

CHAPTER I

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

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1.1 Introduction

1.1.1 Consequent to the 74th amendment of the Constitution, the State Government amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to Urban Local Bodies (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 ULBs at each level as on 31 March 2009 along with the average population covered by each type of urban local body as per the 2001 census is given in **Table 1.1**.

Table 1.1: Number of ULBs with average population covered

Category of ULB	Number of Urban Local Bodies	Population (as per 2001 census)	Average population covered per local body (as per 2001 census)
Municipal Corporations	10*	88,32,922	8,83,292
Municipalities	148	92,95,784	62,810
Town Panchayats	561	76,46,386	13,630

(Source: Performance Budget 2007-08 of the Municipal Administration and Water Supply Department)

* Two corporations (Vellore and Thoothukudi) formed in August 2008.

Tamil Nadu is the most urbanised state in India. 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 registered a growth of 43 *per cent*.

1.1.3 The Municipalities and Town Panchayats are classified into different grades by the Government of Tamil Nadu based on their 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 10 crore	20
	Selection grade	Rs 6 crore and above but below Rs 10 crore	29
	First grade	Rs 4 crore and above but below Rs 6 crore	29
	Second grade	Below Rs 4 crore	21
	Third grade	(Erstwhile Town Panchayats with population exceeding 30,000)	49
		Total	148

Category of ULB	Grade	Annual income	Number
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

(Source : Policy Note 2009-10 of Municipal Administration and Water Supply Department)

1.2 Administrative arrangements

1.2.1 Administration of ULBs

The overall administration of ULBs vests with the Principal Secretary to Government, Municipal Administration and Water Supply (MAWS) Department at Government level. Principal Secretary, MAWS exercises this control through Director of Municipal Administration (DMA) in case of Municipalities and Municipal Corporations except Chennai and through Director of Town Panchayats (DTP) in case of Town Panchayats. The Chennai City Municipal Corporation is under the direct administrative control of Tamil Nadu Government i.e., Principal Secretary, MAWS Department. An organisational chart on the administration of ULBs is given in **Appendix 1.1**.

The Mayor is the elected representative of the Municipal 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 and in all Town Panchayats with effect from 2002-03 in a phased manner.

1.3.2 Accounts maintained by Urban Local Bodies

Apart from the General Fund Account, the following accounts are maintained under the accrual-based system of accounting by all the Municipalities, five¹ 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).

¹ Coimbatore, Madurai, Salem, Tiruchirappalli and Tirunelveli

The cash balance of each of the above funds is maintained in a separate bank account. The Chennai City Municipal Corporation maintains (i) a General Fund comprising both Revenue and Capital Funds and (ii) an Elementary Education Fund.

1.3.3 Database formats

The State Government accepted (February 2005) the database formats on finances of 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. The Third State Finance Commission (TSFC) also recommended that all ULBs should create the database in the prescribed format and the concerned heads of departments should monitor the database on a quarterly basis. Government accepted the recommendation (May 2007) with a modification to implement this only in respect of Municipal Corporations and Municipalities. Subsequently, all the ULBs (9 Corporations and 148 Municipalities and all 561 Town Panchayats) had been instructed (October 2009 and November 2009) by the DMA and DTP respectively to upload the data on the finances, in the prescribed formats for the years from 2004-05 to 2009-10. The DMA stated (May 2010) that the uploading of the data was being monitored regularly and the consolidation of statements for the years 2004-05 to 2008-09 were under process.

1.3.4 Finalisation of Accounts

All the ULBs have to submit their accounts of each year to Director of Local Fund Audit (DLFA) in the month of May of the succeeding year. The position of non-submission of accounts by ULBs to DLFA from 2007-08 is given in **Table 1.3**.

Table 1.3: Position of non-submission of accounts of ULBs

Category of ULB	Number of ULBs not submitted accounts relating to		As of
	2007-08	2008-09	
Corporations	Nil	3	April 2010
Municipalities	Nil	53	April 2010
Town Panchayats	2	83	January 2010

(Source: Details furnished by DLFA in March 2010 and DMA in May 2010)

The pendency in preparation of accounts of ULBs and the eventual delay in the audit of their accounts would result in continued existence of deficiencies in the accounts.

1.4 Audit arrangements

1.4.1 DLFA is the statutory auditor for ULBs (including Town Panchayats). Fifty *per cent* of the actual cost of audit² of DLFA is paid by the ULBs out of the Municipal fund.

1.4.2 The Principal Accountant General (PAG) audits the ULBs under Section 14 of the Comptroller and Auditor General of India'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 by DLFA up to 2004-05. Position of arrears in completion of audit of ULBs, as reported (March 2010) by DLFA as of January 2010 and by DMA in May 2010 as of April 2010 is given in **Table 1.4**.

