CHAPTER - 8

DEBT SERVICING AND LIABILITIES

2.8.1. The analysis of revenue receipts and expenditure shows that there is a marginal surplus in most of the local bodies but as a matter of fact, the surplus found is not a real one.

2.8.2. The expenditure is limited to the available funds and does not reflect the provision actually needed. In view of the deficit in finances, the deficiency in provision of funds relating to debt servicing and contribution payable to Pension Fund is found very common.

2.8.3. The debt servicing is a major issue which needs better understanding of fiscal conditions to ensure sound financing of the local bodies. Efforts taken to improve the resources will not be really useful if the accumulated liabilities are allowed to continue. At the same time, if the increase in revenue realised is diverted towards discharge of liabilities, it will hamper the improvement in core services of the local bodies. The debt position today is an accumulated one over years. The position of Debts accumulated in the various urban local bodies as on 31.3.94 is shown below in the tables:

Table 2.65 I. Loans of Local Bodies (Rs. in crores)

Name of Institution	Annuity overdue Prl.	Int.	Penal Int.	Current Annuity pending	Total
Corpns.	127.86	25.89	0.02	8.10	161.87
Municipalities	38.89	53.82	1.16	20.64	114.51
Town Pts.	20.96	23.39	0.26	3.30	47.91
Total	187.71	103.10	1.44	32.04	324.29

Table 2.66 II. Ways and Means Advances: (Rs.in crores)

Institution	Amount Prl.	overdue Int.	Current due	Total
Corpns.	0.38	0.37	—	0.75
Municipts.	5.77	4.33	3.19	13.29
Town Pts.	3.96	4.65	0.53	9.14
Total	10.11	9.35	3.72	23.18

2.8.4. Debt position mostly relates to Loan for Water Supply Schemes. The loans are normally repayable over a period of 15 years and the annuity is accordingly fixed. It could be seen from the tables above. Interest liability is more than the principal.

2.8.5. The following factors contributed for the accumulation.

i. No proper estimation of the schemes seems to have been done in many cases which is evident by cost over run, much more than inflation due to time over run. The Local Bodies have no say either in original or Revised Estimates prepared by the Technocrats.

ii. The time over-run has been considerable. (even to the extent of six to seven years) The Local Bodies have no effective control or say on this aspect.

iii. While moratorium is allowed for repayment of the principal, the interest liabilitystarts from the date of sanction, to be paidfrom the local body's funds even before the benefits of the schemes accrue to local body. The principal is drawn by the implementing body directly from Government and the local body had no chance of even earning interest on the principal. The non-payment of interest on due dates, which is not wilful, entails levy of penal interest which is an addition to the already accumulated interest liability.

iv. The User charges could not be fixed to meet full cost recovery in view of affordability. Even the rates now in force could not be fully realised in view of deficiency in supply of water. The realisation of user charges takes considerable time after handing over of the scheme which contributed to further delay in payments. (v) In the case of Remunerative works, the rent rates indicated by P.W.D. were very low and even for that, the interference at higher level combined with collusion at lower level depressed the lease amount.

2.8.6. Water Supply is a Core Service on which attention is paid at National level to achieve a minimum level of supply to each individual as per targeted norms adopted by Governments. The Local Bodies, whether Urban or Rural cannot bear the entire burden of the Schemes which involve huge investments. Rural Water Supply is taken care of by Government in full. In the case of Urban bodies also the lower grades of Municipalities and Town Panchayats need assistance from Government not only by way of Loan but also through Grants.

2.8.7. In the case of schemes already completed, with huge cost and low returns, unless special assistance is given, it may not be possible for the local bodies to repay the amount. The following are the recommendations made for ensuring regular payments.

1. The payment schedule may be revised with more number of instalments.

2. Interest rate may be subsidised by the Government to lower level of tiers of urban bodies.

3. Clause for penal interest may not be insisted upon in view of the slender financial resources of the local bodies, and the default in payment not being wilful.

4. The cost of maintenance claimed by TWAD Board under the combined water supply schemes may be re-worked out, to avoid high overhead cost included therein.

5. The local bodies may be allowed to clear the arrears by paying current annuity with one instalment of arrears without additional instalment on outstandings.

