எப்பொருள் யார்யார்வாய்க் கேட்பினும் அப்பொருள்
மெய்ப்பொருள் காண்ப தறிவு

- குறள் 423

Though things diverse from diverse sages' lips we learn,
'Tis wisdom's part in each the true thing to discern

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Preface

The Constitution of India mandates formation of State Finance Commissions after every five years to review the financial position of the Local Bodies and make recommendations to the Government regarding the measures needed to improve it.

I consider it my privilege to serve as the Chairperson of the Sixth State Finance Commission and to fulfil the Constitutional mandate and express my gratitude to the Government of Tamil Nadu for giving me this opportunity. The Commission sincerely endeavored to understand the problems faced by the Local Bodies, their strengths and weaknesses and their role in the overall Governance Structure of the Country. The Commission has prepared this report aiming to make Local Bodies vibrant and self-reliant institutions of effective governance at the grass root level.

I wish to extend my appreciation for the cooperation received from the members of the Commission, who contributed greatly through personal interactions and by providing support through their respective departments. Thiru. Prashant M. Wadnere served as the Member Secretary in the Commission during the crucial phase. The Commission has benefitted immensely from his earlier experience as Member Secretary of the Fifth State Finance Commission and his understanding of the issues involved.

Thiru. N Muruganandam, Additional Chief Secretary, Finance and the officers of Finance Department have provided valuable support and guidance. I also wish to express my gratitude to the various officers heading Government Departments, Public Sector Undertakings, Statutory Boards, Regulatory Authorities and Secretaries to Government of various administrative departments and their team of officials for extending their support, sharing their insights and providing the much needed information and data in time.

The interactions with the Hon'ble Minister for Finance, Dr. Palanivel Thiaga Rajan have been great source of inspiration and strength and the Commission has greatly benefited from his professional wisdom and excellence.

The Commission was advised by the experts from National Institute of Public Finance and Policy (NIPFP), Madras Institute of Development Studies (MIDS) and Madras School of Economics (MSE). Their in depth knowledge enhanced the Commissions' understanding of functions and finances of Local Bodies in the State. The Centre for Effective Governance of Indian States (CEGIS) team rendered invaluable support during preparation of the report.

The extraordinary circumstances in which the Sixth State Finance Commission has worked is an indicator of the resilience of the officials and the administrative system in Tamil Nadu that worked steadfastly and delivered outcomes even in the most difficult times.

District Collectors, officials at the District Administration, officials working in various Local Bodies such as Municipal Commissioners and Executive Officers helped the Commission by providing and collating data and making virtual interactions with the officials and people's representatives possible during the difficult time of the pandemic. The meetings through

Video Conferences have been very effective without any compromise on quality of interactions.

I extend my wholehearted appreciation to the Sixth State Finance Commission officials and staff for their support and untiring work without which the work could not have been complete. Special appreciation for the work to Joint Secretary - Finance Department, Executive Consultant (Rural Development), Executive Consultant (Municipal Administration), Deputy Director (Statistics), Programmer (Systems) who along with their staff have made the Commissions' work easier. Last but not the least, the support provided by Kasthuri and Vijayalakshmi was very valuable for taking notes of the minutes, arranging video conferences, and providing status papers on meetings. My special and sincere thanks to every member of the office, who have put in their best to bring the report in its form despite personal and pandemic related inconveniences.

The Commission has been immensely careful in making recommendations duly considering the field-level difficulties faced by Local Bodies and is confident that the report will open new avenues of cooperation with Local Bodies on the path of development for Tamil Nadu.

Let the journey begin!

MOHAN PYARE
CHAIRMAN

Contents

Recommendations

I. Sharing of SOTR

1.

The State Government should continue to devolve 10% of the State's Own Tax Revenue to the Local Bodies. **[7.14]**

2.

The net SOTR for the purpose of calculation of devolution amount should be determined by permitting the following deductions from gross SOTR: **[7.15]**

i. Surcharge on Stamp Duty of Local Bodies should be deducted under the Receipt major head. In case it is not done, the same should be provided through separate expenditure heads of account.

ii. For collection of State Goods and Services Taxes, State Excise, Stamp and Registration, Motor Vehicle Tax, Tax on Petroleum products, and other taxes, the cost of collection should be deducted.

iii. Other Surcharges.

3.

Of the total devolution amount, 49% should be devolved to RLBs and 51% should be devolved to the ULBs. **[7.32]**

II. Rural Local Bodies

HOUSE TAX/ PROPERTY TAX

4.

The title 'House Tax' should be changed in the Tamil Nadu Panchayats Act, 1994 to the generic title 'Property Tax', as the nomenclature gives a wrong impression that only houses are taxed and not other categories of buildings. Necessary amendments may be incorporated in the Act. **[3.48]**

5.

Properties for levying of tax should be categorised as Residential, Commercial and Industrial as in ULBs. **[3.49]**

6.

The quinquennial revision of House Tax in respect of all Village Panchayats should be brought forward to a common date - i.e., 1st April of the concerned year, through appropriate amendments to the Act and Rules, so as to ensure that Village Panchayats do not postpone or not revise House Tax. **[3.50]**

7.

A slab system should be introduced for various types of houses to have transparent and non-discretionary levy, and the minimum rate of House Tax may be revised with rates as follows bi-annually. **[3.51]**

i. Huts @ minimum ₹ 100

ii. Tiled house @ minimum ₹ 200

iii. RCC house @ minimum ₹ 300 based on plinth area @ ₹ 1 per sq. ft.

8.

Till the amendment of House Tax as Property Tax takes place, taxation for industrial / commercial buildings should be as follows: **[3.52]**

i. Up to 5,000 sq. ft. - ₹ 1 per sq. ft. of plinth area for both industrial and commercial buildings.

ii. Above 5,000 sq. ft. - ₹ 2 per sq. ft. of plinth area for industrial buildings, and ₹ 3 per sq. ft. of plinth area for commercial buildings.

9.

The RLBs should issue house numbers for newly constructed houses bi-annually to ensure that all new houses are brought into the tax net. **[3.53]**

10

Un-assessed buildings should be brought under the tax net by comparing with the list of electricity service connections and Commercial Taxes registration list. **[3.54]**

11.

All buildings of Central Government organisations, educational institutions, and State Government organisations should be brought under the Property Tax net. Necessary amendments may be brought in Act/Rules. **[3.55]**

12.

Windmills, lands and buildings on which cell phone towers are erected should be taxed at rates applicable to commercial buildings as per Explanation II to Schedule I under Section 172 of the Tamil Nadu Panchayats Act, and this should be enforced. For assessment purposes, the actual area on which cell phone towers are built should be taken in lieu of the total area of the building. **[3.56]**

13.

Tribunals should be constituted at the Block level to settle issues on tax assessments, and the Block Development Officer (Village Panchayats) should function as the arbitral authority, and the Assistant Director (Panchayat) should act as the appellate authority. **[3.57]**

14.

Online payment of tax should be enabled for all the Village Panchayats. Till the rollout of online software, receipts by handheld devices may be introduced to avoid pilferage. The collection platforms should be enabled to accept multiple payment modes and allow for automatic scheduling of property inspections, location tagging, etc. Online payment should be enabled latest from 1.04.2024. **[3.58]**

15.

Robust property database should be created with unique property identifiers (UPID) using the existing GIS maps. The database should be updated as and when any change in the property profile occurs. This database should be integrated with the tax payment platform. **[3.59]**

16.

Till the online platform is established, the procurement of Bill Books and all other forms and registers required for Village Panchayats and Block Panchayats should be based on actual requirement only. Till the introduction of online payment/ handheld devices, all the forms and registers and bill books should be standardised and procured from Government Press/ Cooperative societies. Bill Books with the BDO's seal and initials of the BDO should be distributed to the VPs one at a time. Once the bill book is over, it should be handed over to the BDO office with counterfoils. Handheld devices should be encouraged. **[3.60]**

17.

House Tax collection in Rural Local Bodies, which is a major source of Own Revenue, should be linked with the cost of service delivery for services such as streetlight maintenance and regular water supply. A portion of the expenditure for water charges and street light maintenance should be met from the House Tax collected by the Local Bodies. Residents should be sensitised that prompt tax payment is linked to better service delivery. **[3.61]**

PROFESSION TAX

18.

The State Government should take up with the Government of India, the early passage of the necessary Constitutional Amendments to increase the ceiling on Profession Tax, and to simplify the process of raising the limit in the future, as recommended by the 14th CFC and the 5th SFC. **[3.67]**

19.

The State Government should create a comprehensive database of all Professions liable for payment of Profession Tax. It should coordinate with State and Central Government agencies, like the Commercial Taxes Department, Labour and Employment Department, Employee Provident Fund Organisation, and Professional self-regulating organisations to enable more effective collection of Profession Tax by providing the list of staff/employees under their payroll to the respective Local Bodies. **[3.68]**

20.

The State Government should create an exclusive institutional structure at the State level to manage the database of employees, and assist Local Bodies in the collection of Profession Tax. **[3.69]**

ADVERTISEMENT TAX

21

Local Bodies should be empowered to take legal action and levy penalties on persons who have put up unauthorised hoardings and advertisements, in addition to removing hoardings which have not received requisite permission. **[3.75]**

22.

Rural Local Bodies should be allowed to collect tax for all types of advertisements including wall paintings/ writings, posters, banners and flex boards. **[3.76]**

23.

Licensing for shorter periods could be considered. The revision of tax should be done annually, with an upward revision of at least 5% per year. **[3.77]**

24.

The authority to grant advertisement permission should be delegated to the Local Bodies, with the concurrence of competent authority from the District administration. Concurrence of District administration should be time bound, which if not received within a specific time, should be deemed to have concurred. **[3.78]**

INCOME FROM ASSETS

25.

Properties already identified and not repaired/ renovated should be repaired/ renovated and rented out to augment RLB's revenue, and this should be a continuous process. **[3.84]**

26.

All the shops and commercial complexes, ponds and lakes owned by the Rural Local Bodies should be let out/ leased strictly through public auction only. **[3.85]**

BUILDING PLAN AND LAYOUT APPROVAL FEE

27.