Table 1.4: Position of non-completion of audit of ULBs

Category of ULB	Total number	2006-07 Number of units			2007-08 Number of units			2008-09 Number of units		
		Completed accounts (A)	Audit completed (B)	Audit pending (C)	(A)	(B)	(C)	(A)	(B)	(C)
Corporations	6 (2006-07) 8 (2007-08) 10 (2008-09)	6	6	Nil	8	7	1	6	Nil	10
Municipalities	152 (2006-07) 150 (2007-08) 148 (2008-09)	152	152	Nil	150	119	31	95	7	141
Town Panchayats	561	561	559	2	559	324	237	478	62	499

(Source: Details furnished by DLFA in March 2010 and DMA in May 2010)

The main reasons attributed (September 2009) by DLFA for the arrears were non-receipt of accounts on due dates from the ULBs and furnishing of defective accounts. Although the due date of submission of accounts for Municipal Corporations is 31 May 2009 and for Municipalities and Town Panchayats is 15 May 2009, only six corporations and 95 Municipalities had submitted their accounts as of April 2010.

1.4.4 DLFA reported (September 2009) that the number of paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats included in their Inspection Reports (IRs) issued during 2005-08 that were pending settlement as of March 2009 aggregated to 43,308 paragraphs. The category wise pendency are as given in **Table 1.5**.

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

Table 1.5: Category-wise pendency of inspection paragraphs of DLFA

Category of ULB	Number of paragraphs pending
Corporations	
Chennai	1,888
Coimbatore	925
Salem	773
Tiruchirappalli	1,212
Tirunelveli	599
Madurai	748
Tiruppur	170
Erode	168
Vellore	175
Thoothukudi	208
Municipalities	10,813
Town Panchayats	25,629
Total	43,308

(Source: Details furnished by DLFA in September 2009)

The details of inspection paragraphs issued during 2008-09 are yet to be compiled by DLFA and made available to Audit. The year-wise break-up details are given in **Appendix 1.2**.

1.4.5 Based on the recommendations of Second State Finance Commission (SSFC), State Government formed (June 2007) District High Level Committee (DHLC) for settling the pending paragraphs of DLFA relating to Municipal Corporations and State High Level Committee for monitoring the functions of DHLC. For municipalities District Committees were already in existence.

The CMA stated (January 2010) that 249 paragraphs relating to four Municipal Corporations (Coimbatore, Madurai, Tiruchirappalli and Tiruppur) and 1,136 paragraphs relating to Municipalities of four regions (Madurai, Thanjavur, Tirunelveli and Tiruppur) were settled during 2009 in the DHLC meetings.

The DTP stated (January 2010) that 24 DHLC meetings and one State High Level Committee meeting were conducted during January 2008 to November 2009 and 1,056 audit objections relating to Town Panchayats were settled in those meetings. DTP further stated that audit objections settlement meetings are being conducted at zonal level every month from April 2009.

In spite of formation of such committees large number of audit objections were pending settlement indicating the inadequate response from ULBs.

1.4.6 Audit of ULBs by Principal Accountant General (Civil Audit)

Audit of ULBs through test check of records are followed-up through Inspection Reports issued to the Commissioner, MAWS with copies to ULBs. Government has issued general orders in April 1967 fixing a time limit of four weeks for prompt response by the authorities for all such paragraphs included in the Inspection Reports issued by Audit.

Joint sittings numbering 18 and seven were held in 2008-09 and 2009-10 respectively involving departmental offices and all outstanding paragraphs upto 2005-06 were settled on the basis of replies given by the departments.

As of May 2010, 2,920 paragraphs relating to 524 Inspection Reports were not settled for want of satisfactory replies, as indicated in **Table 1.6**.

Table 1.6: Year-wise pendency of paragraphs of PAG (Civil Audit)

Year	Numbers	
	Inspection Reports	Paragraphs
2006-07	52	78
2007-08	114	171
2008-09	358	2,671
Total	524	2,920

1.5 Devolution of functions, functionaries and funds

Out of the 18 functions listed in the Twelfth Schedule of the Constitution 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 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.

Based on the recommendations of the High Power Committee, State Government enhanced (February 2009) the powers of DMA in respect of Municipal Corporations other than Chennai to sanction estimates exceeding Rupees One Crore but not exceeding Rupees Five Crore.

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 (March 2008) to carry out devolved functions. Government also reported that plan and non-plan discretionary grants were being transferred to ULBs in addition to successive State Finance Commission grants. 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 State Finance Commissions (SFCs), as accepted by the Government and as per the Local Bodies Acts.