2.8.8. It has been brought notice that assistance assured to compensate certain expenses incurred by the local bodies consequent to policy decision of the Government, such as"D.A. subsidy" has not been released for several years (which was assured to the local bodies for compensating the additional expenditure incurred by the local bodies for payment of enhanced D.A. from time to time). The Directorate of Municipal Administration has estimated this arrears till 31.3.95 at Rs.45 crores in its letter to Government dt. 1.2.95 Similarly such payments are stated to be due to Town Panchayats, Panchayat Unions and also Municipal Corporations for a number of years. The quantum of arrears is not readily available with the Commission. The SFC recommends that such arrears not paid by Government could be sanctioned and adjusted towards the debts due from the local bodies.

2.8.9. Similarly it has also been noticed by SFC and also indicated in earlier chapters that the assignments of revenues due to local bodies from out of surcharge on Sales Tax, Local Cess and Local Cess Surcharge, Mines and Minerals has not been adjusted for quite number of years. The amount not released has accumulated in Government account. The SFC recommends that these amounts can also be sanctioned and adjusted by the Government wherever possible to the Local Body concerned against the loan payments due.

2.8.10. If timely adjustment of all these revenues is ensured by special direction from Government in future years, compulsory repayment of the current annuities along with one instalment of annuity over-due can be insisted upon from the Local Bodies.

2.8.11. The Directorate of Municipal Administration has stressed the necessity for payment of compensation for the loss in property tax administration due to the postponement of quinquennial revision during the years 1975-76, 1980-81, and 1985-86 and also because of the ceiling fixed for the revision to be made by the local bodies. The hands of the local bodies are stated to have been fettered to exploit the taxation powers in full. The loss has been estimated at Rs.81 crores for the three general revisions which have not taken place in Municipalities. In addition, the DMA has also indicated a loss of Rs.19.76 crores towards the amount due from school buildings which have been exempted from payment of property tax due to the policy of the Government. The same position exists in other local bodies also. The loss of revenue due to the concession to school buildings works to about Rs. 5 crores in Municipalities per year and Rs.1.25 crores in Corporations and about Rs. 1 crore in Town Panchayats.

2.8.12. The SFC feels that there is no provision to compensate the loss so far incurred. The SFC has already taken a stand that in future, if the Government interferes with the taxation power of the local bodies, or grant any exemption in any of the levies ultimately due to the local bodies, the local bodies should be compensated to the extent of the loss suffered by them. In this context, the SFC would like to indicate that the Government may consider the scaling down of the loan commitment of the local bodies or the re-scheduling of the loan repayments suitably after adjusting the dues from the Government to Local Bodies and also giving rebate on interest elements including waiver of the penal interest levied.

2.8.13. In the case of Debts created for Remunerative Schemes, the Government should give liberty to fix rentals by the Local Bodies suitable to market conditions (as already dealt with in earlier chapters) to enable them to discharge the liability.

2.8.14. The repayment of existing debts on these items may be rescheduled with more instalments.

2.8.15. The Government also should make the technical agencies who implement the schemes responsible for sharing the escalation by prescribing a time limit for completing the work and the local body should have a say whenever the works are not done within the time limit.

Other Liabilities:

2.8.16. The local bodies have huge liabilities under two heads, namely, (1) payment of pension/pensionary contributions (2) remittance of provident fund amounts collected from the employees but not deposited in the accounts of the Government.

Pension Liabilities:

2.8.17. Local body employees have been declared eligible for all pensionary benefits that accrue to the Government servants. The Government formed a separate fund for this purpose administered by the Examiner of Local Fund Accounts (now the Director of Local Fund Accounts) and the local bodies have been directed to pay a contribution of 8.33 % as pension contribution on the maximum of the pay scale of the employees per year. This was subsequently modified as 10 % and finally increased to 20% (in 1993). The information furnished by the Director of LF Accounts indicates that an annual contribution of about Rs. 6 crores is payable by the local bodies to that fund. The total outgo from that fund every year towards pension, increased DA to the pensioners, gratuity for the people retiring during the year comes to about Rs. 19 crores as may be seen from the table below:

Table 2.67 Pension Contribution Demand and the Commitment on Payment of Pension and Other Benefits (As in 1995-96)

Name of Local body	Pension contribution Demand for 95-96.	Expre. on pension.	Deficit
	(Rs. in crores)		
1. Municipalities	2.30	6.71	4.41
2. Panchayat Unions	2.29	8.31	6.02
3. Town Panchayats	1.72	4.81	3.09
Total	6.31	19.83	13.52

2.8.18. Even the normal contribution of Rs.6 crores is not being remitted regularly by many of the local bodies for want of funds. A table showing the payment pending with the local bodies on this account, as on 31.3.94 is furnished below (as obtained from Director of Local Fund Audit Tamil Nadu)