The fees for Building Plan and Layout approval should be revised at the earliest, as per the Tamil Nadu Combined Development and Building Rules, 2019. **[3.94]**

28.

The Tamil Nadu Panchayat Buildings Rules, 1997, should be amended fixing the time limit for grant of building plan approval by the Executive Authority of the Village Panchayat, and the appropriate authority (DTCP/CMDA) mentioned in Rule 3(1). **[3.95]**

29.

Capacity for plan approvals is very limited in Local Bodies. A specialised Planning Unit should be created at the District level with redeployment of staff from Rural Development and Panchayat Raj Department, and Housing and Urban Planning Department. **[3.96]**

30.

Local Bodies should continuously monitor the construction activities in their jurisdiction, and should take steps to avoid the necessity of post-facto regularisations. The Government should consider levying penalty on the Local Bodies where new unapproved layouts come up after a given cut-off date. **[3.97]**

31.

The Government should consider levying annual penalty on the properties in such unapproved layouts, at atleast five times the rates of House Tax, till such layouts are regularised after due modifications, as per the existing rules. The revenue earned through such penalties should be shared with the concerned Local Bodies. **[3.98]**

WATER CHARGES

32.

Village Panchayats should increase water charges regularly. Minimum water charges should be ₹ 80 per month. Regular enhancement of water charges should be one of the factors based on which allocation from the Capital Grant Fund/ Pooled Fund for deficit RLBs should be decided. **[3.109]**

33.

The existing deposit for new water connections for households should be enhanced by at least 100%. For water connections for industry purposes, the rate should not be less than twice that for the residential connection. A slab system should be introduced, similar to the recommendation on Property Tax. **[3.110]**

34.

Water meters should be fixed for bulk water service connections, especially for all Over Head Tanks in a phased manner. **[3.111]**

D&O TRADES LICENSE FEES

35.

The nomenclature of D&O Trade Licence fees should be changed to Trade Licence fees, as done in Greater Chennai Corporation. Necessary action should be expedited at the Government level to bring this change. **[3.115]**

36.

Revision of D&O Trades Licence Fees should be done annually. **[3.116]**

BUS STAND FEES

37.

Bus Stand Fees should be enhanced by at least 100% from the existing rate. **[3.119]**

TRACK RENT FEES

38.

The Government should take necessary action to resolve the issues regarding collection of Track Rent on OFC feeders and Cable Television cables at the earliest to enable Local Bodies to collect track rent. **[3.123]**

39.

The District Collectors should arrange for surveys of the OFCs laid Village Panchayat wise, and ensure that the Annual Track Rent is levied and collected as per the rules in force. **[3.124]**

40.

While finalising policy on Track Rent Collection, the Government should ensure that the revenues of Local Bodies are not compromised. **[3.125]**

ASSIGNED REVENUE

41.

The practice of using the Assigned Revenue for priority schemes at the State level should be done away with. **[3.133]**

42.

Of the Assigned Revenue, 75% should be transferred to the respective Local Bodies, and the remaining portion should be used for the requirements of weaker Local Bodies, along the lines of Grants to Deficit RLBs, as recommended in the Scheme of Devolution section in this report. The State level Committee constituted for that purpose may be authorised to monitor this fund as well. **[3.134]**

43.

A proportion of resource allocation from such a fund should be maintained at least at the Block level under which the respective Village Panchayats fall. **[3.135]**

SURCHARGE ON STAMP DUTIES

44.

The Government should levy Surcharge on Stamp Duty on documents relating to (i) Agreement (ii) Power of Attorney (iii) Release of benami right (iv) Release of right in favour of partners and (v) settlement, to augment revenue to the Local Bodies. **[3.145]**

45.

The details of collection of surcharges should be shared by the Registration Department every month, with the concerned Head of Department, District Collector and Local Body. **[3.146]**

FISHERY RENTAL

46.

Fishing rights in Panchayat Union Tanks should be given strictly through a transparent process of auction. **[3.152]**

47.

Further, the share of Rural Local Bodies from the Water Resource Department Tanks should be shared with the Local Bodies on the lines similar to that adopted for sharing of revenue from mining activities. **[3.153]**

48.

Timely release of the Panchayat's share of the proceeds of Fishery Rentals by Panchayat Unions and Public Works Department tanks should be regularly monitored by the District Collectors and the Director of Rural Development and Panchayat Raj, through a quarterly review. **[3.154]**

SOCIAL FORESTRY

49.

A simple procedure should be evolved to release the share of Social Forestry sale proceeds to the concerned Panchayats in time. Sanction for the release can be given at the District level, and the funds can be transferred electronically during the month of February after due reconciliation with the Forest Department. **[3.160]**

MINES AND MINERALS

50.

Two separate receipt heads of account should be opened for the remittance of lease rent and seigniorage fees of minor minerals intended to be apportioned to the Local Bodies. **[3.169]**

51.

The proportion of the revenue from minor minerals to be shared with Local Bodies should be fixed at 75%. **[3.170]**

52.

25% of the revenue from sand quarrying should also be transferred to Local Bodies. The distribution can be on the same basis as other minor mineral based revenue, i.e., 75% to the Local Body where the quarry is located, and 25% to be distributed by the District Collector to the neighbouring Local Bodies that are adversely affected by the quarrying activity. **[3.171]**

53.

The release mechanism for the share of the Village Panchayats should be changed, and 75% of the entitlement of the Panchayat based on the previous year’s collection should be released in advance to overcome delays. The release mechanism should be centralised, and the advance release can be adjusted against actual collection subsequently. **[3.172]**

ELECTRICITY CHARGES

54.

TANGEDCO should ensure accuracy in billing after taking and recording the actual meter reading and reconcile any discrepancies, if any, with the concerned local bodies. **[3.190]**

55.

Since most of the electricity charges are incurred on water supply connections, the installation of solar powered motor pumps should be taken up wherever feasible. An energy efficiency audit of local bodies should be taken up annually. **[3.191]**

56.

TANGEDCO should use multiple modes of communication, such as SMS and e-mail to intimate the meter readings and electricity charges to the Village Panchayats, as is being done for individual customers. **[3.192]**

57.

TANGEDCO should bring out energy efficiency parameters for equipment, and a standardised list of cost effective equipment should be released. Local Bodies should procure only such standardised equipment, ensuring efficiency in energy consumption. **[3.193]**

58.

Smart switches for street lights may be fixed to avoid electricity consumption during day time. **[3.194]**

59.

There should be a complete ban on new installation of high mast lights in RLBs, and steps should be taken to decommission old high mast lights in a phased manner. **[3.195]**

PERI-URBAN PANCHAYATS

60.

The Tamil Nadu Panchayats Act, 1994 should be suitably amended to permit classification as Peri-Urban Villages based on population and proximity to ULBs, and to collect House Tax (to be amended as Property Tax) at the rates existing in adjacent ULBs. **[3.203]**

61.

Peri-Urban Panchayats should be empowered to levy Vacant Land Tax (VLT) for house sites other than agricultural lands, based on plinth area as in ULBs, by amending the Tamil Nadu Panchayats Act, 1994. The basis for levy may be area, in lieu of plinth area as in ULBs, by amending the Tamil Nadu Panchayats Act, 1994. **[3.204]**

62.

Large Village Panchayats should be bifurcated based on population and number of habitations to solve some of the issues relating to Peri-Urban Panchayats. **[3.205]**

63.

The Peri Urban Village Panchayats are facing special issues on liquid waste management and solid waste management. The need for infusing capital on drainage works is high. Possibilities of increasing the capacity of infrastructure in adjoining ULBs to accommodate requirements of Peri Urban Panchayats should be explored. **[3.206]**

GENERAL RECOMMENDATIONS

64.

Village level Citizens' Charter should be prepared and displayed in front of a permanent Public Office. **[3.207]**

65.

For all Village Panchayats, there should be separate digital revenue maps with Local Bodies' boundaries marked. Similarly, Local Body boundaries should be clearly marked in Revenue Village maps. **[3.208]**

COMPLEMENTARY RESPONSIBILITY

66.

More functions need to be delegated to Village Panchayats, especially maintenance of assets and on social sector programmes. **[3.210]**

67.

While Village Panchayats continue to maintain the assets owned by themselves, it is time that they take some responsibility for assets owned by some of the Government Departments as well. They should have responsibilities complementary to the Government Departments. **[3.213]**

68.

Village Panchayats can be permitted to execute small capital works and maintenance works in all physical assets owned by the Government within their area, including schools, health sub-centers, Public Health Centers, Other District Roads, Anganwadis, Noon Meal Centers, Fair Price Shops, Uzhavar Sandhais, tourist places, Decentralised Procurement Centers, water bodies, canals, veterinary sub-centers etc. If required, they can execute works with technical assistance from the concerned Departments. **[3.215]**

69.

For employment generation and poverty alleviation, Village Panchayats can play an active role on resource allocation, by complementing Government agencies implementing programmes for Self Help Groups, micro industries, agricultural activities etc. Towards this, they can coordinate with TN Women Development Corporation, Skill Development Corporation, Labour Welfare Boards etc. **[3.216]**

RURAL LOCAL BODIES SPECIAL GRANTS

70.

Out of the Rural share of devolution, Special Grants have been recommended for specific purposes. The Special Grants should be further divided into State-level grants and district level grants and at both the levels, the fund is to be further divided for two purposes and allotted as Capital Grand Fund (CGF) and Operation and Maintenance Deficit Grant Fund (O&MDGF). **[7.36]**

71.

The Commission recommends ₹10,684 crore as Special Grants during the award period. Of this, ₹9,334 crore as Special Grants at the State Level and ₹1,350 crore as Special Grants at the District level for the entire five year award period with detailed distribution specified for each year. This would account for 25.7% of the total projected devolution grants for RLBs during the award period. If the CFC Grants are also taken into account, the Special Grants would account for 19% of the total devolution grants. **[7.38]**

STATE LEVEL GRANTS

72.

This Commission recommends ₹1,573 crore as Special Grants per annum with an annual increase of ₹146.8 crore during the award period. **[7.39]**

73.

