained water supply at 90 or more lpcd; six⁵ municipalities between 70 and 89 lpcd and two municipalities (Krishnagiri and Paramakudi) between 50 and 69 lpcd. In acute season the water supply was 90 or more lpcd in five⁶ municipalities; 70 to 89 lpcd in six⁷ municipalities; 50 to 69 lpcd in three⁸ municipalities and less than 50 lpcd in one municipality (Paramakudi). The duration of water supply varied from one hour to eight hours with respect to normal and acute seasons. (**Appendix 2.4**). Thus, the Government's aim of daily water supply at 90 lpcd was largely not achieved.

In ten municipalities, new water supply improvement schemes designed for a period of thirty years were commissioned during 2001-03. The water available from all sources in five⁹ of these municipalities was not sufficient even for the population as per 2001 census.

CMA stated (October 2007) that due to faults in design and failure of the source at later date, the municipalities could not supply water at the designed level.

2.1.7.2. Periodical testing of water samples not done

The municipalities did not collect water samples periodically for testing. The samples collected and tested by DPHPM revealed shortcomings in disinfection and chlorination of water.

The municipalities did not collect periodical water samples from various municipal sources for testing in laboratories to ensure the potability of water in spite of instructions from CMA. Analysis of water samples collected from municipal water supply schemes was done by the Chief Water Analysts (at Chennai and Coimbatore) working under the control of the Director of Public Health and Preventive Medicine (DPHPM) to find out the potability of water with respect to physical, chemical and bacteriological standards. Their reports were sent to the Commissioners of the municipalities concerned for taking necessary action with a copy marked to the CMA.

² Bodinayakanur, Kancheepuram, Karaikudi, Koothanallur and Palani.

³ Erode, Karur, Krishnagiri, Paramakudi, Sivagangai, Thirumangalam, Thiruvathipuram and Vandavasi.

⁴ Erode, Kancheepuram, Karur, Koothanallur, Nagercoil, Palani and Thiruvathipuram.

⁵ Ami, Bodinayakanur, Karaikudi, Sivagangai, Thirumangalam and Vandavasi.

⁶ Erode, Kancheepuram, Koothanallur, Nagercoil and Palani.

⁷ Bodinayakanur, Karaikudi, Karur, Sivagangai, Thiruvathipuram and Vandavasi.

⁸ Arni, Krishnagiri and Thirumangalam.

⁹ Ami, Krishnagiri, Paramakudi, Thirumangalam and Vandavasi.

The general remarks in the reports in respect of the test checked municipalities were (i) disinfection practice followed by the municipalities was not systematic, (ii) bleaching powder used was inert and unfit for disinfection purposes as the chlorine content in the powder was far below the prescribed 32 *per cent*, and, (iii) the residual chlorine was excessive - more than the permissible limit of 0.2 to 0.4 mg per litre.

The DPHPM was also monitoring the water supply systems in the State and the report on monitoring stated that (i) there were leaks in the pumping mains, service reservoirs and the distribution lines, and (ii) pit taps were found without stopcocks resulting in wastage of water and possible contamination.

Specific remarks by the Chief Water Analysts in respect of some municipalities are given below:

- Filter beds were not backwashed at regular intervals (Bodinayakanur and Erode Municipalities).
- Total dissolved solids (TDS) and hardness exceeded the maximum permissible limit. (Sivagangai Municipality).
- Presence of numerous microscopical organisms in the sample of water collected from the infiltration well indicating direct access of river water into the infiltration well (Krishnagiri Municipality).
- Presence of free-living nematode (worm) in tap water and no difference was noticed between the raw water and the clear water. Secondary chlorination was not done and a variety of microscopical organisms were present (Erode Municipality).

It was further noticed from the reports that some of the defects or deficiencies pointed out were not rectified then and there but persisted even at the time of next collection of samples by the water analysts.

Replies of the consumers on the questions framed by audit regarding the quality and quantity of water supplied in eight test checked municipalities¹⁰ revealed that in Krishnagiri Municipality, the beneficiaries were of the opinion that water was greenish in colour and not fit for human consumption.

This indicated that the concerned municipalities failed to ascertain the potability of water despite the instruction of CMA to collect samples of water periodically for ascertaining the nature of potability of drinking water.

¹⁰ Arni, Erode, Kancheepuram, Krishnagiri, Paramakudi, Sivagangai, Thirumangalam and Vandavasi.

2.1.8 Performance of municipalities in maintaining water supply

2.1.8.1 *Equitable distribution of water not ensured*

Equitable distribution of water was not ensured as 97,160 out of 1,08,815 house service connections were not fitted with flow control valves.

With a view to maintaining equitable distribution of available water throughout the municipal area and to prevent illegal drawal of water by connecting motor pump sets, CMA issued (November 2002) instructions to all Commissioners to fix flow control valves with capacity of five or six litres per minute (lpm) in HSCs.

Out of the total 1,08,815 HSCs in the test checked 15 municipalities, 97,160 connections (89 *per cent*) were not fitted with flow control valves (**Appendix 2.5**). Flow control valves were not fixed even in new HSCs in Karur and Vandavasi Municipalities. Equitable distribution of water was thus not ensured even after five years.

2.1.8.2 *Expenditure on fixing flow control valves*

Sivagangai Municipality procured 4,000 numbers of flow control valves (FCVs) and fixed 3,761 FCVs between August 2003 and November 2004. The Council resolved (November 2004) to collect amount required to meet the expenditure towards procurement and fixing of the 3,761 FCVs amounting to Rs 22.83 lakh at the rate of Rs 607 per FCV¹¹ from each of the HSCs in six quarterly instalments. However, as of June 2007 the municipality could collect only Rs 1.68 lakh and Rs 21.15 lakh met from the Water Supply Fund was yet to be recouped.

Similarly, Bodinayakanur Municipality also did not recover the cost of procurement and fixing of 848 FCVs between February 2004 and September 2004 amounting to Rs 3.73 lakh, though the Council resolved (May 2003) to recover the cost from the HSCs.

2.1.8.3 *Metering of water supply not done*

Though water meters were fitted in 88 *per cent* of the house service connections, the municipalities did not collect the water charges with reference to consumption.

The rates of water charges were fixed by the Councils for the unit of one kilo litre subject to a minimum specified amount per month. In the test checked municipalities, 89,297 (88 *per cent*) of the total 1,01,443 HSCs (domestic connections) were fitted with water meters for measuring the quantity of water drawn. However, the municipalities recovered the water charges at flat rate (monthly minimum) on the plea that many meters were not working and there was no staff for taking the readings in the case of working meters.

¹¹ Cost of one FCV: Rs.189 and cost of fixing one FCV: Rs 418.

Treatment plant constructed (February 2001) at a cost of Rs 2.05 crore was not put to intended use after January 2003 by Palani Municipality.