DMA stated (June 2010) that out of 18 mandatory functions of ULBs, 17 functions (except Fire Services) have been devolved to Municipalities and Municipal Corporations.

1.6 Third State Finance Commission

The Third State Finance Commission (TSFC) in its report submitted to the State Government in September 2006, recommended for devolution of funds to local bodies in the form of a three way package viz., Pool A (dealing with assigned part such as Entertainment Tax, Surcharge on Stamp Duty, Seigniorage fees, etc.) Pool B (dealing with sharing of State's own tax revenue) and Pool C (dealing with specific purpose grants). Out of 306 recommendations relating to both Urban Local Bodies and Panchayat Raj Institutions (PRIs), Government accepted (May 2007) 162 in full/part/in principle and did not accept 89 recommendations. 55 recommendations were referred to High Level Committee or pending with Government.

As per Recommendation No.113, State Government agreed to lay minimum Property Tax at the rate of Rs 25, Rs 40 and Rs 50 per half year for Town Panchayats, Municipalities and Municipal Corporations respectively. However, no Government order was issued in this regard so far.

1.7 Receipts and Expenditure of Urban Local Bodies

1.7.1 The details of receipts and expenditure of ULBs during 2006-09 as reported by CMA (November 2009), Commissioner of Chennai City Municipal Corporation (November 2009, January 2010 and April 2010) and DTP (April 2010) 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 and the data are provisional subject to audit by DLFA.

Table 1.7: Revenue and Expenditure of ULBs during 2006-09

Chennai City Municipal Corporation

	(Rupees in crore)		
	2006-07	2007-08	2008-09
Own Revenue	359	444	516
Assigned Revenue	116	138	101
Grants	157	209	275
Loans	4	4	25
Total Receipts	636	795	917
Revenue Expenditure	496	536	665
Capital Expenditure	121	199	405
Total Expenditure	617	735	1,070

(Source: Details furnished by Commissioner of Chennai City Municipal Corporation in November 2009 and January 2010 and Budget Estimates for 2008-09 and 2009-10)

Other Municipal Corporations³

(Rupees in crore)

	2006-07	2007-08	2008-09
Own Revenue	233	283	382
Assigned Revenue	56	67	74
Grants	140	511	411
Loans	38	19	68
Total Receipts	467	880	935
Revenue Expenditure	303	367	479
Capital Expenditure	181	318	367
Total Expenditure	484	685	846

(Source: Details furnished by Director of Municipal Administration, in November 2009)

Municipalities

(Rupees in crore)

	2006-07	2007-08	2008-09
Own Revenue	489	535	526
Assigned Revenue	94	166	171
Grants	490	673	618
Loans	42	53	233
Total Receipts	1,115	1,427	1,548
Revenue Expenditure	617	678	795
Capital Expenditure	484	611	680
Total Expenditure	1,101	1,289	1,475

(Source: Details furnished by Director of Municipal Administration in November 2009)

Town Panchayats

(Rupees in crore)

	2006-07	2007-08*	2008-09
Own Revenue	1,733	250	318
Assigned Revenue	32	81	106
Grants	923	607	640
Loans	68	39	27
Total Receipts	2,756	977	1,091
Revenue Expenditure	294	346	388
Capital Expenditure	164	267	316
Total Expenditure	458	613	704

(Source: Details furnished by Director of Town Panchayats in April 2010)

*Figures differ from last year's report due to revised figures furnished by the Director of Town Panchayats in April 2010.

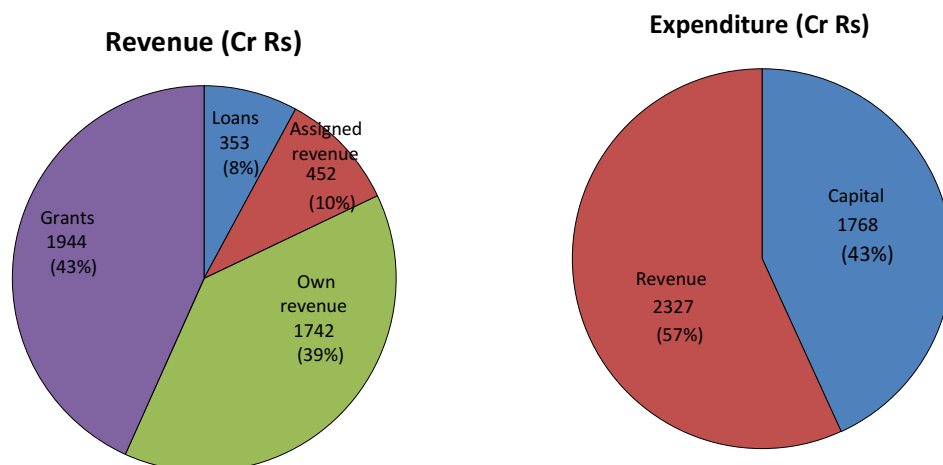
The data in the above table reveal the following:

