

From PD's Desk

Regional Training Institute has recently been re-designated as Centre of Excellence on 'Audit of Municipal Corporations' and Audit of Corporate Governance and Corporate Finance. One of our main focus areas in this regard, apart from organizing trainings, seminars and workshops on the topic, is preparation of case studies emanating largely from audit experiences of field audit formations that have been printed in C&AG's Audit Reports. This would help consolidate and strengthen knowledge in this important area of audit.

The case study, "Unintended benefit to property holders through non-levy of Special Water Tax" has been prepared based on para 5.1 of Audit Report (Local Bodies) for the year ended March 2008 – Government of Maharashtra.

I would like to place on record my sincere thanks to Local Bodies Audit and Accounts wing, Maharashtra, Mumbai for making available all documents that went into the preparation of the case study.

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Audit of Municipal Corporations

Case Study

Akola Municipal Corporation

Unintended benefits to property holders

Gist of the audit finding

The Para is regarding passing on of unintended benefit to property holders by Urban Development Department Akola Municipal Corporation due to omission to levy and collect Special Water Tax from property holders. Copy of the audit finding as it appeared in C&AG's Audit Report (Local Bodies) for the year 2007-08 (Para 5.1) is enclosed.

Important learning Points from the audit finding

1. The Legal Framework for levy of Special Water Tax

The power to levy Special Water Tax is derived from the following legal provisions and notifications:

- a) Section 323 of the Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965 grants powers to the State Government to make model bye laws on all or any of the matters in respect to which a Council is empowered to make bye-laws and publish them in the Official Gazette for guidance of the Councils.

- b) Clause (f) of Section 108 of the Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965 empowers Municipal Councils to levy Special Water Tax subject to any general or special orders of the State Government

c) Byelaw for levy of Special Water Tax is contained in Government of Maharashtra, Department of Urban Development, Public Health and Housing

Notification No. BYE 1077/570/CR-76(b)/UD-9 dated 26.6.1978

- d) Amendment to the aforesaid byelaw is contained in Government of Maharashtra, Department of Urban Development Notification dated 26.6.1997
- e) The rates of Special Water Tax were revised vide GOM notification dated 9.6.2000
2. The audit finding basically seems to have emanated from scrutiny of records of the Water Supply Department
 3. Water connections are provided to the property holders by the Water Supply Department subject to payment of charges including Special Water Tax for the year
 4. List of connections provided during the year is passed on to the Property Tax Department for raising Special Water Tax along with property tax in future
 5. Lack of coordination between the Water Supply Department and Property Tax Department has resulted in non levy of huge demands on account of Special Water Tax
 6. Lack of an adequate system of internal control also contributed to the non levy of Special Water Tax

Other learning points

The other learning points that one would seek to understand though not quite related to the audit finding are given below. These learning points would contribute to a more holistic understanding of the issue of Special Water Tax.

Water Pricing: It is mentioned in the audit para that the rates for water supply were fixed in 2000. As such the rates have not been revised for the last 12 years. The National Institute of Public Finance and Policy in its study paper titled ' Urban Water Pricing: Setting the Stage for Reforms' mentions that most water supplying entities in India operate at a loss. They finance the shortfall between tariff revenue and costs through operating and capital subsidies from the government and through depreciation of capital. The result is a low level equilibrium characterized by low tariff, poor service and limits on access, especially of poor households. When water tariffs are lower than the cost of provision, there is little incentive to expand the service, and fewer resources are allocated to water than would be optimal.

OBJECTIVES OF WATER PRICING: Water Pricing seeks to meet four-fold objectives:

1. To raise revenue sufficient enough to defray the capital, revenue and financial cost of water supply.
2. A pricing structure that would dissuade excess usage of water. The pricing would in this case take into account the burden of excess usage of water by any consumer on the society.
3. The principle of equity whereby consumers placed similarly are subject to the same water tariffs.
4. Social welfare whereby the capacity of the consumer to shoulder the burden of water supply levies is taken into account while fixing the water tariff .