2.1.8.4 Treatment plant not made use of

Under Palani Water Supply Improvement Scheme (completed at a cost of Rs 9.43 crore) TWAD Board constructed a full-scale water treatment plant with a treatment capacity of 11.18 million litres per day at a cost of Rs 2.05 crore. The plant was proposed to treat the surface water drawn from Palar-Porandalar dam with a view to remove colour, odour and to maintain turbidity level and the total dissolved solids within the permissible limit. The plant was commissioned in February 2001 and maintained up to April 2002 by TWAD Board. After handing over to the municipality, the maintenance work was entrusted to a contractor, as no qualified or trained staff were available in the municipality to operate and maintain the plant. The plant was maintained by the contractor as per the contract for nine months from May 2002 to January 2003. Thereafter, only chlorination of raw water has been carried out for the past four and half years by the municipality with the available staff. The treatment plant was put to use just for two years and the surface water with physical impurities such as yellow colour and turbid physical appearance was continued to be supplied to the public after that period as seen from the test report (May 2006) of Chief Water Analyst. Thus the aim of supplying treated water was achieved only for two years and the expenditure of Rs 2.05 crore on construction of the plant remained unproductive to a large extent.

2.1.8.5 Avoidable expenditure due to non-reduction of contracted demand to the required level

A high tension service connection with a contracted load of 150 KVA has been provided for operating pump sets in Idaikkattur water supply head works in Sivagangai Municipality. The TNEB charges fixed demand charges of Rs 200 per month per KVA for the maximum recorded KVA during that month or 90 per cent of the contracted demand whichever was higher, in addition to the energy charges at the rates fixed per unit of power consumption. A review of HT bills for the period from August 2004 to August 2007 revealed that the monthly maximum KVA recorded ranged between 84 and 111 KVA only as against the contracted demand of 150 KVA. The municipality paid demand charges for 135 KVA being 90 per cent of 150 KVA during the period. As the recorded demand ranged between 84 and 111 KVA, the municipality could have reduced the contracted demand to 120 KVA by addressing the TNEB. Non-reduction of the contracted demand resulted in avoidable payment of demand charges of Rs 2 lakh {37 months x 27 KVA (90 per cent of 30 KVA) x Rs 200/KVA}. The Commissioner replied (June 2007) that the requirement would be assessed and suitable action would be taken.

2.1.9 Collection of water charges and expenditure on maintenance

The arrears in collection of water charges and water tax were Rs 7.24 crore and Rs 8.34 crore respectively as of March 2007.

2.1.9.1 Arrears in collection of water charges and water tax

Review of demand, collection and balance (DCB) statements in respect of water charges and water tax as on 31 March 2007 furnished by 13 municipalities revealed that water charges of Rs 7.24 crore and water tax of Rs 8.34 crore were in arrears (**Appendix 2.6**). The remaining two sample municipalities (Kancheepuram and Thiruvathipuram) had not furnished copy of DCB as on 31 March 2007. The municipalities could not furnish year-wise breakup for the arrears. The arrears of Rs.7.24 crore also include an amount of Rs.81.56 lakh (**Appendix 2.7**) recoverable from wayside villages or town panchayats to whom water was supplied at bulk rate by seven municipalities.

Nine municipalities did not collect additional deposit amounting to Rs 10.82 crore.

2.1.9.2 Non-collection of additional deposits

To augment revenue of the municipalities for meeting the increasing maintenance cost and for repaying loans obtained for water supply improvement schemes, nine municipal councils resolved between May 1995 and July 2003 to enhance the deposits for providing HSCs for domestic, industrial and commercial purposes. The initial deposits were taken as revenue of the municipalities and used for repayment of loans obtained for water supply schemes. According to the resolutions passed by the councils, the revised deposits were to be collected in respect of new service connections and the difference between the old and revised rates of deposits collected from the existing consumers in instalments along with the water charges due. However, Commissioners of nine municipalities did not collect the differential amount of deposits totalling Rs 10.82 crore (**Appendix 2.8**) from consumers.

2.1.10 Adequacy of staff provided for maintenance of water supply

Out of 122 posts sanctioned for maintenance of water supply, 68 posts in the cadres of fitter, pump operator, tap inspector, filter bed operator, etc., were vacant.

2.1.10.1 Vacant posts in water supply maintenance

For efficient maintenance of water supply in municipalities qualified and trained personnel should be available. It was noticed in audit that out of 122 sanctioned posts in the cadres of fitter, pump operator, tap inspector, fountain cleaner, water works superintendent, filter house/bed cleaner, filter bed operator, electrician, turn cock and meter reader, 68 posts were vacant for years together (**Appendix 2.9**). However the exact period for which the posts were vacant and the details of action initiated for filling up the posts were not furnished by the municipalities. There was no sanctioned post under the category of meter readers in 14 test checked municipalities. This resulted in charging of water charges at the minimum flat rates in the absence of meter readings as already pointed out in Para 2.1.8.3. The vacancies in various posts also contributed to ineffective maintenance of water supply.

2.1.11 Conclusion

More than 50 *per cent* of the test checked municipalities neither maintained daily water supply or at the level of 90 litre per capita per day as prescribed. Collection of samples periodically and testing them to ensure the quality of water supplied was not done in any of the municipalities. Water meters, though fixed in most of the connections, were not made use of for collecting water charges with reference to consumption. More than 50 *per cent* of the posts of maintenance staff were kept vacant affecting the maintenance of water supply systems.

2.1.12 Recommendations

- Municipalities which could not maintain water supply as per norms should initiate action to augment water supply and ensure equitable distribution.
- Periodicity for collection and testing of water from various points should be prescribed and followed.
- Water charges should be levied only with reference to consumption making use of water meters fixed in house service connections.
- Collection machinery should be geared up to collect arrears in water charges and water tax.
- Vacant posts of maintenance staff should be filled up.

The above points were referred to Government in December 2007; reply had not been received (April 2008).

2.2 Elementary Education Fund and Maintenance of Schools by Municipal Corporations other than Chennai

Highlights

Municipal Corporations levy Education Tax at a rate not exceeding five per cent of the value on which Property Tax is charged and credit the tax so collected to the Elementary Education Fund of the Urban Local Bodies. The Elementary Education Fund was to be utilised for capital and maintenance works of the schools. A performance audit of Elementary Education Fund and maintenance of schools by five municipal corporations other than Chennai brought out various irregularities in utilisation of Elementary Education Fund and lack of infrastructure and amenities in the schools.

- **The budgets prepared by the five municipal corporations were unrealistic as shortfall in utilisation of provisions ranged between 18 and 97 per cent and was more than 50 per cent in nine instances.**

(Paragraph 2.2.7.2)

- **Cumulative arrears of Education Tax out of total dues ranged between 66 and 82 per cent in the five municipal corporations test checked as of August 2007.**

(Paragraph 2.2.7.3)

- **Though at least 25 per cent of Education Tax collected was required to be spent on maintenance of the schools, there was shortfall ranging from 66 to 89 per cent in this regard during 2002-07 in the five municipal corporations test checked.**

(Paragraph 2.2.8.3)

- **Coimbatore, Salem and Tiruchirappalli Municipal Corporations utilised Rs 1.33 crore from Elementary Education Fund on ineligible works.**

(Paragraph 2.2.8.6)

- **Coimbatore, Salem, Tiruchirappalli and Tirunelveli Municipal Corporations diverted Rs 9.68 crore from Elementary Education Fund.**

(Paragraph 2.2.8.7)

- **Against the requirement of 3,643 urinals and 5,168 toilets for 258 (out of 279) schools owned by the municipal corporations in**

Coimbatore, Madurai, Salem, Tiruchirapalli and Tirunelveli, only 851 urinals and 1,001 toilets were provided.

