# CHAPTER-V

## Royalty assessment and collection

**5.1** Section 9(2) of the MMDR Act and Rule 18(1)(b) of the RMMC Rules provide that the holder of a mining lease shall pay royalty in respect of any mineral removed and/or consumed from lease area. Therefore, as soon as mineral is removed, royalty becomes due and can be demanded on the basis of available information. In all current as well as expired leases, *ad hoc* royalty assessment must be done on the basis of statistical returns/reports of mines for or other inspecting officer, whenever, accounts/records are not produced by the party. Royalty assessment should be done year by year and no case be left pending for the next year to avoid arrears.

### 5.2 Incorrect revision of excess royalty collection contract amount

Rule 32(3) of the RMMC Rules, 1986 provides that in case of enhancement in the rate of royalty, the contractor shall be liable to pay an increased amount of contract money, security and guarantee amount in proportion to the enhancement of royalty for the remaining period of contract from the date of such enhancement. The rates of royalty on various minerals were revised with effect from 1 September 2007.

During scrutiny of the records of 15 Mining Engineer/Assistant Mining Engineer offices[4], we noticed (June 2008 to March 2009) that 17 excess royalty collection contracts were awarded for different periods ranging from April 2006 to March 2009. The State Government revised the rate of royalty from 1 September 2007. The Department proportionately revised the annual excess royalty contract values without considering and taking into account the revised dead rent. This resulted in loss of ₹ 2.75 crore.

When we pointed out (between November 2008 and March 2009) this, the Government replied (April 2010) that recovery of enhanced amount of the ERCC, as pointed out by audit, will be made only when provision in this regard is made in the rules. The Government further stated (May 2010) that amendment in the rules was under process. Thus, due to non-consideration of dead rent for revising the amount of the ERCC and delay in amending the rules resulted in loss of revenue to the Government.

[4] Alwar, Bharatpur, Bikaner, Dholpur, Gotan, Jaipur, Jaisalmer, Jalore, Jodhpur, Karauli, Kotputli, Nagaur, Rajsamand I, Sikar and Sojat city.

## 5.3 Incorrect assessment of royalty

As per Rule 18 (1)(b) of the RMMC Rules, the holder of a mining lease shall pay royalty in respect of any mineral removed by him from the leased area at the prevailing rate.

We found (December 2009) in the office of ME, Sojatcity that in 13 cases, the royalty assessments of mineral rhyolite, despatched from the leases granted for mineral rhyolite, were done treating mineral rhyolite as masonry stone. Whereas, in other cases royalty assessments were correctly done taking royalty of mineral rhyolite. This resulted in short recovery of royalty amounting to ₹ 86.49 lakh. The dead rent of the leases, however, was being recovered at the rate prescribed for the mineral rhyolite.

When we pointed (December 2009) this matter, the ME, Sojatcity stated that mineral rhyolite was used in manufacture of chips; hence, recovery of royalty at the rate applicable for masonry stone has been taken. We do not agree with the reply as the mining leases were sanctioned for mineral rhyolite and not for masonry stone and royalty amount had been recovered as "rhyolite" in other cases. The end use of mineral rhyolite was also not confirmed by the Department, therefore, in our opinion royalty of mineral rhyolite was recoverable.

## 5.4 Incorrect computation of royalty rates

Section 9 of the MMDR Act provides that holder of a mining lease shall pay royalty in respect of any mineral removed or consumed from the leased area. Further, Rule 64D of the MC Rules provides that State-wise sale price for different minerals as published by Indian Bureau of Mines shall be the benchmark for computation of the royalty. For the purpose of computation of the royalty of the mineral, the State Government shall add twenty *per cent* to this benchmark value. This value shall be reckoned to be sale price of the mineral for the purpose of computation of royalty.

**5.4.1** We found (June 2009) in the office of ME, Ajmer that from lease holder of mining lease number 12/98, royalty on mineral Wollastonite was recovered for the period 5 March 2005 to 4 March 2008 on the basis of estimated price of ₹ 40 per MT instead of adding twenty *per cent* to Indian Bureau of Mines published sale price for the State, which resulted in short recovery of royalty amounting to ₹ 8.46 lakh.

When we pointed (June 2009) this, the ME stated (April 2010) that demand has been raised.

As per schedule II of the MMDR Act, the royalty rate of mineral Limestone (LD grade) containing less than 1.5 *per cent* silica was ₹ 55 per MT with effect from 14 October 2004.

**5.4.2** We found in the office of AME, Jaisalmer that Rajasthan State Mines and Minerals Limited had aid royalty at the rate of ₹ 45 per MT instead of ₹ 55 per MT on 2,108.299 MT

Limestone (LD grade 10-30 mm grits containing silica content less than 1.5 *per cent*) despatched during the year 2008-09, which resulted in short recovery of royalty amounting to ₹ 21.08 lakh.

When we pointed out this, the Government stated (September 2010) that demand had been raised but recovery is pending (October 2010).

## 5.5 Non-assessment of royalty of cement factories

Cement factories consumed mineral limestone in preparation of clinker for production of cement. The DMG vide order 23 February 2004 issued instructions to all the AMEs/MEs to ensure, while making royalty assessments, that at least 1.52 MT limestone was taken as used in production of one ton clinker for manufacture of cement to avoid any loss of revenue to State Government.

We noticed in six AME/ME offices[5] that in seven cement industries cases, royalty assessments of limestone used during the period 2002-03 to 2008-09 in manufacture of cement were not made in accordance with the instructions of the DMG even after receiving monthly/annual returns from the concerned cement industries. Only ₹ 356.35 crore were deposited by the cement industries against recoverable royalty amount of ₹ 388.55 crore as we worked out based on the clinker lime stone ratio 1:1.52. This resulted in short realisation of royalty amounting to ₹ 32.20 crore.

When we pointed out this, the Government accepted (August 2010) that the clinker lime stone ratio 1:1.52 was not being observed by the cement factories. Government assured that pending royalty assessments of their factories would be got done early.

## 5.6 Recommendations

- ***The Government may consider instituting a mechanism of surveys to ensure that royalty is charged as per rules.***
- ***The Government may consider inclusion of dead rent while revising annual excess royalty collection contract values.***
- ***The Government may consider instituting a periodical monitoring system in the Department to watch pending royalty assessment cases and recoverable royalty amount and to verify the actual despatch of mineral as per pit measurement.***

[5] Ajmer, Chittorgarh, Nimbahera, Ramganjmandi, Sirohi and Sojat city.