Table 2.68 Details of Pension Contribution payabale by the Local Bodies

Local Body	Pension arrears (payable by Local Bodies)	Contri-bution to LF Pending	Contri-bution to Govt. Pending	Total
		(Rupees in lakhs)		
Corporations.	1.53	1.28	—	2.8
Muncipalities.	96.78	28.07	41.23	166.08
Town Pts. 45.07	176.14	1.20	222.4	
Panchayat Unions		262.87	35.55	298.42
Total	**143.38**	**468.36**	**77.98**	**689.72**

2.8.19. As on 31/3/94, the arrears to be paid by the local bodies to Local Fund Department on account of pension contribution is about Rs.4.68 crores. The Government have adjusted arrears payable by the Municipalities and Town Panchayats from out of the Surcharge on Sales Tax and also from the arrears of Profession Tax payable to these bodies on behalf of B, C and D Group of employees from the Government.

2.8.20. The Director of LF Accounts has pointed out to SFC that in spite of the adjustments made from these assigned revenues and even after withdrawing some amount from the corpus fund created for this purpose, he has not been able to pay the pension due to the local body employees in full and still there are arrears payable towards the enhanced D.A. and other benefits granted by the Government in certain local bodies. He has also pointed out that even if the entire pension contribution is collected from the local bodies, there will be a regular gap of about Rs.12 to 13 crores per year at the present level, which will be increasing year after year in view of the enhanced D.A. payment and the additional pensionary benefits likely to accrue consequent on the revision of pension whenever Pay Commission recommendations are implemented.

2.8.21. The main issue is about the authority Which will meet the gap between the contribution collected and the actual pension payment. Since Local Bodies have been required to pay 20% contribution it does not appear correct to ask them to meet the balance also. This will amount to the total pension being paid by the local bodies themselves. This was not visualised, when the pension scheme was introduced. This will not also be practical since the Local Bodies find it difficult even to pay the salary of staff and pension contribution. In fact, they find it difficult to raise additional resource needed for the enhanced D.A. and the pay revisions from out of their inelastic resources.

2.8.22. This situation warrants that the Government alone will have to bear the commitment. Creation of a separate Fund, administered by the Director of Local Fund Accounts and Audit for this purpose will not be viable unless the Government contributes to the fund from time to time to cover deficit. Instead the contributions of the Local Bodies may be adjusted against the releases to be made by the Government or got remitted to Government account by compulsion and the entire pensionary payments could be taken over by the Government with direct payment through the Treasuries.

2.8.23. The Director of LF accounts may, perhaps, continue to be the authority sanctioning pensionary benefits for the employees of the local bodies, since the transfer of this work to the Accountant General may not be acceptable to him without additional staff deployment. SFC feels that the retired employees of the Local Bodies should not be made to continue in unpredictable position in getting their monthly pension. Since the Government have extended the pensionary benefits to the employees of the Local Bodies on par with the Government employees with a Social objective, it is but fair that the Government comes to the rescue of the Local Bodies in this respect.

2.8.24. SFC therefore recommends that the Government should accept the gap in commitment of pensionary benefits to the employees of local bodies.

Provident Fund:

2.8.25. The employees of the Local Bodies are eligible for the Provident Fund scheme. The Fund is administered by the Local Bodies themselves. The Local Bodies deduct the subscriptions from salary but do not remit the amount so collected into the Deposit Account of the Government. Interest earned out of the PF deposit will be utilised for payment of interest to the employees. Due to paucity of funds, most of the Local Bodies while drawing pay bills show the recovery particulars for the PF but do not remit it. Only the net amount required for payment to staff as salary is drawn and the recoveries are taken credit in the respective Deposit Accounts. The procedure is that the money kept in the Deposit Account should be drawn and remitted to the Government account in the Treasury under the head "Deposits bearing interest". The interest accruing on these deposits is not normally adequate to meet the interest commitment on the subscriptions. As on 31-3-94, the subscriptions not remitted by the Urban Local Bodies works out to Rs.15.06 crores (Corporations, Municipalities and Town Panchayats all put together) as given in the table below:

Table 2.69 Provident Fund amount pending remittance

	Provident Fund not remitted	Fifth Pay Commission arrears to be credited to PF not remitted (Rupees in lakhs)
Corporations	622.59	444.23
Municipalities	691.68	462.79
Town Panchayats	191.63	80.78
Panchayat Unions	n.a	n.a
Total	**1505.90**	**987.80**

2.8.26. In addition,the arrears of Fifth Pay Commission, ordered to be credited to the Provident Fund account of the employees have not also been adjusted by these Local Bodies to the credit of the PF account of the employees and as on 31-3-94 the arrears in these three local bodies amount to Rs.9.88 crores.