³ Coimbatore, Madurai, Salem, Tiruchirappalli and Tirunelveli

The total receipts of Municipalities, Chennai City Municipal Corporation and other Municipal Corporations show an increasing trend during 2006-09. There was increase in the total receipts of Chennai, Coimbatore and Madurai Municipal Corporations in 2008-09 because of the receipt of more grants under Jawaharlal Nehru National Urban Renewal Mission (JNNURM). The receipts of Town Panchayats increased manifold i.e. Rs 2,756 crore during 2006-07 as compared to Rs 603 crore in 2005-06. In response to an audit query seeking reasons for such an increase, the DTP 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. It was further stated that discrepancies could be reconciled only on receipt of audited annual accounts from zonal offices. Correct details are yet to be received. The details for 2007-08 and 2008-09 have been furnished in April 2010, which were now incorporated in the report.

Pie charts representing component-wise receipts and expenditure for 2008-09 in respect of Chennai City Municipal Corporation, other Municipal Corporations, Municipalities and Town Panchayats are given below:

Receipts and Expenditure 2008-09



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

1.8 Receipts of Urban Local Bodies

A chart depicting various sources of revenues of ULBs is given in **Appendix 1.3**.

1.8.1 Own revenue realised

Details of own revenue realised by ULBs (including Town Panchayats) during 2006-09 as furnished by the DMA (November 2009), Chennai City Municipal Corporation (November 2009 and January 2010) and DTP (April 2010) are given in **Table 1.8**.

Table 1.8: Own revenue of ULBs

(Rupees in crore)

Category of ULB	2006-07			2007-08			2008-09		
	Tax revenue	Non-tax and other revenues	Total	Tax revenue	Non-tax and other revenues	Total	Tax revenue	Non-tax and other revenues	Total
Chennai City Municipal Corporation*	291.85	67.37	359.22	358.13	85.66	443.79	408.57	107.85	516.42
Other Municipal Corporations (5)	134.48	98.73	233.21	156.74	126.01	282.75	238.40	143.21	381.61
Municipalities	292.70	196.30	489.00	304.34	230.81	535.15	290.36	235.57	525.93
Town Panchayats	905.62	827.44	1,733.06	77.75	171.78	249.53	108.29	210.06	318.35
Total	1,624.65	1,189.84	2,814.49	896.96	614.26	1,511.22	1,045.62	696.69	1,742.31

(Source: Details for Chennai City Municipal Corporation furnished by Commissioner of Chennai City Municipal Corporation and obtained from Budget Estimates for 2008-09 and 2009-10. In respect of other ULBs, details furnished by Director of Municipal Administration and Director of Town Panchayats)

* Figures differ from last year's report due to revised figures furnished by Commissioner of Chennai City Municipal Corporation.

While the own revenue of Municipal Corporations and Chennai City Municipal Corporation increased during 2006-09, that of Municipalities after increasing in 2007-08 decreased during 2008-09 due to upgradation of four Municipalities to Municipal Corporations in 2007-09.

1.8.2 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.

1.8.3 Property Tax

The mainstay of revenue income to ULBs is from the levy of Property Tax. The collected 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 ULB	Percentage of Property Tax to					
	Total revenue			Own revenue		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
Chennai City Municipal Corporation	36	36	35	63	64	62
Other Municipal Corporations ⁴	26	16	23	52	50	56
Municipalities	23	18	17	53	48	49
Town Panchayats	2	7	6	3	26	21

(Source: Details furnished by Commissioner, Chennai City Municipal Corporation, Director of Municipal Administration and Director of Town Panchayats)

⁴ Figures for 2007-08 did not include Municipal Corporations of Erode and Tiruppur which are formed in January 2008 but the figures for 2008-09 includes all nine Municipal Corporations

The position of cumulative demand (including arrears), collection and balance of Property Tax during the last three years *viz.*, 2006-07 to 2008-09 in the ULBs as reported by Commissioner of Chennai City Municipal Corporation, CMA and DTP is given in **Appendix 1.4**.

The figures in **Appendix 1.4** indicate that the percentage of Property Tax collected *vis-à-vis* that demanded in Municipalities, Chennai City Municipal Corporation and other Municipal Corporations increased from 54 to 55, 51 to 61 and 54 to 63 *per cent* respectively during 2008-09 when compared to 2006-07. In Town Panchayats, the percentage of collection after increasing from 70 in 2006-07 to 79 in 2007-08 declined to 64 in 2008-09.