The State level grants are to be administered by the State Level Committee. As the composition of the grants indicate, it would involve various stakeholder agencies. Hence, the requirement of funds should be assessed, and allocation among Local Bodies for the specific purpose stipulated under this category should be determined by a committee with representatives from the departments of Rural Development and Panchayat Raj, Finance, and School Education. Representatives of TWAD Board and TANGEDCO should also be special invitees to the Committee. **[7.40]**

SPECIAL GRANTS AT STATE LEVEL

74.

The Commission recommends special grant funds at State level namely the Capital Grant Fund, with an allocation of ₹ 861 crore for the first year, with a fixed annual increase of ₹ 86 crore per annum over the previous year allocation; and Operations Maintenance and Deficit Grant Fund, with an annual allocation of ₹ 712 crore and an increase of ₹ 60.8 crore per annum over the previous year allocation. **[7.41]**

CAPITAL GRANT FUND - STATE

75

The Capital Grant Fund will be divided into four components as indicated below: **[7.43]**

a. ₹600 crore should be allocated in the first year of award for improvement of rural infrastructure with a priority to weaker Local Bodies. The Fund should get an annual increase of ₹ 60 crore over the previous year allocation over the next four years with a total allocation of ₹ 3,600 crore during the entire award period. The Fund should be spent for water supply and solid waste management on priority. Other infrastructure works can also be undertaken, depending on the requirement.

b. In the first year of the award period, ₹ 120 crore should be allocated for conversion of Panchayat Road into Other District Roads, and improvement of important streets. ₹ 12 crore should be increased annually over the previous year allocation for the next four years with a total allocation of ₹ 720 crore during the entire award period.

c. ₹ 1 crore should be allocated for developing infrastructure for the rural regional training institutes during each of the years, with a total allocation of ₹ 5 crore during the entire award period.

d. ₹ 140 crore should be allocated for improving the infrastructure in the schools located in the RLBs in the first year. ₹ 14 crore should be given as annual increase over the previous year's allocation over the next four years, with a total allocation of ₹ 840 crore in five years. Priority should be given to creation of additional classrooms in the schools. Selection of schools should not be restricted to Panchayat Union schools alone. Even the high school and higher secondary schools falling under the jurisdiction of the Local Bodies serve the population of the Local Bodies. Hence the Fund can be spent even on high schools and higher secondary schools. This should serve as a first step towards increasing further functional delegation to the Local Bodies. The Public Works department can have parallel jurisdiction, and the requirement of obtaining no objection certificates should be done away with.

OMDGF

76.

The OMDGF should have a total allocation of ₹ 4,169 crore during the five-year award period of this Commission. The first year allocation would be ₹ 712 crore. The Fund would be further be divided into eight components as indicated below: **[7.44]**

a. ₹ 100 crore should be allocated to TWAD Board in the first year with an annual increase of ₹ 10 crore over the previous year's allocation for the next four years making the total allocation of ₹ 600 crore during the entire award period. This Fund should be spent for meeting the water charge requirements of those weaker local bodies which are not able to pay the annual charges from their existing resources. The grant can be made directly to the Board.

b. ₹ 60 lakh should be allocated annually to Rural Regional Training Institutes for capacity building of officials working for RLBs, and of the public representatives.

c. ₹ 280 crore in the first year with an annual increase of ₹ 28 crore over the previous year's allocation should be allocated to RLBs with deficit for two consecutive financial years subject to a maximum grant of ₹ 10 lakh per local body per year. This Fund should be untied and should not be intercepted for any other purposes at the state level or the district level.

d. ₹ 200 crore should be allocated in the first year with an annual increment of ₹ 20 crore over the previous year allocation for meeting the electricity bill requirements of those local bodies which are not able to pay their electricity charges with their existing resources. This amount can be directly given to TANGEDCO after due verification of the pending bills and certification by the Local Bodies.

e. ₹ 28 crore should be allocated to the Department of Public Libraries in the first year as advance payment of Library Cess collection, with an annual increase of ₹ 2.8 crore over the previous year allocation for the next four years. Having collected the advance Library Cess from the Local Body devolution, and subsequently the Local Bodies can retain the actual Library Cess collected at their level.

f. Efforts need to be taken to ensure that the sanitary workers in RLBs are registered with the Sanitary Workers Welfare Board. ₹5 crore per year should be given as a grant to the Board to undertake welfare/social security initiatives for the Sanitary Workers in rural areas. Director Rural Development should be co-opted as a member/ special invitee to the Sanitary Workers Welfare Board.

g. As discussed in Chapter III, 687 Village Panchayats are in close proximity to ULBs, and termed as Peri Urban Panchayats. To meet their additional needs the Commission recommends ₹ 10 lakh per Peri Urban Panchayat in addition to their regular lump sum amount. In case the Rural Development Department changes the number of Peri Urban Panchayats as per revised criteria, the same should be adopted for this purpose also.

h. Similarly, 299 Village Panchayats which are located in hilly areas should also get an additional lump sum amount of ₹10 lakh per hilly Village Panchayat.

DISTRICT LEVEL GRANTS

77.

The Commission recommends two Special Grant funds at district namely the Capital Grant Fund and Operations and Maintenance Deficit Grant Fund. **[7.46]**

78.

The allocation to individual local bodies out of the district level grants should be determined by the District Planning Committee. Till the DPC is formed, the allocation can be made by the District Collector as Inspector of Panchayats. **[7.47]**

CAPITAL GRANT FUND - DISTRICT

79.

The Capital Grant Fund should have a total allocation of ₹ 1,000 crore during the five year award period of this Commission. The allocation would be ₹ 200 crore per year. **[7.48]**

80.

The Capital Grants should be divided among Districts based on the following formula - Population (65%), Area (15%) and SC/ST population (20%). **[7.49]**

81.

The capital grants should be spent on essential services at the village level such as water supply, connectivity, community infrastructure, and infrastructure not covered under any other scheme. **[7.50]**

O&MGF

82.

₹ 60 crore shall be allotted proportionately each year among districts based on the number of schools within the RLBs in each district. This Fund should be used for minor works and maintenance of school infrastructure. **[7.53]**

83.

The selection of schools should not be restricted to Panchayat union schools alone. Even the high schools and higher secondary schools falling under the jurisdiction of the local bodies serve the population of the local bodies. Hence, the fund can be spent on high schools and higher secondary schools as well. This should serve as a first step towards increasing further functional delegation to the Local Bodies. The Public Works Department can have parallel jurisdiction. The requirement of obtaining no objection certificate should be done away with. **[7.54]**

FORESTS RIGHTS ACT

84.

Implementation of Forest Rights Act should be given top priority in the districts with tribal population. ₹ 20 lakh should be given for each hamlet in which majority of individual Forest rights have been given and majority of community rights have been settled. This Fund should be spent by the District Collector for meeting basic infrastructure requirements of the hamlets based on the recommendations of the Joint Forest Management Committee. **[7.60]**

FORMULA BASED DIRECT DEVOLUTION GRANTS

85.

The amount to be devolved as direct devolution to the local bodies should be arrived at by deducting the special grants from the overall share to the RLBs as per the Devolution Formula. **[7.61]**

VERTICAL SHARING BETWEEN TIERS OF RLBs

86.

The vertical sharing ratio among RLBs should be 7:37:56, i.e., 7% to District Panchayats, 37% to Panchayat Unions and 56% to Village Panchayats. **[7.66]**

87.

Un-tied devolution to local bodies should not be intercepted under any circumstances. General Fund to Local Bodies should directly go to the Local Bodies. There should not be any tied component associated with them. **[7.67]**

88.

The releases should be according to the multiplier factors for all local bodies arrived at by this Commission for each Local Body based on the weightage formula recommended. **[7.68]**

89.

The Government must make these multiplier factors available online through its website, along with a simple online calculator. **[7.73]**

DISTRICT PANCHAYAT

90.

Of the total direct devolution grants, 7% should be given to District Panchayats. **[7.74]**

91.

There shall be no minimum lump-sum grant given to District Panchayats. All the grants should be devolved based on the following weightage formula for distribution between District Panchayats - Population (65%), Area (15%) and SC/ST population (20%). **[7.75]**

PANCHAYAT UNION

92.

Of the total direct devolution grants, 37% should be devolved to the Panchayat Unions. **[7.76]**

93.

For each Panchayat Union, ₹ 40 lakh should be given as a minimum lump sum grant. **[7.77]**

94.

The remaining amount, after deducting the minimum lump sum grants from the total devolution to Panchayat Unions, should be devolved to the Panchayat Unions with the following weightage formula - Population (65%), Area (15%) and SC/ST population (20%). **[7.78]**

VILLAGE PANCHAYAT

95.

Of the total direct devolution amount, 56% should be devolved to the Village Panchayats. **[7.79]**

96.

Of the devolution to the Village Panchayats, for each Village Panchayat, a basic minimum lump sum grant of ₹ 7 lakh should be given. **[7.81]**

97.

The basic lump sum grant should be divided between two shares for settling the charges due to the water supply and electricity in the ratio of 30:70. From each account, the charges should be settled in the first instance. In case there is excess amount available in the account after settling the water charges or the electricity charges as the case may be, such amount should be transferred to the other account for electricity and water charges, respectively. **[7.82]**

98.

In case there are no dues pending for water charges or electricity charges in the Panchayat, then and then alone should the amount be transferred to the General Fund account. **[7.83]**

99.

The Fund remaining from the devolution to Village Panchayats after deducting the minimum lump sum grants shall be devolved to the Village Panchayats according to the following weightage formula - Population (65%), Area (15%) and SC/ST population (20%). **[7.84]**

STAFF POSITIONS IN VILLAGE PANCHAYATS

100.

A qualifying entrance test should be made mandatory for the post of Panchayat Secretary. Any candidate applying for the post should possess the qualifying certificate. However, a Certificate of passing such a test would not confer the right to appointment automatically. **[3.20]**

III. Urban Local Bodies

PROPERTY TAX - ULBs

101.

The coordination between Town Planning and Revenue wings should be structurally strengthened through an automated workflow process, with data sharing regarding planning permissions, construction and completion, to ensure that properties are brought into the tax net promptly. **[4.73]**

102.