(Paragraph 2.2.9.2)

➤ **Of the 279 schools owned by the five test checked municipal corporations, 64 schools did not have playgrounds, 34 had no library building, 34 did not have adequate water supply, 151 schools had no fire extinguisher and 52 schools had fewer classrooms than required.**

(Paragraph 2.2.9.3)

➤ **Overall student strength in both elementary and higher education schools came down from 2002-03 to 2006-07. The strength of the elementary schools came down by 6,512 (31 per cent) while the strength of the higher education schools came down by 5,520 (22 per cent).**

(Paragraph 2.2.9.4)

2.2.1 Introduction

The Tamil Nadu Elementary Education Act, 1920 provides for the levy of Education Tax at a rate not exceeding five *per cent* per annum in the case of properties taxed on their annual value, one-fourth *per cent* per annum in case of properties taxed on their capital value, and four rupees per annum for every 320 square yards or part thereof in the case of properties taxed on their extent, in addition to Property Tax. The Education Tax was to be collected alongwith Property Tax and to be credited to the Elementary Education Fund (EEF) of the ULBs for utilisation towards capital and maintenance works of the schools. The EEF was to be maintained in a separate bank account and the balance in the fund is carried over year after year.

2.2.2 Organisational set up

There are six municipal corporations¹ in the State under the overall control of the Secretary to Government, Municipal Administration and Water Supply (MA & WS) Department. The Commissioner of Municipal Administration (CMA) is the head of the department in respect of the five municipal corporations other than Chennai, which comes under the direct control of the State Government. The authorities of the corporation are (i) the Council, (ii) Standing Committees (including the one for education), (iii) Ward Committees, and (iv) the Commissioner. The accounts of the municipal corporations are audited and certified by the Local Fund Audit Department.

¹ Chennai, Coimbatore, Madurai, Salem, Tiruchirappalli and Tirunelveli.

2.2.3 Audit Objectives

The performance audit on EEF and maintenance of schools by municipal corporations was conducted

- to ascertain whether proper budgeting was done for utilisation of EEF,
- to assess whether funds provided from EEF were utilised judiciously as per Government orders and
- to assess whether basic amenities were provided to schools.

2.2.4 Audit Criteria

The provisions/instructions regarding collection, accounting and utilisation of Education Tax contained in the following documents were adopted as audit criteria:

- The Madras Elementary Education Act, 1920.
- The Grant-in-aid Code of Tamil Nadu Education Department.
- The Tamil Nadu Public Buildings (Licensing) Act, 1965 and Rules made thereunder.
- The Acts of the respective municipal corporations
- Government orders, guidelines etc., issued from time to time.
- Accounting manual for ULBs.

2.2.5 Audit Coverage

The records relating to all activities connected with the subject for the period 2002-07 in five municipal corporations (other than Chennai) and the connected offices of Education Department were reviewed during the period from May 2007 to July 2007.

2.2.6 Source of Revenue

All the five municipal corporations covered under the review levied Education Tax at five *per cent* per annum as provided under the Tamil Nadu Elementary Education Act, 1920. In addition, Salem City Municipal Corporation, credited 25 *per cent* of Profession Tax collections also into EEF.

2.2.7 Budget

Each municipal corporation has to prepare a separate budget of receipts and expenditure for EEF. The expenditure budgets of these municipal corporations were to be prepared after including proposals made by Standing Committees on Education after inspecting the schools and after approval of such proposals by the respective Councils. The budgets of these municipal

corporations were required to be approved by the Council before the end of February of the previous financial year.

2.2.7.1 Receipt Budget

The shortfall in collection of Education Tax was between 26 and 50 per cent in six out of twenty instances.

The collection performance of Education Tax by the five municipal corporations with reference to budget during 2002-07 was as given in **Appendix 2.10**.

Salem City Municipal Corporation did not prepare separate receipt budget for EEF even though Section 38 of Tamil Nadu Elementary Education Act, 1920 provides for its preparation. In the other four municipal corporations, the collection performance with reference to budget during 2002-07 out of 20 instances for the five year period was as follows:

(i) No shortfall	5
(ii) Shortfall less than 10 per cent	4
(iii) shortfall between 11 and 25 per cent	5
(iv) shortfall between 26 and 50 per cent	6

The main reason attributed by Madurai and Tirunelveli Municipal Corporations for the shortfall in collection was shortage of collection staff. No specific reason was furnished by Coimbatore and Tiruchirappalli Municipal Corporations.

2.2.7.2 Expenditure Budget

The shortfall in utilisation of funds provided in budget ranged from 18 to 97 per cent during 2002-07.

The expenditure from EEF during the period 2002-07 by the municipal corporations (**Appendix 2.11**) revealed shortfall ranging from 18 per cent to 97 per cent with reference to the revised estimates (RE) as shown below:

Municipal Corporation	Period	Range of shortfall (percentage)
Coimbatore	2003-07	32 to 69
Madurai	2004-05 and 2006-07	18 and 21
Salem	2003-07	56 to 78
Tiruchirappalli	2002-07	20 to 97
Tirunelveli	2003-04 and 2005-06	30 and 81

The shortfall in expenditure was more than 50 per cent in Coimbatore (one year), Salem (four years), Tiruchirappalli (three years) and Tirunelveli (one year) Municipal Corporations during the five-year period 2002-07.

The municipal corporations stated that the shortfall was due to (i) delay in finalisation of tenders, (ii) cancellation of administratively sanctioned works due to execution of works out of other scheme funds (Madurai, Salem, Tiruchirappalli and Tirunelveli Municipal Corporations), and, (iii) inclusion of works over and above the capacity of the local body to execute in the RE on the basis of representations given by the elected body (Coimbatore).

This indicates that the budgets were not prepared in a realistic manner.

2.2.7.3 Arrears of Education Tax

The arrear in collection of Education Tax was 66 to 82 per cent of the tax due as of August 2007.

Section 34 of Tamil Nadu Elementary Education Act, 1920 specifies that the Education Tax shall be levied as an addition to the taxation in the municipality under all or any of the following heads namely, Property Tax, Tax on Companies and Profession Tax. The Education Tax is collected along with Property Tax.