Further scrutiny of data revealed that

- The CMA had been reviewing (May 2009 and December 2009) the reports received from the Commissioners of all the nine Municipal Corporations and Municipalities to monitor and improve the collection of Property Tax by them. The absence of any tangible progress indicates that such reviews did not have the desired impact as arrears of Property Tax due for collection in Municipalities continued to be high at Rs 217.21 crore, Rs 223.98 crore and Rs 211.51 crore respectively at the end of 2006-07, 2007-08 and 2008-09.

1.8.4 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 1.5**.

The data in **Appendix 1.5** reveal the following:

- The percentage of collection of Profession Tax in other corporations compared to the demands made varied between 72 and 71 during 2006-09.
- The percentage of collection of Profession Tax as compared to the demands made, increased from 54 in 2006-07 to 66 in 2007-08 and then decreased to 64 in 2008-09 in the Municipalities.
- As per the revised figures furnished by the DTP the percentage of collection in Town Panchayats increased from 34 in 2006-07 to 89 in 2008-09 and the collection towards current demands were in excess of the demands made during 2007-08 and 2008-09.

The Third State Finance Commission (TSFC) indicated in their report (May 2007) that during 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 provisions and owing to the lack of man power. The tax potential from this source could thus not be tapped. The revised slab suggested by the Commission for levying Profession Tax on 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 establishments from 1 April 2007 was accepted with the condition that the date of effect would be decided by Government. However, the date is yet to be decided by Government.

1.8.5 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 1.6**.

The data in **Appendix 1.6** showed that the percentage of collection of non-tax revenues as against the demands raised by Municipal Corporations and Municipalities increased from 54 in 2006-07 to 63 in 2008-09 and from 75 in 2006-07 to 80 in 2008-09 respectively. In respect of Town Panchayats, the percentage of collection decreased from 91 in 2006-07 to 87 in 2008-09, as per the figures furnished by the DTP in December 2009.

Rupees 260.88 crore was collected as non-tax revenue by Chennai City Municipal Corporation during 2006-09. The break-up details for the demands raised and the amount collected were not furnished by the Commissioner of Chennai City Municipal Corporation.

1.8.6 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 2006-09 as reported by the Commissioner of Chennai City Municipal Corporation, CMA and DTP are shown in **Table 1.10**.

Table 1.10: Assigned Revenue to ULBs

Category of ULBs	2006-07			2007-08			2008-09		
	ET	SSD	Total	ET	SSD	Total	ET	SSD	Total
Chennai City Municipal Corporation	3.50	112.22	115.72	17.08	121.24	138.32	8.30	92.37	100.67
Other Municipal Corporations	7.30	48.86	56.16	7.46	59.66	67.12	5.27	68.45	73.72
Municipalities	8.78	85.55	94.33	16.64	149.78	166.42	18.43	152.18	170.61
Town Panchayats	4.89	26.70	31.59	21.66	59.10	80.76	28.93	76.69	105.62

(Source: Details furnished by Commissioner of Chennai City Municipal Corporation (November 2009 and January 2010), Director of Municipal Administration (November 2009) and Director of Town Panchayats (April 2010))

The total assigned revenue to ULBs showed an increasing trend during the years 2006-09 except in Chennai City Municipal Corporation in which the

assigned revenue declined to Rs 100.67 crore in 2008-09 from Rs 138.32 crore in 2007-08.

1.8.7 Grants and loans released to Urban Local Bodies

1.8.7.1 Grants released

Apart from the devolution-grants⁵ based on the recommendations of SSFC, various grants were given to ULBs by the Central and State Government for implementation of various schemes. 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 various schemes.

The assistance provided by way of grants and loans to ULBs during 2006-09 are given in **Table 1.11**.

Table 1.11: Grants and loans released to ULBs

(Rupees in crore)

Year	Chennai City Municipal Corporation			Other Municipal Corporations			Municipalities			Town Panchayats		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
2006-07	157.02	3.57	160.59	139.64	37.59	177.23	489.41	42.16	531.57	922.80	67.53	990.33
2007-08	208.92	4.06	212.98	511.13	18.51	529.64	673.35	53.03	726.38	606.62	38.54	645.16*
2008-09	274.95	25.19	300.14	410.68	67.53	478.21	617.54	233.39	850.93	640.27	27.36	667.63

(Source: Details for Chennai City Municipal Corporation furnished by Commissioner of Chennai City Municipal Corporation (November 2009 and January 2010) and obtained from Budget Estimates for 2008-09 and 2009-10. In respect of other ULBs, details furnished by Director of Municipal Administration (November 2009) and Director of Town Panchayats (April 2010)

* Figures differ from last year's report due to revised figures furnished by DTP in April 2010.