The proposed end-to-end software for according planning permission should be completed expeditiously. **[4.74]**

103.

In Chennai, planning permissions for various types of buildings rest with different authorities like GCC and CMDA. An online link between the databases of CMDA and GCC would ensure a fool proof system of updation of Property Tax registers. This could be done alongside the automation and online process proposed to be introduced for Building Plan clearances in CMDA. **[4.75]**

104.

GIS mapping of all ULBs to bring left out properties into the assessment process should be completed in all Municipalities and Corporations. This should be implemented in Corporations within a period of two years. GCC should complete the process before March 2023. **[4.76]**

105.

A special drive for GIS mapping should be launched for Town Panchayats to cover all Town Panchayats in a phased manner during the five year award period of the Sixth SFC. **[4.77]**

106.

The computerisation of the Property Tax system must be speedily completed and online self-assessment of Property Tax should be implemented with necessary amendments to the Tamil Nadu District Municipalities Act, 1920, and other City Municipal Corporation Acts. **[4.78]**

107.

Penalty should be imposed for belated payments. Tax defaulters list should be published by the ULBs soon after the close of the financial year. A mechanism for incentive for advance payment can be made automatic in the online payment platform. **[4.79]**

108.

To prevent accumulation of arrears on State Government buildings, a mechanism should be put in place to ensure that Department wise and Local Body wise demand for Property Tax are consolidated, and adequate budgetary provisions sought from the Finance Department under the relevant heads of account. A special committee should be formed with representatives of related Departments to arrive at the consolidated Property Tax requirements of Government Departments and Agencies each year. **[4.80]**

109.

The Government should take up the issue of necessary amendments to Article 285 of the Constitution to make the Union Government buildings liable for Property Tax. In the interim, the Ministry of Urban Development, Government of India must be impressed upon to make statutory provisions enabling levy of service charges to replace the current executive instructions which have proven ineffective. **[4.81]**

110.

The ULBs should adopt an Area Based Valuation method for assessing Property Tax instead of the current system of Annual Rental Value based assessment. Guideline value uploaded by the Registration Department and sales statistics may be linked with the Tax Assessment software of the ULBs for the purpose of comparison. Streetwise uniformity of rate should be maintained, allowing for slabs based on type of property. **[4.82]**

111.

An integrated online "Self-Assessment of Property Tax Platform" should be established with an automatic calculation of the tax to be paid based on data, some of which, like the guideline value or the zonal valuation of the property is already available online; and the rest could be provided by the assessees. The system of self-assessment could then be effectively utilised, with provisions for scrutiny and audit to ensure that the self-assessment has been done correctly. **[4.83]**

112.

Only the actual area/ floor area on which Cell Phone Towers base is built should be assessed as a commercial building for Property Tax purpose. **[4.84]**

113.

Despite the provisions contained in the ULB Acts, the quinquennial general revision of Property Tax has not been done for long. There should be no further postponement of the general revision. In the event of postponements of general revision due to Government intervention, the Government should compensate the ULBs and CMWSSB for the loss of revenue. **[4.85]**

114.

Section 81(A) of the District Municipalities Act, 1920, which empowers the State Government to publish a notification directing any Municipal Council regarding levy of Property Tax or any other taxes, should be seen only as a safeguard for revenue; whereby the local body is stopped from either doing away with a tax or reducing the rate of levy. The Government should not intervene when there is an upward revision of taxes carried out by the respective ULBs. **[4.86]**

115.

The quinquennial general revision of Property Tax should reflect at least the cumulative CPI change since the previous revision. In case Local Bodies fail to proactively notify any revision of Property Taxes, the Property Tax rates should automatically stand revised to a minimum of the cumulative CPI change. The Government should amend the relevant portion of the District Municipalities Act, 1920, to give effect to this recommendation. **[4.87]**

116.

A register should be maintained by the concerned Department, which contains the consolidated details of Government Agencies' properties Local Body wise. This should form the basis for allocation of adequate funds for Property Tax from the respective Government Agencies. **[4.88]**

117.

The Property Tax Board should be activated and disputes relating to valuation of properties should be referred to the Board for speedy resolution. **[4.89]**

118.

As a general policy, the State Government should not provide exemptions to any entity from the tax and non-tax levies of Local Bodies. In cases where the grant of such an exemption becomes necessary, the ULBs should be compensated for the loss. **[4.90]**

VACANT LAND TAX - ULBs

119.

A systematic GIS based survey of the land, followed up with a field verification of ownership, based on the relevant revenue records, should be carried out. Based on this inventory of vacant land, Vacant Land Tax should be levied. **[4.96]**

120.

Instead of levying and collecting Vacant Land Tax only at the time of seeking/ giving planning permissions, the Vacant Land Tax should be collected regularly and annually. **[4.97]**

121.

Delayed payment of the Vacant Land Tax should be collected with penal interest at a rate not less than 12% per annum, Vacant land registration details should be shared with CMA/CTP/GCC and RD/MAWS Departments as is done for Stamp Duty. **[4.98]**

122.

The basis and the rate of levy of Vacant Land Tax should be revised according to the guideline value of the land. Vacant Land Taxes should be revised immediately and should not be less than three times the present rates. **[4.98]**

123.

Payment of arrears of Property Tax dues or Vacant Land Tax dues should be made mandatory before registration of land/ property. **[4.100]**

BETTERMENT LEVIES

124.

Betterment Levy should be incorporated into the tax regime for all urban infrastructure works undertaken by the ULBs, to ensure more effective land value capture on a sustainable basis, along the lines of the existing provisions under the Tamil Nadu Highways Act, 2001. Betterment levies should also form part of the cost-benefit analysis for undertaking urban infrastructure projects. **[4.108]**

PROFESSION TAX

125.

The State Government should take up with the Government of India, the early passage of the necessary Constitutional amendment to enhance and remove the ceiling on the Profession Tax that can be levied, and to simplify the process of raising the Profession Tax in the future, as recommended by the 14th and the 15th CFCs. **[4.115]**

126.

State and Central Government agencies like the Commercial Tax Department, Labour and Employment Department, Employee Provident Fund Organisation, and professional self-regulating organisations should coordinate and cooperate with local bodies to enable more effective collection of Profession Tax by providing list of staff/employees under their payroll to the respective Local Bodies either through online or offline mode. **[4.116]**

ADVERTISEMENT TAX

127.

The authority to grant advertisement permission should be delegated to the Local Bodies, with the concurrence of competent authority from the District administration. Concurrence of District administration should be time bound, and if not received within a specific time, it should be deemed to have concurred. **[4.123]**

128.

Local Bodies should be empowered to take legal action and levy penalties on persons who have put up unauthorised hoardings and advertisements, in addition to removing hoardings which have not received requisite permission. **[4.124]**

129.

As per the existing rules, the licence for advertisement is granted for 3 years, and the collection of tax is by every half year. Licensing for shorter periods could also be considered. **[4.125]**

130.

The revision of tax should be done annually, with an upward revision of at least 5% per year. **[4.126]**

NON-TAX REVENUE

131.

The present executive instructions regarding regulation of lease and rent should be replaced with Statutory Rules to provide greater sanctity and certainty, allowing for more investment in creation of remunerative assets which would augment the non-tax revenue. **[4.137]**

132.

All shops of ULBs should be rented/leased out following tender and public auction, as per the Transparency in Tender Act, 2000. **[4.138]**

133.

The development of remunerative projects like new market complexes, truck terminals, theme parks, etc. could be taken up jointly with Village Panchayats in areas adjoining the ULBs on a profit sharing basis. **[4.139]**

134.

Arrears of rent payable to ULBs for the Uzhavar Sandhais should be settled by the Cooperative Marketing Societies/ Regulated Market Committees without further delay. **[4.140]**

WATER CHARGES

135.

All house connections should be metered in a phased manner. Initially, high cost Residential and Commercial establishments should be targeted. **[4.145]**

136.

Water consumption charges should be at least doubled, and the minimum charge should be ₹ 100 per month, per dwelling unit. **[4.146]**

SEWAGE COLLECTION CHARGES

137.

The per dwelling charges should be doubled, and the minimum should be ₹ 100 per month. **[4.149]**

FEES/ TRADE LICENSE

138.

The Rule provisions in Schedule-V of the Tamil Nadu District Municipalities Act, 1920 and the relevant schedule in respect of other Municipal Corporation Acts should be amended to enable the

Council to notify the list of trades, and to revise the rates once in three years. The necessary amendments may be notified at the earliest. New trades should be updated every year. **[4.154]**

139.

The nomenclature D&O trade license fee should be revised as "Trade License Fee" as in the case of Greater Chennai Corporation. **[4.155]**

140.

Commercial Tax Department should seek additional details like payment of License Fee, Property Tax and Profession Tax from traders while registering for GST, which will favour the LBs in augmenting revenue. Local Bodies shall get the list from the Commercial Tax Department periodically and reconcile tax collection and add unassessed traders into the tax net. **[4.156]**

BUILDING LICENSE FEES

141.

Combined Development and Building Rules, 2019 should be amended, and all Government Buildings belonging to the State as well as Central Governments should be obligated to obtain necessary building licenses and planning permissions from the competent authority, namely ULB or Local Planning Authority or CMDA by remitting such fees as prescribed in the ULB's Bye-laws or as levied by the Planning Authority. **[4.161]**

BUS STAND FEES

142.

The Bus Stand Fee should be revised immediately by at least 100%. Annual automatic increase should be built in to reflect increase in the CPI. **[4.164]**

TRACK RENT FEES

143.

The Government should take necessary action to resolve the issues regarding collection of track rent on OFC feeders and Cable Television cables at the earliest to enable Local Bodies to collect track rent. While finalising policy on Track Rent Collection, the Government should ensure that the revenues of Local Bodies are not compromised. **[4.168]**

SURCHARGE ON STAMP DUTY

144.

Levy of Surcharge on Stamp Duty should be extended to (i) Agreement (ii) Power of Attorney (iii) Release of benami right (iv) Release of right in favour of partners and (v) Settlement. In addition, "Construction agreements" and "Settlement among family members" should also be subject to Stamp Duty. **[4.180]**

145.