The shortfall in collection of the tax over the years as detailed in paragraph 2.2.7.1 resulted in cumulative arrears which accounted for 66 to 82 per cent of the total dues as of March 2007 is brought out in the table below:

(Rupees in crore)

Name of the municipal corporation	Education Tax pending collection			Percentage of arrears to total dues
	Arrears	Current	Total	
Coimbatore	6.85	2.00	8.85	77
Madurai	3.01	1.52	4.53	66
Salem	2.55	0.73	3.28	78
Tiruchirappalli	2.89	0.62	3.51	82
Tirunelveli	1.91	0.56	2.47	77
Total	17.21	5.43	22.64	76

While Madurai, Salem and Tirunelveli City Municipal Corporations did not furnish any specific reason for the above arrears, the Coimbatore City Municipal Corporation stated that the arrears were due to (i) litigation against assessment, (ii) overestimation of demand due to repetition, and (iii) shortage of staff for collection of the tax. Tiruchirappalli City Municipal Corporation stated that the arrears in collection were due to litigation against assessment. The accumulation of arrears was commented upon in successive audit reports by Local Fund Audit also. The fact that municipal corporations did not invoke the penal provisions for non-payment of tax in respect of cases not under litigation also encouraged non-payment of tax resulting in accumulation of arrears.

Government while accepting the findings in the above paragraphs (paragraph 2.2.7.1 to 2.2.7.3) stated that action was being taken to improve the position.

2.2.8 Utilisation of EEF

2.2.8.1 Guidelines for utilisation

The State Government in MA and WS Department issued guidelines (March 1999) for utilisation of EEF. As the ULBs did not strictly adhere to those instructions, the CMA reiterated (November 2005) the same. The guidelines, among other things, provided that

- At least 25 per cent of Education Tax collected was to be spent for maintenance of school buildings.
- The minimum amount to be spent on improvement of schools was fixed at Rs 10,000 per school for the year 1998-99 which was to be

increased by 20 *per cent* (i.e. Rs 2,000) every year. Accordingly, the minimum amount to be spent per school during 2002-07 ranged between Rs 18,000 and Rs 26,000.

- Capital expenditure on construction of additional class rooms, new buildings, toilets, etc., could be incurred without any ceiling.
- The Education Department and ULBs were to co-ordinate for selection and execution of works.
- EEF was not to be diverted to General Fund.
- CMA was to monitor the expenditure and send an annual report to the Secretary, School Education Department and the Director of School Education.

As of 31 March 2007, 299 schools were under the control of the five municipal corporations, including 20 schools housed in rented buildings, as shown below:

Name of the municipal corporation	Number of Schools		
	Owned	Rented	Total
Coimbatore	85	2	87
Madurai	61	2	63
Salem	46	10	56
Tiruchirappalli	54	5	59
Tirunelveli	33	1	34
Total	279	20	299

The compliance of municipal corporations with these guidelines is discussed in the following paragraphs.

2.2.8.2 *Deficiency in incurring maintenance expenditure to schools out of EEF*

Review of works executed by five municipal corporations during the period 2002-07, revealed that the municipal corporations did not spend even 25 *per cent* of Education Tax collections towards maintenance of school buildings even though sufficient number of schools were under the control of the corporations. The information on amount of tax collected, minimum amount required to be spent on maintenance, actual expenditure and shortfall in utilisation of EEF during 2002-07 is furnished in **Appendix 2.12**. The percentage of shortfall ranged from 66 to 89 and amounted to Rs 16.16 crore during the same period.

Though at least Rs 18,000 to Rs 26,000 per year per school was required to be spent on improvement of schools, it was noticed that no maintenance/capital work was executed in 64, 19 and 25 schools during the last five years, four years and three years respectively either from EEF or from other scheme

The shortfall in utilisation of EEF for maintenance of schools ranged between 66 and 89 per cent with respect to norms.

funds. This would mean that no work was undertaken out of EEF for the past three years in 108 schools out of 279 schools owned by the five municipal corporations (**Appendix 2.13**). The position confirmed that non-adherence to Government orders by the ULBs, as observed by the CMA in November 2005 and referred to in paragraph 2.2.8.1 above, still persisted. This could have also resulted in lack of various amenities as brought out in Paragraph 2.2.9.

The municipal corporations replied that the works needed were taken up in schools as per action plan, recommendations by the Education Standing Committee and after field inspection of schools by various authorities. They also attributed the shortfall in utilisation of funds to (i) non-receipt of proposals from Education Departmental authorities (Salem and Tiruchirappalli), (ii) poor response to tender calls (Tiruchirappalli), (iii) execution of works out of other scheme funds such as Member of Parliament Local Area Development Programme (MPLAD), Member of Legislative Assembly Constituency Development Scheme (MLACD), Eleventh Finance Commission (XIFC) grant, etc., (Madurai) and (iv) lack of co-ordination between Education Department and ULBs and administrative delay.

The above replies of the municipal corporations indicated lack of proper planning and coordination amongst various authorities. Further works with other scheme funds were carried out only in the remaining 171 schools and no work either from EEF or other scheme funds was carried out in 108 schools during the period 2004-07.

The Government stated (March 2008) that Tiruchirappalli City Municipal Corporation spent Rs 4.24 crore on construction and maintenance of school buildings, out of education tax collected during 2002-07. The reply is not relevant as the point raised was only in respect of expenditure on maintenance. In respect of other corporations the Government stated that action will be taken to make good the shortfall.

2.2.8.3 Non-execution of sanctioned capital works in schools

Seventeen capital works (estimate: Rs 269.03 lakh) were not executed in three municipal corporations though administrative sanctions were available.

Three municipal corporations had not executed 17 capital works (Madurai: four works at Rs 96 lakh; Salem: three works at Rs 20 lakh and Tiruchirappalli: 10 works at Rs 153.03 lakh; Total: Rs 269.03 lakh) including construction of model schools, additional class rooms, etc., in 15 schools, even though administrative sanctions were accorded during 2004-05 and 2005-06, and funds were available. The reasons for not taking up the works as stated by the municipal corporations, were (i) non-availability of funds (Madurai - four works), (ii) dropped due to site dispute (Salem - two works) and (iii) retender stage (Salem – 1 work and Tiruchirappalli – 8 works). One work was dropped and one work was yet to commence (Tiruchirappalli).

The reply of the Government (March 2008) did not also bring in any fresh points other than those stated by the municipal corporation.

The reasons attributed for non-execution of works such as non-allocation of funds, dropping of schemes are not valid as they only indicate failure of the corporations to adequately plan for execution of these works. Further, Madurai City Municipal Corporation did have an accumulation of Rs 1.08 crore in EEF as of March 2007 as brought out in paragraph 2.2.8.4 below. Hence the reason 'non-availability of funds' for non execution of four works by the municipal corporation was not based on facts.

2.2.8.4 Accumulation of funds

Poor utilisation of funds had resulted in accumulation to the extent of Rs 23.43 crore as of March 2007 in all the five municipal corporations as shown below:

(Rupees in lakh)

Name of the Corporation	Accumulation as of March 2007		
	Cash in hand/bank	Investments	Total
Coimbatore	55.75	765.21	820.96
Madurai	42.00	66.00	108.00
Salem	39.07	75.00	114.07
Tiruchirappalli	340.45	475.00	815.45
Tirunelveli	26.03	458.97	485.00
Total	503.30	1,840.18	2,343.48 or 23.43 crore

The main reason for accumulation of funds in EEF was attributed to taking over (April 1990) of liability of payment of salaries to teachers of the schools by the State Government (Coimbatore, Madurai, Salem and Tiruchirappalli), non-execution of various works (Madurai) and poor response to tender calls (Tiruchirappalli).