The figures in the above table reveal the following:

Grants released to Chennai City Municipal Corporation and Town Panchayats had increased during 2008-09 as compared to 2007-08 whereas the same had decreased for other Municipal Corporations and Municipalities.

As a percentage of total revenue during 2006-09, grants constituted 25 to 30 per cent in Chennai City Municipal Corporation, 30 to 58 per cent in other Municipal Corporations, 40 to 47 per cent in Municipalities and 34 to 62 per cent in Town Panchayats. This clearly indicated that grants are the major source of receipts in Municipal Corporations (except Chennai), Municipalities and in Town Panchayats.

The increase in grants during 2006-07, 2007-08 and 2008-09 was mainly due to receipt of grants under Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

The increase in loans during 2008-09 to Municipal Corporations was due to availing of loan from financial institutions for the execution of major schemes.

⁵ Second SFC grants to the extent of actual receipts after adjustment.

1.8.7.2 State Finance Commission grants

The Third State Finance Commission recommended that the Panchayat Raj Institutions and Urban Local Bodies would receive nine *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 (42 *per cent*), the resources would be shared between the Municipal Corporations, Municipalities and Town Panchayats in the ratio of 30:41:29 from 1 April 2007.

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. The details of net grants released to ULBs as reported by the respective heads of departments during 2006-07 to 2008-09 is given in **Tables 1.12 to 1.14.**

**Table 1.12: SFC grants to Municipal Corporations
(including Chennai City Municipal Corporation)**

(Rupees in crore)

Year	State's own tax revenue	Grant due	Grants sanctioned#	Adjusted before release *	Net grant released	Released to	
						Chennai City Municipal Corporation	Other Municipal Corporations
2006-07	27,731	314.47	241.18	25.88	215.30	122.15	93.15
2007-08	29,610	335.78	310.19	12.96	297.23	158.93	138.30
2008-09	33,672	381.84	367.20	25.57	341.63	161.57	180.06

(Source: Details extracted from Chapter I of Audit Report 2008-09 (Civil) for State's Own Tax Revenue excluding Entertainment Tax and details furnished by Commissioner, Chennai City Municipal Corporation (November 2009 and January 2010) and Director of Municipal Administration (November 2009))

* Adjusted towards Pension Payment and Recovery towards repayment of loan.

Figure differ from last year's report due to adoption of revised figures given by Commissioner, Chennai City Municipal Corporation (November 2009 and January 2010).

Table 1.13: SFC grants to Municipalities

(Rupees in crore)

Year	Grant Due	Grants sanctioned	Adjusted before release *	Net grant released	Grants utilised	Unutilised grants
2006-07	429.77	315.88	140.02	175.86	148.11	27.75**
2007-08	458.90	448.06	123.63	324.43	324.43	Nil
2008-09	521.85	441.92	145.30	296.62	296.62	Nil

(Source: Details furnished by Director of Municipal Administration (November 2009))

* Adjusted towards Pension Payment and Recovery towards repayment of loan

** Unutilised grants were utilised fully during subsequent year.

Table 1.14: SFC grants to Town Panchayats

(Rupees in crore)

Year	Grant Due	Grants sanctioned #	Adjusted before release *	Net grant released	Grants utilised	Unutilised grants
2006-07	303.99	148.79	15.09	133.70	133.13	0.57
2007-08	324.59	187.82	22.84	164.98	161.24	3.74
2008-09	369.11	232.92	23.21	209.71	208.40	1.31

(Source: Details furnished by Director of Town Panchayat (April 2010))

* Adjusted towards Pension Payment and Recovery towards repayment of loan.

Figure differ from last year's report due to adoption of revised figures given by Director of Town Panchayats (April 2010).

1.8.7.3 Central Finance Commission grants

(a) Based on the recommendations of the Twelfth Finance Commission (TFC) the Union Government had allocated Rs 572 crore to civic bodies from 2005-06 to 2009-10. Government of India also issued instructions that the TFC grants are to be utilised for solid waste management (50 per cent), maintenance of roads and storm water drains (25 per cent) and miscellaneous works such as creation of database, payment of electricity charges etc., (25 per cent).

The details of Central Finance Commission grants received from Government of India and utilised during 2006-07 to 2008-09, as reported by the respective heads of departments, are given in **Table 1.15**.