The details of collection of surcharge on Stamp Duty should be informed to the Local Bodies concerned and the District Collectors by the Registration Department. **[4.181]**

ASSIGNED REVENUE

146.

Pooling of Assigned Revenue and its tie-up with State-level schemes should be stopped, and the entire revenue should be assigned to the Local Bodies concerned without any interception. **[4.184]**

ISSUE OF BONDS

147.

Government should issue detailed guidelines for all ULBs regarding the issue of bonds and other debt instruments. The Government should take comprehensive efforts for credit rating of the ULBs through specialised agencies to enable them raising infrastructure bonds. **[4.198]**

148.

The ULBs must be encouraged to issue bonds and other debt instruments for augmenting resources for capital projects. Given the funding requirements of the Urban Local Bodies, and given the fact that the other two tiers of the Government are permitted deficit financing of their budgets, the condition that ULBs must be surplus for consecutive three years for issuing bonds seems onerous. Efforts need to be taken by the Government to modify the conditions for issue of bonds in consultation with appropriate regulatory authorities. **[4.199]**

INNOVATIVE FINANCING MECHANISMS

149.

Statutory Fiscal Reforms and Budgetary Management compliance has helped the State Governments discipline their accounts and deficits. It is high time that the need for such discipline at least for Corporations is recognised. The State Government shall take efforts to introduce statutory provisions in the existing acts or enact new legislations to ensure fiscal discipline among Municipal Corporations. **[4.200]**

150.

Public Private Partnerships have been least explored in the urban sector. The Tamil Nadu Infrastructure Development Board should take up a special drive to map revenue generating existing assets and identify new shelf of potential assets. A concerted effort should be taken to leverage various State Government schemes, Local Body Funds and Special Grants recommended by this Commission to create infrastructure projects under various PPP models in a mission mode during the five year award period of this Commission. **[4.201]**

151.

In case of high cost infrastructure, the Government should bear the cost of infrastructure only if it is found to be uneconomical for implementation under a PPP model. Even then, possibilities for doing O&M in the PPP model should be explored. **[4.202]**

152.

Platform companies and Special Purpose Vehicles should be formed for all revenue generating assets. Operational Expenditure (OpEx) models of asset maintenance, especially for metered services, with resource mobilisation from the private sector should be developed across sectors in urban areas. **[4.203]**

153.

For the creation and maintenance of public sanitation systems / facilities, the local bodies should explore the possibility of undertaking small scale Public Private Partnership (PPP) projects through Special Purpose Vehicles (SPVs). **[4.204]**

HUMAN RESOURCE MANAGEMENT

154.

Guidelines for integration of HR cadre for newly added areas should be created. Among other aspects, these should cover: **[4.208]**

i. Sufficiency of HR across levels and functions in view of consolidated availability and service delivery needs, and taking into account redundancies and needs arising from changes in service standards, technology, processes etc.

ii. Identification of role based training needs and guidelines for creating a pipeline of high capacity staff.

iii. Resourcing and approvals for bridging quantity and quality gaps in staff.

iv. Norms for integration of cadre across added areas with specification of timelines for the integration process.

155.

Job charts should be revised for improved clarity on roles and responsibilities, and guidelines and templates should be provided for definition of Key Performance Indicators (KPIs) and performance measurement/ validation protocols across designations. **[4.209]**

156.

A state-wide Capacity Building and Training Policy and a Capacity Building and Training Programme (CBTP) should be formulated with appropriate funding provisions for both urban and rural local bodies. **[4.210]**

157.

Role based "training needs assessments" should be developed and administered. ICT should be leveraged for "refresher trainings" through audio/ video modules, and for tracking the perceived effect of training on capability and performance - both by the trainees and their managers (TNIUS and SIRD may collaborate for such initiatives). **[4.211]**

158.

Post-training assessments should be conducted for all the trainings (both in-person and online), based on which credits may be given and officials who have passed the exam may be incentivized. **[4.212]**

159.

Capacity Building should also be imparted to the elected representatives of local bodies to ensure that they have both knowledge and behavioural competencies required to effectively discharge their roles. **[4.213]**

160.

Posts in Local bodies including outsourced posts should be filled up from the list of candidates who have passed appropriate eligibility tests conducted by the authorised agency. More generally, technical support should be provided to local bodies to evaluate HR sourcing alternatives (on-roll recruitment, contracting, and outsourcing etc.) for key positions and choose the most cost effective models. **[4.214]**

161.

Administrative Reform Commission /Committee should be constituted to study and report the measures to be followed for good governance at the grass root levels in local bodies (rural and urban). Such a Commission may also assess and recommend modifications to the organisational structure and service rules to balance autonomy with accountability at the last mile. **[4.215]**

162.

A centralised cell should be constituted for analysis of HR data from multiple sources. (e.g., HRMS, projection of HR liabilities, retirement and pipeline assessment, training effectiveness evaluations, collation of good practices etc.). **[4.216]**

CANTONMENT BOARDS

163.

₹ 1.5 crore should be allocated to St. Thomas Mount cum Pallavaram Cantonment Board and ₹ 50 lakh should be allocated to Wellington Cantonment Board each year from the Capital Grant Fund during the award period. **[4.234]**

164.

The funds allocated should be spent based on the recommendations of a

Committee formed for this purpose with three members, namely, the Member of Legislative Assembly from the constituency in which the area of the Cantonment Board overlaps, the Chief Executive Officer of the Board and one elected representative on the Board, to be recommended by the Board. **[4.235]**

GENERAL RECOMMENDATIONS

165.

A scheme for mobilising CSR component can be formulated whereby an individual/ agency / companies who are interested in contributing for the welfare of a particular local body can contribute directly for infrastructure development of Urban Local Body. **[4.236]**

166.

The CSR funds or funds from corporates are to be used by local bodies to create infrastructure / assets or any other improvement to the local bodies as per the guidelines. Towards this, the Government can give a matching share of 33% based on the scheme guidelines, which should be framed by the Government. **[4.237]**

167.

Within the local bodies, Land Bank of all Government lands should be created so that land availability can be assessed for providing suitable infrastructure to the local bodies, and development of land - either for Value Capture, or for creation of public assets can be planned. It is essential to explore reclaiming the excess land given to various Government Departments, agencies, and local body's own infrastructure for future development. **[4.238]**

168.

Currently, no asset register for immovable properties is being maintained by local bodies. A comprehensive exercise for creation of Asset Register should be undertaken and the completed register should be made available online. **[4.239]**

169.

Un-tied devolution to local bodies should not be interrupted under any circumstances. General Fund to local bodies should directly go to the local bodies. There should not be any tied component associated with them. **[4.240]**

170.

Infrastructure requirements of poorer localities of ULBs should be identified and given high priority while planning capital investments. **[4.241]**

171.

Government should undertake service level benchmarking for all ULBs on an annual basis with the help of third party professional agencies. Better performing ULBs and wards within ULBs can be rewarded with additional resource allocation. **[4.242]**

172.

A comprehensive Deprivation Index of civic amenities should be developed for assessing the financial requirements of all the Local Bodies. Fund allocation for development activities should be done taking into consideration this Deprivation Index. **[4.243]**

173.

Comprehensive manuals for maintenance of assets should be created. Local Bodies should prioritise utilising their own revenue receipts for maintenance of assets and ensuring uninterrupted service delivery. **[4.244]**

174.

Specialised agencies such as TNUIFSL and TUFIDCO should extend support to ULBs and RLBs for availing of funds from under explored funding sources like the Tamil Nadu Innovation Initiative (TANII). **[4.245]**

175.

Standardised templates should be created for Local Bodies to calculate cost to serve (capital and O&M) for tariff justifications. A State level portal can be developed with cost to serve and tariff benchmarks of Local Bodies and parastatal agencies using data from past projects. **[4.246]**

176.

A State level cell should be created to support Local Bodies in mapping properties, suggesting value capture options, reviewing contracts and support on auction processes. This cell would also maintain a repository of successful monetisation projects and relevant connections for other Local Bodies to reference, through the Commissioner of Land Administration. **[4.247]**

177.

Analytical support should be provided by the State Level Cell to Local Bodies to help them forecast their committed liabilities over time, and in comparison with expected revenues for better longer term planning. **[4.248]**

METROPOLITAN CITY

178.

A new category of Urban Local Body named 'Metropolitan City' should be introduced for the purpose of devolution grants to accommodate the special nature of Greater Chennai Corporation. **[7.87]**

179.

Distinguish non-Metropolitan ULBs from the Metropolitan ULBs for the purpose of SFC devolution and to adopt a different devolution pattern. **[7.88]**

180.

The total devolution grants for ULBs should be divided into two broad categories i.e., the only Metropolitan city in the State i.e., Chennai and the non-metro ULBs. **[7.89]**

181.

The distribution between Metro and Non-Metro ULBs should be shared in the Ratio of 16:84. **[7.95]**

182.

Of the total devolution amount of urban local bodies, 16% should be devolved for Chennai Metropolitan City. **[7.96]**

183.

Of the total devolution for the Chennai Metropolitan City, 82% should be devolved directly to the GCC and 18% should be devolved to the CMWSSB. This amount to the CMWSSB should be spent for meeting the deficit in expenditure of the Board. **[7.97]**

184.

From the share remaining with GCC, ₹ 60 crore should be allocated to the Department of Public Libraries in the first year as advance payment of Library Cess collection, with an annual increase of ₹ 6 crore over the previous year allocation for the next four years. Having collected the advance Library Cess from the Local Body devolution, subsequently the local body can retain the actual Library Cess collected at their level. Thus, the total grant for this purpose during the award period would be ₹ 360 crore. **[7.98]**

185.

Further, the funds need not be routed through the Directorate of Municipal Administration. The GCC and CMWSSB should be enabled to draw their share of devolution amount directly from the Treasury like other Heads of Departments. **[7.99]**

Non-Metro ULBs

186.

Of the total devolution to the ULBs, 84% should be devolved to the non-metro ULBs i.e., the ULBs other than GCC. **[7.101]**

187.