Instruments of Water Pricing

1. Connection fee when providing a new water connection
2. Water tax normally leviable on the annual rateable value of the property that is unrelated to water use or consumption
3. Water charges that are levied primarily on the usage of water
4. Meter rent
5. License fee
6. Water Cess

Water Pricing Structures

Several types of water tariff are in use in Indian cities and towns (Source: NIFPB)

Increasing block tariff (IBT): An increasing block tariff is a series of prices that increase in steps as consumption rises. The key feature of IBT is that it contributes to equity by allowing low-income households to pay lower rates for water than high income households. An IBT structure is based on the volumetric component. A water user in a particular category, such as residential, is charged a relatively low price per unit for consumption upto a specific amount. This amount defines the size of the initial block. A user whose consumption exceeds the size of the initial block faces a higher price per unit for the additional consumption until he exhausts the second block, and then a still higher price until reaching the top block in the increasing block structure. To construct an increasing block tariff, three parameters are needed: (i) the number of blocks, (ii) size of the block in term of water, and (iii) price per unit in each block. The case for IBT is argued on several grounds. First: IBT provides equity as high-income households tend to subsidize the water usage of low-income households. It is based on the argument that the consumption levels of water among high income households is greater, and because a greater percentage of their water use occurs in the higher blocks they pay a higher average price for water. Second: IBT can promote water conservation and sustainable water use.⁸ This is because the prices in the higher blocks carry high

rates and they discourage wasteful water use. Third: an IBT is needed to implement marginal cost principles. It is argued in this regard that because marginal costs are expected to rise with total water use, prices should rise accordingly with individual household use. This has been the main justification for multi-block structures. (Used in Delhi, Hyderabad)

Uniform volumetric charge: A uniform volumetric charge forms an important part of water price structures in several Indian cities and towns. It is a fixed charge per unit of water consumption, which may vary with the category of users (Kanpur, Indore, Madurai, Surat)

Linear water charge: This is a charge which rises with consumption, not in blocks as is the case with IBTs, but every discrete unit of water consumption (Kerala)

AKOLA MUNICIPAL CORPORATION

1.1 Unintended benefit to the property holders

Failure of the Akola Municipal Corporation to raise Special Water Tax demand of Rs 3.12 crore resulted in extending unintended benefit to the property holders

The model bye-laws in respect of Water Supply and Special Water Tax (SWT) were notified by the Government of Maharashtra(GOM) in June 1978. The schedule prescribing minimum rates for recovery of SWT depending on nature of locality, usage (Residential/Commercial) and diameter of connection appended to the said bye-laws was amended in April 1997. The Akola Municipal Corporation (AMC) after formation in October 2001 continued to levy the rates adopted by the then Municipal Council from 1 April 2000. The Water Works Department (WWD) of AMC provides water connections (WC) to the property holders subject to payment of charges including SWT for the year. The list of connections provided during the year is passed on to the Property Tax Department (PTD) for raising demand of SWT along with Property Tax (PT) in future.

Scrutiny of records of AMC (November 2008) and subsequent verification (May 2009) revealed that 32534 connections were provided upto 31 March 2008 by the WWD. The details of connections provided were passed on to PTD for raising demand from the subsequent years. The demand of PT including SWT was, however, raised for 23543 WCs only. The demand covering the period upto 31 March 2008 for 8991 WCs amounting to Rs

3.12 crore was not raised due to non updating the records by PTD. Of this outstanding amount, Rs 1.28 crore pertains to a comparatively current period from 2002-03.

On this being pointed out, the AMC accepted (May 2009) the facts and stated that the recovery of SWT would be enforced through a special drive.

Thus, failure of the AMC to update the PT records over six years, lack of monitoring of PTD by the higher management and non-raising of demands for SWT of Rs 3.12 crore along with PT has resulted in deferment of revenue and extending unintended benefit to the property holders. The matter was referred to Government in May 2009;