Table 1.15: Central Finance Commission grants to ULBs

(Rupees in crore)

Year	Chennai City Municipal Corporation			Other Municipal Corporations			Municipalities			Town Panchayats**		
	Released (A)	Utilised (B)	Unutilised (C)	(A)	(B)	(C)	(A)	(B)	(C)	(A)	(B)	(C)
2006-07	19.10	19.10 (100)	Nil	16.36	14.50 (89)	1.86	46.83	38.26 (82)	8.57	10.88	10.58 (97)	0.30
2007-08	19.10	19.10 (100)	Nil	16.36	13.05 (80)	3.31	46.83	40.32 (86)	6.51	32.10	13.09 (41)	19.01
2008-09	19.10	19.10 (100)	Nil	21.21	18.96 (89)	2.25	41.99	32.65 (78)	9.34	22.53	11.14* (49)	11.39

(Source: Details furnished by Commissioner of Chennai City Municipal Corporation (November 2009 and January 2010), Director of Municipal Administration (November 2009) and Director of Town Panchayats (April 2010))

* includes Rs 1.32 crore deducted towards Sales Tax, Income Tax and Labour Welfare Fund.

** Figures differ from last year's report due to adoption of revised figures given by DTP (April 2010).

(Figures in the brackets represent the percentage of utilisation).

The amount reported as unutilised out of Central Finance Commission grants was stated to have been utilised in the subsequent years. However test check of records relating to four Municipal Corporations, 7 Municipalities and 18 Town Panchayats revealed that out of TFC grants released during 2005-06, 2006-07 and 2007-08, Rs 10.27 crore were lying unutilised as of 31 March 2008, as shown in **Table 1.16**.

Table 1.16 : Unutilised Central Finance Commission grants
(Rupees in crore)

Category of ULB and numbers	2005-06	2006-07	2007-08	Total
Corporations (4)	Nil	4.09	4.69	8.78
Municipalities (7)	0.15	0.20	0.57	0.92
Town Panchayats (18)	0.02	0.14	0.41	0.57
Total	0.17	4.43	5.67	10.27

(b) According to para 6.1 of guidelines issued by GOI on release and utilisation of 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.

A test check of connected records revealed that the first instalment of TFC grants were released to ULBs in 2007-08 belatedly with delays ranging between 9 days and 334 days as indicated in **Table 1.17**. There was no delay in the release of second instalment.

Table 1.17: Period of delay in release of TFC grants to ULBs during 2007-08

Category of ULB	Period of delay in release (Delay beyond 15 days from the due date)
	First instalment
Corporations	21 to 34 days (four Corporations)
Municipalities	9 to 40 days (16 Municipalities)
Town Panchayats	93 to 334 days (49 Town Panchayats)

No interest, though, was paid by Government for the delayed release of grants.

Amount of interest for belated release of TFC grants by the State Government released during 2007-08 worked out to Rs 10.69 lakh at the rate of 6 per cent based on the compiled details relating to four Municipal Corporations, 16 Municipalities and 49 Town Panchayats as shown in **Table 1.18**.

Table 1.18: Amount of interest due for the delayed release of TFC grants during 2007-08
(Rupees in lakh)

Category of ULB	Number	Amount of interest due for the belated release of TFC grants
Corporations	4	5.70
Municipalities	16	1.46
Town Panchayats	49	3.53
Total	69	10.69

1.8.8 Position of outstanding loans

The position of outstanding loans as of March 2009, is given in **Table 1.19**.

Table 1.19: Position of outstanding loans in ULBs as of March 2009
(Rupees in crore)

Sl. No.	Category of ULB	Position of consolidated loan			
		Opening balance as on 1 April 2008	Fresh loans availed during the year 2008-09	Repayment made during 2008-09	Closing balance as on 31 March 2009
1.	Chennai City Municipal Corporation	94.10	25.19	11.84	107.45
2.	Municipal Corporations (excluding Chennai)	257.02	67.53	22.85	301.70
3.	Municipalities	953.49	233.39	97.42	1,089.46
4.	Town Panchayats	177.77	27.36	13.59	191.54

(Source: Details furnished by Commissioner of Chennai City Municipal Corporation (November 2009 and January 2010), Director of Municipal Administration (November 2009) and Director of Town Panchayats (April 2010))

(Breakup of Principal and interest not made available by Commissioner of Chennai City Municipal Corporation, DMA and DTP).

The DMA stated (November 2009) that the outstanding balance of loan amount of Municipalities and Municipal Corporations pending on 1 April 2007 was ordered to be waived by Government in November 2007 and the process is going on as the figures are being reconciled with TUFIDCO and TNUIFSL.

1.9 Expenditure of Urban Local Bodies

1.9.1 Revenue expenditure

Revenue expenditure consists of expenditure on salaries and pension and operation and maintenance (O&M) expenditure. The revenue expenditure incurred by all ULBs during the last three years is given in **Table 1.20**.