The total devolution amount to the non-metro Local Bodies should be divided into two broad categories, Special Grants and Direct Devolution. **[7.102]**

DEFICIT GRANT TO TWAD BOARD

188.

In order to meet the deficit of TWAD Board due to under recovery of water charges from Local Bodies, and the inability to meet the O&M charges of maintaining water supply schemes, ₹ 120 crore should be awarded in the first year. During the award period, ₹ 12 crore should be increased per annum over the previous year's allocation in the Special Grant to TWAD Board. Thus, the total grant for this purpose during the award period would be ₹ 720 crore. **[7.103]**

CAPITAL GRANT FUND

189.

In order to meet the infrastructure requirements of ULBs, ₹ 500 crore should be set aside in the first year as Capital Grant Fund. This Fund should increase by an amount of ₹ 50 crore per annum over the previous year allocation during the award period. Thus, the total grant for this purpose during the award period would be ₹ 3,000 crore. Priority should be given to improve the tree cover in urban areas. **[7.105]**

190.

As the Commission recommends separate Special Grant for urban road development, the Capital Grant Fund should not be utilised for road works. This amount should be spent in the following proportion among various types of urban Local Bodies - Municipal Corporations (31%), Municipalities (36%) and Town Panchayats (33%). **[7.106]**

URBAN ROAD DEVELOPMENT FUND

191.

For improving the road connectivity and quality of riding surfaces, ₹ 200 crore should be given as a special grant for the Urban Road Development Fund. This amount should increase by an amount of ₹20 crore per annum over the previous year's allocation during the award period. Thus, the total grant for this purpose during the award period would be ₹ 1,200 crore. **[7.108]**

OPERATIONS AND MAINTENANCE GAP FILLING FUND

192.

In order to meet the gap between expenditure and available resources of Urban Local Bodies, ₹ 200 crore should be allocated as a Special Grant in the first year. ₹ 20 crore should be increased in the Operations and Maintenance Grant Fund every year over the previous year's allocation during the award period. Thus, the total grant for this purpose during the award period would be ₹ 1,200 crore. This amount should be spent in the following proportion among various types of Urban Local Bodies - Municipal Corporations (31%), Municipalities (36%) and Town Panchayats (33%). **[7.110]**

DEFICIT FUND FOR SCHOOL INFRASTRUCTURE

193.

₹ 160 crore should be allocated for improving the infrastructure in the schools located in the urban Local Bodies in the first year. Of this, ₹ 100 crore should be spent on capital works and ₹ 60 crore should be spent on Operations and Maintenance. ₹ 16 crore should be given as annual increase over the previous year's allocation over the next four years with the total allocation of ₹ 960 crore in five years. Priority should be given to creation of additional classrooms in the schools. **[7.111]**

194.

The Commission recommends that the selection of schools should not be restricted to primary schools alone. Even the high schools and higher secondary schools falling under the jurisdiction of the Local Bodies serve the population of the Local Bodies. Hence the fund can be spent even on high schools and higher secondary schools. This should serve as a first step towards increasing further functional delegation to the Local Bodies. The Public Works department can have parallel jurisdiction. The requirement of obtaining no objection certificate should be done away with. **[7.112]**

DEFICIT FUND FOR TOURIST TOWNS

195.

The Municipal Administration and Water Supply Department should identify 30 Municipalities or Town Panchayats which have heavy footfall due to tourist visits or annual festivals. For these 30 towns, ₹ 50 lakh should be given as Special Grant per annum, over and above their regular devolution. In addition, ₹ 5 crore should be allocated (per annum) to ULBs which have special festivals or events that require such additional funding for catering to the service requirement of such festivals or events. Thus, the total grant for this purpose during the award period would be ₹ 100 crore. **[7.114]**

SPECIAL GRANT FOR CAPACITY BUILDING

196.

To strengthen the capacity of ULBs and their staff, various training programmes should be conducted by the Tamil Nadu Institute of Urban Studies. For this purpose ₹ 5 crore should be allocated to TNIUS per year during the award period. Thus, the total grant for this purpose during the award period would be ₹ 25 crore. **[7.116]**

SPECIAL GRANT FOR STUDIES AND DOCUMENTATION

197.

To meet the requirement of conducting various studies, transaction advisory services and project evaluations in ULBs, ₹ 5 crore should be allocated per year. These services can be availed from TNUIFSL. Thus, the total grant for this purpose during the award period would be ₹ 25 crore. **[7.118]**

SPECIAL GRANT FOR GIS MAPPING

198.

To ensure GIS mapping of all properties in Urban Local Bodies, ₹ 10 crore should be allocated per year during the award period. Thus, the total grant for this purpose during the award period would be ₹ 50 crore. **[7.120]**

ADVANCE PAYMENT OF LIBRARY CESS

199.

₹ 90 crore should be allocated to the Department of Public Libraries in the first year as advance payment of Library Cess collection with an annual increase of ₹ 9 crore over the previous year's allocation for the next four years. Having collected the advance Library Cess from the Local Body devolution, subsequently the Local Bodies can retain the actual Library Cess collected at their level. Thus, the total grant for this purpose during the award period would be ₹ 540 crore. **[7.122]**

GRANTS FOR WELFARE OF SANITARY WORKERS - ULBs

200.

Efforts need to be taken to ensure that the sanitary workers in ULBs are registered with the Sanitary Workers Welfare Board. ₹ 10 crore per year should be given as a grant to the Board to undertake welfare/social security initiatives for the Sanitary Workers in urban areas. Director of Municipal Administration should be co-opted as member/special invitee to the Board. The total grant for this purpose during the award period would be ₹ 50 crore. **[7.124]**

SPECIAL GRANT TO NEWLY ADDED LOCAL BODIES

201.

A lump sum grant should be given to newly added Local Bodies in the respective categories for catering to their resource needs for effective service delivery owing to such upgradation. A grant of ₹ 60 crore should be allocated each year for this purpose during the first three years, and a grant of ₹ 80 crore should be allocated each year during the last two years of the award period, thus making the total allocation of ₹ 340 crore. Out of this allocation: **[7.126]**

i. ₹ 5 crore should be given each year during the award period to each of the newly created Municipal Corporations in the past five years.

ii. ₹ 1 crore should be given each year during the award period to each of the newly created Municipalities in the past five years.

iii. ₹ 20 lakh should be given each year to each newly created Town Panchayat during the award period. Since no new Town Panchayats have been added as on date, the Commission assumes that another 100 Town Panchayats may be added at the end of the tenure of present elected local bodies in the rural area. This would leave only two years for special grants during the award period. Hence a total of ₹ 20 crore can be set aside for each of these years during the last two years of award period.

DIRECT DEVOLUTION TO ULBs

202.

After deducting the amount devolved under Special Grants, the balance amount is for direct devolution to the non-Metro ULBs based on the following proportion suggested by the Commission - Municipal Corporations (31%), Municipalities (36%) and Town Panchayats (33%). **[7.127]**

203.

It is essential for the Local Bodies to have predictability of fund flow. As already discussed in the introductory chapter, this Commission has recommended major changes in fund flow mechanism. In addition, the Commission recommends that the releases should be according to the multiplier factors for all Local Bodies arrived at by this Commission for each Local Body based on the weightage formula recommended. **[7.130]**

204.

The Commission recommends that the Government should make these multiplier factors available online through its website along with a simple online calculator. **[7.133]**

205.

Un-tied devolution to Local Bodies should not be intercepted under any circumstances. General Fund to Local Bodies should directly go to the Local

Bodies. There should not be any tied component associated with them. **[7.134]**

MUNICIPAL CORPORATIONS

206.

The total direct devolution amount of 31% devolved to the Municipal Corporations should be devolved adopting the following weightage formula - Population (65%), Area (15%) and Slum Population (20%). **[7.135]**

MUNICIPALITIES

207.

The total direct devolution amount of 36% should be devolved to the Municipalities adopting the following weightage formula - Population (60%), Area (20%) and Slum Population (20%). **[7.136]**

TOWN PANCHAYATS

208.

Of the total direct devolution amount, 33% should be devolved to the Town Panchayats. ₹ 40 lakh should be given as minimum lump sum grant for each Town Panchayat. **[7.137]**

209.

After deducting the Minimum Lump sum Grant, the remaining amount should be devolved to the Town Panchayats adopting the following weightage formula - Population (55%), Area (25%) and Slum Population (20%). **[7.138]**

IV. Government Agencies

TWAD BOARD

210.

In order to reduce dependence of TWAD Board on power supplied by TANGEDCO, solar powered water pumps should be installed wherever feasible. A component of the existing water supply schemes may be allocated for this purpose. **[5.17]**

211.

Centage charges can be increased to 13% for all capital works implemented by TWAD Board. **[5.18]**

212.

Water charges should be revised to at least ₹ 9 per kl from ₹ 8.1 per kl for RLBs, and to ₹ 13 per kl from ₹ 10.4 per kl for ULBs, with a minimum 5% annual increase moving forward. **[5.19]**

213.

When a new scheme is implemented, a rate 25% higher than the normal rate should be charged from the benefiting Local Bodies for the first five years. This would cross subsidise the older schemes to some extent. **[5.20]**

214.

A separate Head of Account should be opened for allocation of grants to TWAD as per the Commission recommendations, and TWAD Board may be permitted to draw the amount directly from the consolidated fund. The dues of the respective Local Bodies can be adjusted as per the recommendation of the concerned Head of Department. **[5.21]**

CMWSSB

215.

The CMWSSB should take up metering of water connections in a phased manner. In the first phase, high cost residential areas, and large commercial establishments should be targeted. **[5.36]**

216.

Desalination plants are a very high cost solution to meet water supply requirements. Such plants should be undertaken only as a last resort. The project cost should include fund tie up for ten years of operations and maintenance cost. The CMWSSB should also explore the possibility of bringing in renewable energy components integrated into desalination plant projects. **[5.37]**

217.

Water charges can be applied through a slab system, imposing higher charges on larger properties. The higher consumption slabs of other agencies such as domestic consumer category with more than 500 units of electricity consumption, or properties with more than a particular plinth area as per GCC and adjoining local bodies' property tax database can be taken as a base. **[5.38]**

218.