2.8.27. Since there has been no earnings on PF deposits, the amount to be met from the Local Body funds, as interest payable to subscribers will also be sizeable. Ultimately when an employee of Local Body retires from service he will face difficulties in realising terminal benefits out of Provident Fund.

2.8.28. The SFC considers and recommends that the entire Provident Fund administration may be taken out of the control of the concerned Local Bodies and may be centralised, as in the case of Government servants which is done by the Accountant General. This can be entrusted to Director of Local Fund Accounts for administration as par with A.G. The total Provident Fund deduction by the Local Bodies may be worked out at least once in a half-year and the amount got compulsorily remitted to the authority concerned. If necessary, in the case of defaulters, adjustment from the Government assistance to be released by the Government to the Local Bodies may be resorted to.

2.8.29. Unless some such drastic step is taken, the appropriation of this fund by the Local Bodies can not be prevented which caused difficulties to the employees retiring after a long period of service.

2.8.30.. Recommendations:

In the case of schemes already completed, unless special assistance is given, LBs will not be able to repay the debt amount. To ensure repayments, the SFC makes the following recommendations;

i. The payment schedule may be revised with more number of instalments.

ii. Interest rate may be subsidised by the Government to the LBs in the lower level grades.

iii. Clause for penal interest may not be insisted upon in view of the slender financial resources of the LBs, default in payment being not wilful.

iv. The cost of maintenance claimed by TWAD Board under the combined water supply schemes may be re-worked out to avoid high overhead cost included therein.

v. The LBs may be allowed to clear off the arrears by paying current annuity with one instalment towards arrears without additional interest on outstandings.

vi. It has been informed that certain expenses incurred by LBs like D.A. were agreed to be compensated by the Government. They are stated to be still in arrears for a number of years. The SFC, therefore, recommends that the arrears towards D.A. subsidy not paid by the Government may be sanctioned and adjusted towards the debts due from the local bodies.

vii. It is brought to the notice of SFC that the assignments of revenues due to LBs from out of Surcharge on ST, Local Cess, LCS and Mines and Minerals have not been adjusted for a number of years and that the amount has been accumulated in the Government account. The SFC, therefore, recommends that the above amounts may also be sanctioned and adjusted towards the debts due by the L.Bs. wherever possible.

viii. If timely adjustment of all revenues is ensured by Government in future years, compulsory repayment of current annuities with one instalment of over-due annuity can be insisted upon.

ix. **The SFC recommends** to the Government to consider the scaling down of the loan commitment of the LBs or for re-scheduling of loan repayments suitably after adjusting the dues from Government to Local Bodies. Rebates on interest element including waiver of penal interest may also be given.

x. In the case of remunerative schemes, the LBs should be given liberty to fix rentals suitable to market conditions to enable them to discharge their liability.

xi. The technical agencies implementing the Local Body schemes should be made jointly responsible for escalation in cost because of the time over-run. The LBs should have a say in cases of time over-runs.

2.8.31. Pension Contribution and Commitment on Payment of Pension

i. **The SFC considers** that the gap between the pension contributions and actual pension payments is of recurring nature. Since the Local Bodies are already paying 20% Pension Contribution they cannot be asked to meet the entire pension liability. It was not visualised when the pension scheme was introduced. It will not be practical also, because the LBs. are not in a position to meet even the monthly salary payments and the pension contribution.

ii. The SFC, therefore, considers that the Government may to bear the commitment

iii. SFC feels that the separate fund created and now administered by the Director of Local Fund Accounts and Audit is not viable. The Government will have to contribute to the Fund from time to time to cover the deficit. Instead, the contributions of LBs may be adjusted against releases to be made by Govt. or may be got remitted to Government account by compulsion. The entire pensionary payments of Local Bodies may be taken over by the Government and pension paid to the LB pensioners direct through the treasuries.

iv. The Director of LF Accounts may continue to be the authority to sanction pensionary benefits.

Provident Fund

2.8.32. The SFC recommends that the Provident Fund administration may be taken out of the control of the concerned LB since all the Local Bodies have appropriated the collections without any investment. It may be centralised and the total PF deduction by LBs may be worked out once in a half year and got compulsorily remitted to the authority concerned. In case of defaulters, amount may be adjusted from Government assistance to be released to the concerned Local Bodies. Unless some drastic action is taken, the appropriation of the PF accumulations by the Local bodies cannot be controlled.