The Government stated (March 2008) that action was being taken to utilise the funds accumulated.

2.2.8.5 Execution of ineligible works

Though execution of works relating to school building only was permissible out of EEF, it was noticed that EEF had been utilised for the following ineligible works.

(Rupees in lakh)

Name of the corporation	Works executed	Year	Amount utilised
Coimbatore	Works relating to ICDS and Noon Meal Scheme	2002-07	12.06
Salem	Works relating to ICDS and Noon Meal Scheme	2002-04	36.74
Tiruchirappalli	Works relating to ICDS and Noon Meal Scheme	2002-07	84.49
	Total		133.29

Three municipal corporations executed works relating to ICDS and Noon Meal scheme at a cost of Rs 133.29 lakh from EEF.

The municipal corporations contended that works relating to ICDS/Noon Meal scheme were meant for school children only and added that no grant was

received from Government for these works from 2003-04 onwards. The Government in reply stated (March 2008) that utilisation of EEF for other works will be avoided in future.

The reply is not tenable for the reason that ICDS and Noon Meal Scheme are not schemes of the municipal corporations and utilisation of EEF for those schemes was unwarranted.

2.2.8.6 Diversion from EEF

Salem and Tirunelveli Municipal Corporations had not allocated Elementary Education Tax of Rs 6.08 crore (Salem: Rs 4.71 crore and Tirunelveli: Rs 1.37 crore) to EEF Account out of the Property Tax collections received upto 2006-07.

The municipal corporations replied that action would be taken to credit the amount to EEF.

Out of interest earned from EEF investments of Rs 58.79 lakh, Tiruchirappalli City Municipal Corporation utilised Rs 32.15 lakh for underground drainage works and Rs 19.23 lakh for expenditure relating to Revenue and Capital Fund.

Coimbatore and Salem City Municipal Corporations utilised EEF for meeting out expenditure relating to Revenue Fund and Water Supply accounts as detailed below:

(Rupees in lakh)

Name of the corporation	Period of diversion	Amount		
		Diverted	Recouped	Pending recoupment
Coimbatore	1987-88 to 1995-96	11.42	Nil	11.42
Salem	2002-03 to 2006-07	553.00*	255.00	298.00
	Total	564.42	255.00	309.42

* Includes refund of Rs 40 lakh from ICDS (towards expenditure initially met out of EEF for ICDS works) which was credited to Revenue and Capital Fund instead of EEF.

As may be seen from the above Rs 3.09 crore is still pending recoupment (June 2007).

In reply the Government stated (March 2008) that Tiruchirappalli City Municipal Corporation has transferred back Rs 51.38 lakh to EEF during 2007-08 and necessary rectification entries have also been made. While in respect of Coimbatore City Municipal Corporation it stated that the amount related to an old period, in respect of Salem City Municipal Corporation it assured that the amount diverted will be transferred back to EEF.

Coimbatore, Salem,
Tiruchirappalli and
Tirunelveli
Municipal
Corporations
diverted Rs 9.68
crore from EEF.

2.2.9 Maintenance of Schools

EEF can be utilised for execution of capital or maintenance works in the schools to provide various amenities required. In spite of availability of funds under EEF, there were shortfall in provision of amenities in the schools as discussed in the succeeding sub paragraphs. The per capita expenditure per child out of EEF ranged from Nil (Madurai City Municipal Corporation) to Rs 1,963 (Tirunelveli City Municipal Corporation) during the period 2002-07 as given below:

(in rupees)

Sl.No.	Name of the Corporation	Per Capita Expenditure				
		2002-03	2003-04	2004-05	2005-06	2006-07
1.	Coimbatore	149	120	386	311	390
2.	Madurai	Nil	Nil	35	400	1,019
3.	Salem	383	71	544	460	242
4.	Tiruchirappalli	532	164	1,274	217	140
5.	Tirunelveli	14	190	485	1,963	825

The guidelines issued (November 2005) by CMA prescribed that all schools should have adequate number of fire extinguisher, library and play field in addition to power supply and drinking water facilities.

With a view to assess the adequacy of basic infrastructure in municipal corporation schools, Audit obtained information from various schools under the control of municipal corporations through a structured questionnaire. Scrutiny of the consolidated information revealed non/inadequate provision of basic amenities and other infrastructure facilities in schools as explained below:

2.2.9.1 Building licence for schools not obtained

Though Tamil Nadu Public Buildings (Licensing) Act, 1965 stipulates that all public buildings be used only under a valid licence issued by the Revenue Department. It was, however, observed that no building licences were obtained (March 2007) for any of the 299 schools under the control of the five municipal corporations, including 20 schools housed in rented buildings. Even though the municipal corporations stated that the school buildings were structurally sound, the same could not be ensured:

- in the absence of certificate obtained from the competent authority, and
- in view of CMA's remarks (November 2005) that many school buildings maintained by the ULBs were in a pathetic condition.

The Government in reply stated (March 2008) that action was being taken to obtain the certificates.

In 258 schools owned by the five municipal corporations there was inadequate provision of urinals and toilets to the extent of 2,792 and 4,167 respectively.

2.2.9.2 *Inadequacy of sanitary arrangements in schools owned by the corporations*

The Education Department of Government of Tamil Nadu prescribed norms for provision of flush out latrine in schools at one per 25 girls and one per 50 boys. Further, provision should be made for urinals at six per 100 boys.

The inadequacy of sanitary facilities in schools computed with reference to students' strength as of 2006-07 was as follows:

Name of the municipal corporation	Number of Schools	To be provided as per norms		Actually provided		Short provision		Percentage of shortfall	
		Urinals	Toilets	Urinals	Toilets	Urinals	Toilets	Urinals	Toilets
Coimbatore	74	1,384	1,776	401	387	983	1,389	71	78
Madurai	54	652	1,148	91	267	561	881	86	76
Salem	43	725	1,085	118	106	607	979	84	90
Tiruchirappalli	54	600	600	197	127	403	473	67	79
Tirunelveli	33	282	559	44	114	238	445	84	80
Total	258	3,643	5,168	851	1,001	2,792	4,167	77	81

The shortfall ranged from 67 to 86 per cent in provision of urinals and 76 to 90 per cent in provision of flush out toilets in schools owned by the five municipal corporations.

Madurai and Tirunelveli City Municipal Corporations stated that sanitary facilities were provided as per Education Committee/Head Masters reports and the shortages pointed out as per norms would be looked into and provided. Tiruchirappalli City Municipal Corporation stated that the deficiencies were not brought to their notice by the Education Department authorities. Coimbatore and Salem City Municipal Corporations stated that deficiencies will be rectified.

This highlighted the deficiencies in the inspection carried out by the Education Standing Committees for preparation of budget estimates as pointed out in Paragraph 2.2.7.

The Government while accepting the inadequacy in sanitary arrangements stated (March 2008) that Rs 1.80 crore was provided by Coimbatore City Municipal Corporation for provision of toilet in 2007-08 and that action would be taken to provide adequate sanitary arrangements in respect of schools in other municipal corporations.