The sharing ratio of devolution grant between the Greater Chennai Corporation and CMWSSB should be changed to 82:18 from the current ratio of 85:15. **[5.39]**

219.

CMWSSB should be given its component of devolution grants directly through a separate Head of Account. **[5.40]**

220.

Water Consumption charges should be enhanced immediately. The minimum charge per dwelling unit should be ₹ 100 per month. **[5.41]**

TOWN AND COUNTRY PLANNING (T&CP)

221.

All fee/charges should be revised in line with CPI since the last revision of such fees and charges. **[5.49]**

222.

Town and Country Planning authorities can devise a mechanism to train the village level staff and elected representatives on existing provisions/rules for the building/layout approval, to check for any violations. **[5.50]**

223.

The reconciled and audited establishment expenditure of the Planning wing of the T&CP authorities should be borne by all the Local Bodies in such areas. **[5.51]**

224.

The Local Planning Authorities should ensure that the plans are followed up, and future development is encouraged through planned improvement in infrastructure, especially of road networks. **[5.52]**

225.

The Town and Country Planning Department should take up Town Planning Schemes for major towns **[5.53]**

CHENNAI METROPOLITAN DEVELOPMENT AUTHORITY (CMDA)

226.

CMDA should positively consider allocation of more funds for provision of infrastructure and civic amenities in Local Bodies in proportion to the sources raised by CMDA from the properties that fall within these ULBs. **[5.61]**

227.

Development Charges and other fees to be enhanced immediately to reflect the inflation i.e., the CPI change since the last revision. **[5.62]**

TAMIL NADU URBAN HABITAT DEVELOPMENT BOARD (TNUHDB)

228.

The initiatives taken by TNUHDB for involving the occupants in the maintenance of the tenements are appreciated. TNUHDB should take these efforts forward and build capacity among the associations of residents to manage their localities and make them self-sustainable. **[5.69]**

229.

After construction of the buildings /infrastructure, Local Bodies should take over the common infrastructure maintenance and ensure basic amenities to the residents. **[5.70]**

230.

PPP models of area development and affordable rental housing need to be taken up in core areas of high density urban areas. The Government should assist such projects through adequate Viability Gap Funding to make them feasible. **[5.71]**

231.

Transferable Development Rights (TDR) are an underutilised source for raising funds. The Government should frame a comprehensive policy framework to encourage this source with adequate incentive mechanisms. **[5.72]**

232.

While spending the allocation from the Capital Grant Funds and Operations and Maintenance Grants devolved to urban local bodies, priority should be given to the improvement of common infrastructure development in tenements handed over by the TNUHDB. **[5.73]**

233.

The poverty reduction and other welfare programmes implemented by various departments, such as the MA&WSD, Labour Welfare, Employment and Training, Social Welfare and RD&PR etc. should have special focus on the rehabilitated tenements. A separate committee may be formed for monitoring these focus programmes. This would ensure that resource are dovetailed across departments and habitat development becomes a comprehensive exercise. **[5.74]**

234.

While developing new tenements, TNUHDB should conduct a comprehensive need assessment exercise in coordination with other relevant departments to ensure access to basic services such as water, road access, bus service, bus stops, schools, etc. The Apex Committees monitoring schemes should approve comprehensive plans based on these recommendations and should ensure coordination between various departments and implementing agencies. **[5.75]**

HIGHWAYS DEPARTMENT

235.

The Highways Department should take up upgradation of important Panchayat Roads in a phased manner. Critical roads can be identified in consultation of Local Bodies and respective town planning authorities. **[5.77]**

236.

The Highways department should extend technical support to the Local Bodies in designing solutions for reducing road accidents on roads under the Local Bodies jurisdiction. **[5.78]**

237.

Local Body roads connect to highways in numerous locations. Many of such roads join State or National Highways in acute or right angles. A comprehensive joint exercise should be undertaken to identify such important junctions and junction improvement plans should be drawn in consultation with concerned Local Bodies. **[5.79]**

238.

The Local Bodies, through their funds for road improvements, should give high priority for road safety. **[5.80]**

239.

District level technical committees should be formed with representatives from the Highways department and engineering wings of local bodies to recommend technical solutions and fund requirements. Based on the review in the District Road Safety meetings chaired by the District Collectors, such comprehensive plans can be considered by the Government for implementation through appropriate fund tie-ups. **[5.81]**

TAMIL NADU POLLUTION CONTROL BOARD

240.

The Local Bodies should reconcile the pending dues of Environmental Compensation, and ensure payment in a phased manner. **[5.89]**

241.

Local Bodies provide many services using traditional methods that have serious implications for the environment. However, due to resource constraints they are not able to explore better technology.The TNPCB should explore such solutions and implement pilot projects to demonstrate effectiveness. **[5.90]**

242.

Environment conscious measures need to be internalised among Local Bodies regular development works. Considering their functional delegation and fund constraints, the TNPCB should form broad energy efficiency guidelines and environment friendly frameworks with suggestions on cost effective technologies that would help Local

Bodies to graduate towards better plans within their fund and capacity constraints. The TNPCB can broaden its scope of work from its regulatory role, as creation of an enabling environment would have a long lasting impact on climate change. **[5.91]**

DEPARTMENT OF PUBLIC LIBRARIES

243.

The Local Bodies should clear all the pending dues in a phased manner during the award period. Annual arrear clearance statements can be prepared by the concerned Head of Department and compliance may be ensured through due follow up. **[5.96]**

HR&CE BOARD

244.

The HR & CE Department / Temples should meet at least 50% of the cost incurred for provision of civic services, even for non-notified festivals. In case a particular temple does not have a surplus, the Commissioner, HR & CE should arrange to make payments to the Local Body from the overall surpluses available with them. **[5.100]**

TEDA

245.

A portion of the Capital Grant Fund should be utilised for meeting the cost of the capital investment required towards establishing local renewable energy generation facilities, including solar, wind energy and biomethanation plants. **[5.104]**

V. Effective Implementation

AUDIT AND ACCOUNTS

246.

The local bodies should take immediate efforts to qualify for the full grants to be received from the Central Finance Commission. **[6.28]**

247.

Presently common bank accounts are used for various purposes and fund sources. This makes reconciliation difficult. Hence, every local body should maintain a separate account for major sources of revenue such as its own sources, SFC grants, CFC grants, scheme funds etc. If this is found difficult to implement, a robust ledger system should be introduced through a single account. This system of accounting would enable to keep track of funds, apart from making account keeping easier. **[6.29]**

248.

The State Government is in the process of implementing a Fund Tracking System. The Commission recommends that this should be expedited, and that all levels of local body accounts should be covered under the newly envisaged system. **[6.30]**

249.

Presently, the devolution funds are drawn by the respective Heads of Department, and deposited in a separate bank account. From this bank account, funds are further transferred to the local bodies based on the devolution formula as adopted by the government. This procedure can be modified so that the Head of Department prepares a complete list of Local Bodies with their bank accounts, and submits a common bill to the Treasury. This will ensure that the funds are directly transferred to the bank accounts of the Local Bodies, and delays caused due to administrative reasons for fund transfer are avoided. **[6.31]**

250.

For RLBs, funds for payments to utilities are disbursed to a common Account No. II. This includes the dues payable for electricity bills and water charges. It is essential that the dues payable to these utilities are paid in time and no pendency is allowed, to ensure smooth functioning of these utilities thereby improving their performance and their service delivery to the local bodies. Therefore, the funds devolved into Account Number II should be devolved into two separate accounts one each for electricity bills and for water charges. Initially, funds should be apportioned between these two accounts in the ratio of 70:30. If the pendency is nil in one of the accounts, the remaining funds may be transferred to the other Account. If pendency is nil in that account as well, the funds can be transferred to the General Fund Account. **[6.32]**

251.

A comprehensive software should be developed integrating accounting and transaction for all the local body funds. All expenditures should be authorised through challans in the software at the time of expenditure itself. Once finalised, the software should generate an advice to the bank to credit the amount to the final recipient. This would ensure that accounting does not depend on manual entries after transactions. Rather, the transaction itself will be captured in the accounting software. Any data regarding accounts can be made available at any time. Inaccuracies in data will be greatly reduced. This would ensure availability of timely accounts and data not only to the administrative department and the Local Bodies, but also to all the future SFCs. **[6.33]**

252.

Standardised Audit template for RLBs should be developed and proper training should be imparted to the auditing and supervisory officials concerned. Auditing progress should be monitored by the District Collector. **[6.34]**

253.

The present system of sending proposals every month for the release of SFC funds should be done away with.

Initial release order may be issued by the Finance Department at the beginning of the award period for release of monthly installments. The first ten instalments can be released on fixed dates as per the Budget Estimates. The last four instalments can be released once the Revised Estimates have been finalised, following the same mechanism. **[6.35]**

254.

Apart from the funds of the local body, many Government Departments implement various schemes for service delivery in the local bodies. However a consolidated data of such expenditure local body wise is not available. The Government should include a geographical indicator, such as Local Government Directory, linking local bodies in all the expenditures, to track all government expenditure for local bodies. This would go a long way in ensuring efficient fund allocation among various parts of the State in general and among local bodies in particular. **[6.36]**

255.

All accounts from Account No. I to XI should be updated online on a timely basis, and the audited reports and remarks should also be available in the public domain, accessible to every citizen. This practice will improve transparency and accountability in financial performance of the local bodies. **[6.37]**

256.

Adequate and frequent training should be imparted to the staff handling accounting. Strengthening the capacities of the concerned staff to shift their day-to-day operations online needs to be undertaken. This may be done through Tamil Nadu Institute of Urban Studies (TNIUS) and the Regional Institute of Rural Development (RIRD). **[6.38]**

257.

Local Fund Audit officials may be engaged as faculties in training programmes to impart training on audit procedures and practices to the local body staff engaged in audit work. **[6.39]**

258.

Audit of Village Panchayats accounts during the year should be done by engaging external auditing agencies under the overall supervision of Local Fund Audit Department, selected from the list of auditors separately empanelled for this purpose. This may be in the years when the Local Fund Audit Department does not conduct audits for Village Panchayats. Reports should also be made available in the public domain. **[6.40]**

259.