Table 1.20: Revenue expenditure of ULBs

(Rupees in crore)

	Year		
	2006-07	2007-08	2008-09
Municipalities			
Salaries and Pension (Percentage to total revenue expenditure)	323.41 (52)	359.91 (53)	461.28(58)
O & M expenditure (Percentage to total revenue expenditure)	293.19 (48)	318.21 (47)	333.81 (42)
Total (Percentage to total expenditure)	616.60 (56)	678.12 (53)	795.09 (54)
Other Municipal Corporations			
Salaries and Pension (Percentage to total revenue expenditure)	170.90 (56)	200.05 (55)	287.91(60)
O & M expenditure (Percentage to total revenue expenditure)	131.89 (44)	166.81 (45)	191.11 (40)
Total (Percentage to total expenditure)	302.79 (63)	366.86 (54)	479.02 (57)
Chennai City Municipal Corporation			
Salaries and Pension (Percentage to total revenue expenditure)	259.82 (52)	293.25 (55)	392.19 (59)
O & M expenditure (Percentage to total revenue expenditure)	236.26(48)*	242.96(45)*	272.86 (41)
Total (Percentage to total expenditure)	496.08(80)	536.21 (73)	665.05 (62)
Town Panchayats			
Salaries and Pension (Percentage to total revenue expenditure)	81.50 (28)	101.97 (29)*	129.71 (33)
O & M expenditure (Percentage to total revenue expenditure)	212.41 (72)	243.75* (71)	258.15 (67)
Total (Percentage to total expenditure)	293.91 (64)	345.72 (56)	387.86 (55)

(Source: Details furnished by Commissioner of Chennai City Municipal Corporation (April 2010), Director of Municipal Administration (November 2009) and Director of Town Panchayats (April 2010))

* Figures differ from last year's report due to revised figures obtained from Budget estimates of Chennai City Municipal Corporation for the years 2007-08 and 2008-09 and figures furnished by Director of Town Panchayats (April 2010).

The salaries and pension portion of revenue expenditure of Municipal Corporations and Municipalities increased during 2006-09 due to payment of revised Pay Commission arrears to the staff and pensioners.

1.9.2 Capital expenditure

The break-up details of capital expenditure of the ULBs as reported by the respective heads of Departments during 2006-09 are given in **Table 1.21**.

Table 1.21: 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		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
Roads	188.71	216.66	257.97	77.21	134.15	148.14	72.20	110.52	225.76
Street lights	21.91	30.23	36.62	4.26	22.82	28.17	6.12	13.05	31.24
Water supply	85.40	111.14	122.30	23.21	73.36	90.15	-	-	-
Storm water drains	84.11	89.12	84.86	17.62	28.19	32.20	11.88	27.91	20.29
Solid waste management	17.77	28.65	30.98	18.41	19.27	26.80	0.54	2.53	34.07
Other Capital expenditure	86.47	135.37	146.88	39.95	40.16	41.10	30.22	44.86	93.30
Total	484.37	611.17	679.61	180.66	317.95	366.56	120.96	198.87	404.66

(Source: Details furnished by Commissioner of Chennai City Municipal Corporation (November 2009 and January 2010) and Director of Municipal Administration (November 2009))

The increase in capital expenditure of Chennai City Municipal Corporation during 2008-09 was mainly due to more expenditure on capital assets under JNNURM, construction of school buildings, and creation of new parks as compared to the capital expenditure for 2007-08. The increase in capital expenditure of other Municipal Corporations in 2008-09 was mainly due to more expenditure under roads, water supply, street lights and Solid Waste Management.

The revised figures of Capital Expenditure, as furnished by the DTP in April 2010 during 2007-08 and 2008-09 are shown in **Table 1.22**.

Table 1.22: Break-up details of Capital expenditure of Town Panchayats

(Rupees in crore)

Name of the core sector	Town Panchayats	
	2007-08	2008-09
Roads	121.36	136.56
Street lights	15.25	21.15
Water supply	29.28	25.80
Storm water drains	34.06	37.85
Solid waste management	15.52	19.51
Other Capital expenditure	51.64	75.49
Total	267.11	316.36

(Source: Details furnished by Director of Town Panchayats (April 2010))

The increase in capital expenditure in Town Panchayats during 2007-09 was mainly due to implementation of the new scheme of “Anaithu Peruratchi Anna Marumalarchi Thittam” in all 561 Town Panchayats in a span of four years commencing from the year 2007-08.

The above points were referred to Government in February 2010; reply has not been received (June 2010).