2.2.9.3 *Non/inadequate provision of other amenities/infrastructure facilities*

(a) *Own buildings of corporation*

The details of non/inadequate provision of amenities in schools owned by the corporations are tabulated below:

(Number of schools)

Nature of amenities/ infrastructure not available	Name of the municipal Corporations					
	Coimbatore	Madurai	Salem	Tiruchirappalli	Tirunelveli	Total
1. Play ground	9	21	12	19	3	64
2. Library building	13	12	5	--	4	34
3. Adequate water supply	--	10	3	5	16	34
4. Fire extinguisher	--	60	36	33	22	151
5. Class rooms	20	10	8	10	4	52
	(112)	(67)	(29)	(28)	(21)	(257)

Note: The figures within brackets indicate shortage in number of class rooms required as per norms.

Playground, library and adequate number of class rooms were not available in 64, 34 and 52 schools respectively.

Further, six schools in Salem City Municipal Corporation and three schools in Tirunelveli City Municipal Corporation were not provided with sufficient number of benches and desks. One elementary school in Salem City Municipal Corporation was not provided with electricity. Eight schools were not provided with compound walls in Tiruchirappalli City Municipal Corporation. Tiled/asbestos cement (AC) sheet roofings in 79 schools were not replaced with concrete roof and six schools with leaky roof in Tiruchirappalli City Municipal Corporation were not repaired.

The municipal corporations attributed non-availability of space as reason for inadequacy in providing playgrounds (Madurai and Tirunelveli) and library buildings (Tirunelveli). Non-receipt of proposals from Education Department/schools was also stated as reasons for inadequate amenities. The replies are not tenable as the municipal corporations themselves should have conducted an assessment with reference to availability of basic amenities and infrastructure for proper planning so as to take up the works on priority basis.

Government in reply stated (March 2008) that play ground was provided wherever land was available and that action would be taken to provide the other amenities.

(b) Rented school buildings

In respect of rented school buildings the following deficiencies in provision of various amenities were noticed:

Nature of amenities/ infrastructure not available	Names of municipal Corporations					
	Coimbatore	Madurai	Salem	Tiruchirappalli	Tirunelveli	Total
1. Play ground	--	2	--	--	--	2
2. Power supply	--	1	2	2	1	6
3. Adequate water supply	--	2	1	--	1	4
4. Fire extinguisher	--	2	7	--	1	10
5. Adequate number of urinals/toilets	2	2	7	2	1	14

As may be seen from the above that out of 20 schools functioning in rented buildings, 14 schools did not have adequate urinal/toilet facilities, 10 schools did not have fire extinguishers and six schools did not have power supply. One school in Tirunelveli City Municipal Corporation was functioning in a dilapidated building.

Despite the above deficiencies, the corporations failed to initiate steps to effectively pursue with the owners of the buildings to provide the amenities or to construct own buildings for accommodating the schools functioning in rented buildings.

Though the municipal corporations accepted these deficiencies, they attributed the non-construction of own buildings to non-availability of space within the municipal corporation limits.

While the Government did not furnish any reply in respect of Tiruchirappalli City Municipal Corporation, it stated (March 2008) that the owners were requested to provide the amenities in respect of schools in rented building (Tirunelveli City Municipal Corporation) and that action would be taken to provide the amenities required (Coimbatore, Madurai and Salem City Municipal Corporations).

2.2.9.4 *Decrease in students' strength due to lack of basic amenities*

There was reduction in students' strength in 2006-07 as compared with 2002-03 to the extent of 31 and 22 per cent in respect of elementary education and higher education respectively.

The information furnished by the schools revealed that student strength in 2006-07, as compared to 2002-03, came down in 201 schools (Elementary and Middle Schools: 171 and High and Higher Secondary Schools : 30) while there was increase in 72 schools (Elementary and Middle Schools : 41 and High and Higher Secondary Schools : 31) (**Appendix 2.14**). The overall strength of the elementary schools came down by 6,512 (31 per cent) while the strength of the higher education schools came down by 5,520 (22 per cent) (**Appendix 2.15**). The percentage of reduction in strength ranged from 17 to 45.

The educational authorities of Coimbatore, Madurai, Salem and Tirunelveli City Municipal Corporations attributed this to migration of families, removal of encroachments and slum clearance (Coimbatore), tendency of parents to admit wards to private English medium schools, shortage of teaching staff (Madurai), abnormal increase in Nursery and Primary Schools and decrease in birth rate (Salem and Tirunelveli).

The District Elementary Education Officer, Tiruchirappalli, attributed reduction in students' strength to lack of basic amenities in schools owned by the corporations, poor maintenance of school buildings including class rooms and toilets, and inadequacy of play grounds.

The Government endorsed the replies of Madurai and Tirunelveli City Municipal Corporations that action would be taken to improve students strength. Government's reply did not include responses from Coimbatore and Tiruchirappalli City Municipal Corporations. In respect of Salem City Municipal Corporation, it was stated that the administrative control of schools was with Education Department. The reply was not tenable as providing

required infrastructure and amenities in schools was the responsibility of the Corporation and not of the Education Department.

2.2.10 Conclusion

The budgeting for utilisation of Elementary Education Fund was deficient. There was shortfall with reference to norms for utilisation of the Elementary Education Fund for maintenance of schools. Elementary Education Fund was utilised on ineligible works and was also diverted for other purposes. Sanitary arrangements such as urinals and toilets were not provided as per norms. Infrastructure/amenities such as play ground, library building, drinking water supply, provision of fire extinguishers, etc., were also found to be inadequate in many schools.

2.2.11 Recommendations

- There should be a robust system for identifying school-wise/ward-wise/municipal corporation-wise plan for construction/maintenance out of Elementary Education Fund.
- A survey to identify required infrastructure/amenities in the schools should be conducted and budgets for expenditure from Elementary Education Fund prepared taking into account such works on priority basis.
- Tax collection machinery should be geared up and adequate staff for collection of tax should be provided to keep arrears at a minimum.
- Maintenance works of all schools should be taken up in a cycle so as to utilise at least *25 per cent* Education Tax collected on maintenance.
- Action should be taken to remit back funds diverted from Elementary Education Fund.
- Immediate action should be taken to address the deficiency in providing sanitary arrangements in the schools and also to provide other amenities/infrastructure found to be inadequate in a phased manner.

2.3 Assigned Revenues to Urban Local Bodies

2.3.1 Introduction

Assigned revenues include the class of taxes and levies traditionally collected by Government in related departments and assigned to various ULBs as per the existing norms.

The revenues assigned to ULBs at present along with the name of the departments which collect and assign the revenues and the periodicity of assignment are discussed below:

Kinds of revenues assigned to ULBs.

(a) Entertainment Tax (ET) collected by the Commercial Tax Department is assigned quarterly to the ULBs. With effect from 1 April 1997, 90 *per cent* of ET collected for every quarter under Entertainment Tax Act, 1939 was directly assigned by the territorial Assistant Commissioners (AC) of Commercial Taxes (CT) Department to the ULBs during the second month of the succeeding quarter as per Government order (July 2002) based on the recommendation (May 2002) of Second State Finance Commission (SSFC).

(b) Similarly, Surcharge on Stamp Duty (SSD) is collected by the Registration Department and assigned every quarter to the ULBs. Ninety *per cent* of the SSD was assigned upto 31 March 2002 by the District Collectors. Based on the recommendation of SSFC, approved (August 2002) by state Government, the percentage of assignment was increased to 95 *per cent* with effect from 1 April 2002. The SSD of every quarter has to be released during the second month of the succeeding quarter, as per the recommendation of SSFC (May 2002) and approved (August 2002) by state Government.

Perusal of connected records revealed that the percentage of assigned revenue to total revenue ranged between 8 and 16 in case of municipalities, 9 and 17 in respect of five municipal corporations, 16 and 23 for Chennai City Municipal Corporation and 1 and 19 for town panchayats.

2.3.2 Audit Coverage

Records relating to assigned revenues to ULBs were test checked in the Commissionerate of Municipal Administration, Directorate of Town Panchayats, besides the records in districts *viz.*, Coimbatore, Kancheepuram and Tiruvallur.

The review was conducted to ascertain

- whether the entitled assigned revenues were correctly assigned as per the existing norms and
- whether the revenues were released to the ULBs in time.

2.3.3 Revenue assigned to ULBs during 2002-07

The details of revenue assigned to the ULBs in the state as a whole during 2002-07 is given below:

(Rupees in crore)

	Year	ET	SSD	Total
Chennai City Municipal Corporation	2002-03	13.37	118.02	131.39
	2003-04	6.42	112.75	119.17
	2004-05	20.09	75.27	95.36
	2005-06	13.06	105.12	118.18
	2006-07	3.50	112.22	115.72
Other five Corporations	2002-03	19.20	62.83	82.03
	2003-04	14.06	48.02	62.08
	2004-05	13.96	41.67	55.63
	2005-06	7.27	35.76	43.03
	2006-07	7.30	48.86	56.16
Municipalities	2002-03	38.10	97.64	135.74
	2003-04	24.42	86.57	110.99
	2004-05	18.77	96.24	115.01
	2005-06	15.92	78.95	94.87
	2006-07	8.78	85.55	94.33
Town Panchayats	2002-03	8.30	83.70	92.00
	2003-04	B	B	89.68
	2004-05	B	B	90.49
	2005-06	B	B	112.31
	2006-07	4.89	26.70	31.59

(B) Break up details not made available.

It would be seen from the statement that assigned income of the ULBs (except SSD in municipalities) both under ET and SSD had fallen from 2004-05 and 2003-04 respectively. In municipalities, the collection of SSD increased during 2004-05 but decreased during 2005-06.

The decline in respect of ET was a consequence of the Government's decision to switch over from a compounding pattern to collection of gross admission with effect from 4 October 2004, with a view to mitigate the hardship faced by the film industry.

Similarly, the assigned revenue from Stamp Duty Surcharge also declined because the rate of collection under the Indian Stamps Act, 1989 on transfer of property had been reduced from 5 to 2 per cent with effect from 21 November 2003 thereby reducing the income from this source.

In addition to the decline in quantum of assigned revenue due to new Government policy/rate, audit observed that even the legitimate share of assigned revenue as per the new policy/rate was not assigned to the ULBs, as discussed in the succeeding paragraphs.

2.3.4 Major Audit findings

2.3.4.1 Entertainment Tax

(a) Non-assignment

Scrutiny of records revealed that an amount of Rs 308.65 lakh due for assignment during the period 1998-2007 was not assigned (November 2007) to the test checked ULBs as detailed below:

Non-assignment of ET obtained from amusement parks and from Cable TV providers in Kancheepuram District.

Sl. No	Name of district/urban local body	Amount not assigned (Rs. in lakh)	Details of amount not assigned	Reply of the Department
1	Kancheepuram	263.00	Revenue collected as ET from amusement parks not assigned to the concerned urban local bodies by the AC (CT), Kancheepuram.	The AC (CT) Kancheepuram stated (October 2007) that only the taxes collected towards cinema theatres had been assigned to the urban local bodies and if Government intends to extend the same formula on the collection of tax on amusement parks and from Cable TV providers, necessary arrangements will be made for assigning it to the concerned urban local bodies. As the revenues are in the ambit of entertainment mentioned under Section 4(F) Tax on amusement in the Tamil Nadu Entertainment Tax Act, 1939 and the concerned revenues were already assigned by the departmental officer in one district viz., Coimbatore, reply of the AC (CT), Kancheepuram was not acceptable.
2	Kancheepuram	34.06	Revenue collected towards cable TV connections was not assigned to the concerned urban local bodies.	The AC (CT) Kancheepuram stated (October 2007) that only the taxes collected towards cinema theatres had been assigned to the urban local bodies and if Government intends to extend the same formula on the collection of tax on amusement parks and from Cable TV providers, necessary arrangements will be made for assigning it to the concerned urban local bodies. As the revenues are in the ambit of entertainment mentioned under Section 4(F) Tax on amusement in the Tamil Nadu Entertainment Tax Act, 1939 and the concerned revenues were already assigned by the departmental officer in one district viz., Coimbatore, reply of the AC (CT), Kancheepuram was not acceptable.
3	Kancheepuram District – Chitlapakkam Town Panchayat	2.17 ¹	ET due for 2002-07 (9 quarters) was not assigned.	The Executive Officer, Chitlapakkam Town Panchayat stated (November 2007) that action would be taken to get the assigned revenue due.

¹ Worked out on the basis of assignments during previous years.

Sl. No	Name of district/urban local body	Amount not assigned (Rs. in lakh)	Details of amount not assigned	Reply of the Department
4	Coimbatore District – Alandurai Town Panchayat	8.62	ET due for the period January 1998 to June 2000 (10 quarters) was not assigned so far (September 2007).	The Executive Officer, Alandurai Town Panchayat (TP) stated (November 2007) that the amount would be adjusted after obtaining revalidation orders from the AC (CT), Coimbatore.
5	Coimbatore District – Thirumurugan Poondi Town Panchayat	0.80 ²	ET due for the third quarter of 2006-07 was not assigned inadvertently.	The Executive Officer of the TP stated (November 2007) that action would be taken to get the due assigned revenue immediately.
Total		308.65		

Due to non-assignment of the revenues mentioned above, the concerned ULBs were deprived of their eligible revenues in time so as to enable them to plan their expenditure on proposed development works.

(b) Delayed assignment

Scrutiny of records revealed that Rs 122.33 lakh being the ET relating to four quarters during 2003-05 assignable to Tiruppur Municipality, was assigned belatedly, as detailed below:

Delayed assignment of ET to Tiruppur Municipality.

Name of district/urban local body	Amount not assigned (Rs. in lakh)	Details of amount not assigned	Reply of the Department
Coimbatore District – Tiruppur Municipality	122.33	ET due for four quarters ending 30 June 2003, 31 December 2004, 31 March 2005 and 30 June 2005 were claimed belatedly after obtaining revalidation orders from AC(CT), Tiruppur with delays ranging between 4 and 25 months from the date of proceedings of assignment of ET issued originally by AC(CT), Tiruppur, but not acted upon. As these revenues were credited to the General Fund, which earns interest, the belated adjustment of these revenues resulted in a loss of interest of Rs 6.05 lakh (at the rate of 4.5 per cent per annum) to the municipality.	The Commissioner of Tiruppur Municipality replied (November 2007) that the delay was due to non-receipt of the proceedings in time from the Commercial Tax Department. As the revenue was due over a sufficient period, the commissioner should have taken action earlier to get the due amount by contacting the Commercial Tax Department.

² Worked out based on the second quarter assignment.

Delay and difference in adjustment of ET.

The field visits of the Third State Finance Commission (TSFC) also revealed that there had been delays and differences in the adjustments made and that Rs 34 crore of ET collected for the period 2002-05 was still lying unadjusted to ULBs and PRIs in the State as a whole. The State Government paid no interest for the period of delay in assignment of ET. Audit noticed that the recommendation of the TSFC to the effect that the ULBs and PRIs are entitled to interest for the period of delay in release of ET dues for the period 1997-2002 and 2002-06 was not accepted by Government. However, it agreed to release the arrears without interest. Further action taken by Government in this regard is yet to be made available (December 2007).

2.3.4.2 Surcharge on Stamp Duty**(a) Short assignment****Short assignment of SSD due to non-adoption of enhanced rate.**

(i) Despite the Surcharge on Stamp Duty (SSD) due for assignment to ULBs being enhanced by Government from 90 to 95 *per cent* with effect from 1 April 2002, the SSD was assigned to the municipalities in Kancheepuram and Tiruvallur Districts at the old rate of 90 *per cent* for the period 1 April 2002 to 30 September 2002. The short assignment of SSD in this regard worked out to Rs 24.26 lakh and Rs 41.96 lakh respectively. District Registrar, Kancheepuram, stated (October 2007) that action would be taken in this matter early.

Short assignment of SSD to ULBs.

(ii) Short assignment of SSD to Poonamallee, Sriperumbudur and Pammal Municipalities are indicated below:

(Rupees in lakh)					
Name of the municipalities	Due for the quarter ending	Amount due	Amount assigned	Short assignment	Remarks
Poonamallee	30 September 2005	13.63	1.36	12.27	District Registrar, Kancheepuram stated (November 2007) that the amount short assigned would be released along with the dues for the next quarter.
	31 March 2007	26.65	22.84	3.81	
Sriperumbudur	30 June 2004	3.43	0.34	3.09	The short assignment was due to typographical error and the District Registrar, Kancheepuram stated that this amount will be adjusted in future assignment.
Pammal	30 September 2004	17.01	2.03	14.98	The District Registrar, Kancheepuram admitted (November 2007) that Rs 2.03 lakh was assigned for the quarter ending 30 September 2004, whereas the eligible assignment was only Rs 17.01 lakh.

(b) Non-assignment

Rupees 1.18 lakh being the SSD due for the quarter ended 30 June 2005 to Kathivakkam Municipality in Tiruvallur District was yet to be assigned even after a lapse of two years.

(c) Excess assignment

In two municipalities, Thiruverkadu and Tiruvallur, the SSD was assigned in excess as indicated below:

Excess assignment of SSD in two municipalities.	(Rupees in lakh)				
	Name of the municipality	SSD due for the quarter ended	Amount due	SSD amount assigned	Excess assignment
	Thiruverkadu	March 2007	54.39	622.30	567.91
	Tiruvallur	March 2007	20.39	112.92	92.53

Without giving any specific reasons for the excess assignment, the District Registrar, Kancheepuram, admitted the excess release and stated (November 2007) that these amounts would be adjusted against future dues. The municipalities replied that the matter would be taken up with the District Registrar.

(d) Delayed assignment

Delayed assignment of surcharge on Stamp Duty in three districts.

The recommendation of SSFC to the effect that the assigned revenue of SSD for every quarter should be released to the ULBs in the second month of the subsequent quarter was accepted (August 2002) by Government, duly passing orders. However scrutiny of connected records in Coimbatore, Kancheepuram and Tiruvallur Districts revealed that the SSD was assigned to the town panchayats after a delay of one to four months, one to seven months and one to four months respectively and to the municipalities after a delay of one to eight months. Though the delay was attributed to administrative reasons, it should be avoided as it postponed the receipt of revenue by the concerned town panchayats and municipalities. This also resulted in loss of interest of Rs 4.23 crore (worked out at the rate of 4.5 per cent), accruable on such assigned revenues to them when kept in the interest bearing General Fund.

2.3.4.3 Absence of envisaged Monitoring Mechanism

State Level Monitoring Committee not formed.

SSFC recommended (May 2002) that a State Level Monitoring Committee consisting of Commissioner of Revenue Administration, Director of Rural Development and Commissioner of Municipal Administration should be constituted to monitor and ensure that the legitimate assigned revenues to the ULBs reached them in time. Government also accepted the recommendation in May 2006. However, no monitoring committee was constituted for this purpose so far (October 2007) as a result of which the deficiencies remained uncorrected and the resource base of the ULBs continued to be eroded.

The TSFC also mentioned about SSD in its report (September 2006) as follows:

Variation in the figures of surcharge on stamp duty.

In respect of SSD, for the past five years, the amount entitled to be transferred to ULBs and the amount actually reflected in the Accounts of the Accountant General (Accounts and Entitlement) during 2000-05 were found varying as shown below:

Total surcharge collected	: Rs 2056.40 crore
Allocation to urban local bodies	: Rs 1933.62 crore
Figures as per the Accounts of Accountant General (Accounts and Entitlement)	: Rs 1952.27 crore

Government stated (May 2007) in their “Action Taken Report” that the figures would be reconciled and difference adjusted in the coming years.

The Commission also stated that their field visits revealed that neither the urban local bodies nor the Government departments showed any concern for timely adjustment of the dues to the urban local bodies as the quarterly adjustment took at least one to three months.

2.3.5 Conclusion

Non-assignment of Entertainment Tax and short assignment of Surcharge on Stamp Duty in selected districts deprived the related urban local bodies of their legitimate share of revenue resulting in depletion of their resource base. Delayed assignment of Entertainment Tax and Surcharge on Stamp Duty resulted in loss of interest accrued on such revenues when deposited in the general fund of the concerned urban local bodies. Non-formation of a State Level Monitoring Committee as recommended by the SSFC though accepted by the Government resulted in such deficiencies remaining uncorrected.

2.3.6 Recommendations

- Government should issue instructions to all the related departments to assign the legitimate revenues to the ULBs in full and in time.
- All the pending and unassigned revenues as of date should be assigned to the ULBs without any further delay.
- State Level Monitoring Committee should be formed for monitoring the prompt assignment of eligible revenues.

The above points were referred to Government in December 2007; reply had not been received (April 2008).