Each Village Panchayat should be provided with a unique code to enable easy access of all related data of VPs online. **[6.41]**

260.

Local bodies should switch over to digital demand raising for local body taxes and charges as the existing manual demand raising process is very cumbersome. Public should be allowed the choice of digital payments like those enabled by TANGEDCO. Reminders should be sent for payment through SMS. Once the digital platform is put in place, surplus staff may be diverted for other work. **[6.42]**

261.

Accounting system in RLBs should be strengthened by forming a separate wing at the Panchayat Union level. **[6.43]**

262.

The Fifth SFC recommendation on the deployment of dedicated accounting staff in the Municipalities and Corporations should be expedited for implementation. **[6.44]**

263.

Social Auditing should be strengthened and made mandatory for all works undertaken in local bodies. Major works done by the Panchayats should be displayed with financial details in prominent places. Existing Social auditing mechanism in RLBs needs to be made effective by participation of higher level Government officials. **[6.45]**

264.

In Urban Local Bodies as well, social auditing should be experimented, first at a ward level on pilot basis. Based on the experience, it should be extended to all wards in the Urban Local Bodies. **[6.46]**

265.

The Government should take urgent action to fill up vacant positions in the Local Fund Audit Wing. **[6.47]**

KEY REFORMS

266.

The Commission has identified 14 key reforms to be implemented before June 2024 with the support of the respective departments. In case these reforms are not implemented before the due date, the annual quantum of Special Grants to be administered at the State level should be reduced by 20% from the year 2024-25 onwards. **[7.140]**

267.

The reduced quantum of funds should be added to the direct devolution grants of RLBs and ULBs and should be further devolved as per the formula recommended by this Commission. **[7.141]**

REFORM INCENTIVES

268.

If the reforms are achieved within the timeline prescribed, the State Government shall devolve an additional one time incentive grant of ₹ 300 crore to the ULBs and an additional one time incentive grant of ₹ 300 crore to the RLBs. **[7.142]**

269.

The one time additional incentive grant shall be added to the State Level Capital Grant Fund of the RLBs and ULBs as the case may be. **[7.143]**

KEY REFORMS - RURAL LOCAL BODIES

270.

The key reforms identified for RLBs are: **[7.146]**

a. A slab system should be introduced for various types of houses to have transparent and non-discretionary levy. The minimum rate of House Tax may be revised with rates as follow:
   i. Huts – Min. ₹ 100/-
   ii. Tiled House – Min. ₹ 200/
   iii. RCC House – Min. ₹ 300/- (@ ₹ 1/ sq. ft.)

b. The authority to grant permission for advertising should be with Local Bodies, with the concurrence of District administration. Advertising agencies should apply to Local Bodies, and Local Bodies should seek concurrence of the District administration. Permission should be granted or rejected by the District Administration in a time bound manner. If the permission is not accorded within the prescribed time limit then it should be treated as “deemed to have been permitted”.

c. The Tamil Nadu Panchayats Act, 1994 should be suitably amended to permit classification as Peri-Urban Villages based on population and proximity to ULBs and to collect House Tax at the rates on par with adjacent ULBs. Large Village Panchayats should be bifurcated based on population.

d. The Government should levy Surcharge on Stamp Duty on documents relating to (i) Agreement including Construction Agreements (ii) Power of Attorney (iii) Release of benami right (iv) Release of right in favour of partners and (v) all types of settlement, to augment revenue of the Local Bodies.

e. A comprehensive software should be developed for accounting and transaction for all the local body funds. Any expenditure should be authorised through a challan in the software. Once finalised, the software should generate an advice to the bank to credit the amount to the final recipient. This would ensure that accounting does not depend on manual entries after transactions. Rather, the transaction itself will be captured in the accounting software. Any data regarding accounting can be made available at any time. Inaccuracies in data will be greatly reduced. This would ensure availability of accounts and data, not only to the administrative department and the Local Bodies, but also to all the future State Finance Commissions.

f. Un-tied devolution to Local Bodies should not be intercepted under any circumstances. General Fund to Local Bodies should directly go to the Local Bodies. There should not be any tied component associated with them.

g. At least 75% arrears of House Taxes as on 01.04.2022 should be collected and at least 75% of current demand of House Tax in 2023-24 should be collected.

KEY REFORMS - URBAN LOCAL BODIES

271.

The key reforms identified for the ULBs are as follows: **[7.147]**

a. GIS mapping of all ULBs to bring left out properties under assessment should be completed in all Municipalities and Corporations. This should be implemented in Corporations within a period of two years.

b. The quinquennial general revision of Property Tax should reflect at least the cumulative CPI change since the previous revision. In case Local Bodies fail to notify proactively any revision of property taxes, the Property Tax rates should automatically stand revised to a minimum of the cumulative CPI change during the previous five years. The Government should bring in amendment of the relevant portion of the District Municipalities Act, 1920 to give effect to this recommendation.

c. Water consumption charges should be revised at least by 100%, and the minimum charge should be ₹100 per month.

d. Currently, no asset register for immovable properties is being maintained by Urban Local Bodies. A comprehensive exercise for creation of Asset Register should be undertaken and the completed register should be made available online.

e. Within the Local Bodies, Land Banks of all Government lands should be created so that land availability can be assessed for providing suitable infrastructure to the Local Bodies and development of land either for value capture or for creation of public assets can be planned. It is essential to explore reclaiming the excess land given to various Government departments, agencies, and local body's own infrastructure for future development.

f. Un-tied devolution to Local Bodies

should not be intercepted under any circumstances. General Fund to Local Bodies should directly go to the Local Bodies. There should not be any tied component associated with them.

g. At least 75% arrears of property taxes as on 01.04.2022 should be collected, and at least 75% of the current demand of property taxes should be collected.

REVIEW MECHANISMS

272.

The Departments concerned must take follow up action on the pending recommendations of the SFCs, and ensure compliance in accordance with the Explanatory Memorandum submitted in the Assembly. The following steps should be taken: **[1.37]**

a. A comprehensive Government Order should be issued by the Finance Department directing the concerned Departments to implement the list of recommendations as accepted by the Government in the Cabinet meeting.

b. Departments, in turn, should prepare proposals and issue G.Os. with detailed Guidelines following normal Government procedure.

c. Issuance of G.Os. and progress in implementation should be reviewed regularly as per the review mechanisms recommended here under.

273.

SFC may be continued to monitor the implementation of accepted recommendations and to maintain institutional memory with minimal required staff. **[1.38]**

274.

The Government should constitute a State High Level Committee, chaired by the Chief Secretary to review the status of implementation of SFC recommendations, and the Committee should conduct quarterly reviews. **[1.39]**

275.

Exclusive sections should be formed in RD&PR and MA&WS departments to deal with the subjects relating to SFC, and also at DRD, CMA and DTP levels. **[1.40]**

276.

A mid-year status should be submitted to the Hon'ble Finance Minister for review. **[1.41]**

277.

The status of implementation of SFC recommendations should be placed in the assembly every year during the Budget Session. **[1.42]**

278.

During the third year of the implementation period, a mid-term status should be submitted to the Hon'ble Chief Minister for review. **[1.43]**

279.

The data collected by the Commission should be taken up for further analysis and action by various departments. **[1.44]**

280.

After the Report of the Commission is placed in the Legislative Assembly, the Report and the Study Reports specifically prepared by the expert bodies at the behest of the Commission should be hosted on the Government website. **[1.45]**

VI. Abstract of Devolution

Urban Scheme of Devolution

First year allocation			Annual Increase
I.	**Metropolitan City**	**16% of the Total Share of ULBs**	
A.	**Greater Chennai Corporation**	**82% of Metro City share**	**As per SOTR Growth**
B.	**CMWSSB**	**18% of Metro City share**	**As per SOTR Growth**
C.	**Advance Library Cess**	**₹ 60 crore per year**	**₹ 6 crore per year**
II.	**Non-Metro ULBs**	**84% of the Total Share of ULBs**	
A.	**Special Grants**	**₹ 1380 crore per year**	
1.	**For funding deficit of TWAD**	**₹ 120 crore per year**	**₹ 12 crore per year**
2.	**Capital Grant Fund**	**₹ 500 crore per year**	**₹ 50 crore per year**
a.	Corporations	31% of CGF	
b.	Municipalities	36% of CGF	
c.	Town Panchayats	33% of CGF	
3.	**Urban Road Development Fund**	**₹ 200 crore per year**	**₹ 20 crore per year**
4.	**Operations Maintenance Deficit Grant Fund**	**₹ 200 crore per year**	**₹ 20 crore per year**
a.	Corporations	31% of OMDGF	
b.	Municipalities	36% of OMDGF	
c.	Town Panchayats	33% of OMDGF	

5.	**School Improvement**	**₹ 160 crore per year**	
a.	Infrastructure	₹ 100 crore per year	₹ 10 crore per year
b.	O&M	₹ 60 crore per year	₹ 6 crore per year
6.	**Grant for Tourist Towns**	**₹ 20 crore per year**	
a.	Fixed Grants	₹ 15 crore per year	
b.	Variable Grants	₹ 5 crore per year	
7.	**Grant to TNIUS for training needs**	**₹ 5 crore per year**	
8.	**Grant for studies and documentation**	**₹ 5 crore per year**	
9.	**Grant for GIS mapping**	**₹ 10 crore per year**	
10.	**Advance Library Cess**	**₹ 90 crore per year**	**₹ 9 crore per year**
11.	**Grants to Sanitary Workers Welfare Board**	**₹ 10 crore per year**	
12.	**Grants to newly upgraded Lbs**	**₹ 60 crore per year**	**₹ 20 crore per year only for last two years of award**
B.	**Direct Devolution (Population: Area:Slum Population)**	**After deducting the Special Grants from the Non-Metro Share of 84%**	
1.	**Municipal Corporations (65:15:20)**	**31% of Direct Devolution**	**As per SOTR Growth**
2.	**Municipalities (60:20:20)**	**36% of Direct Devolution**	**As per SOTR Growth**
3.	**Town Panchayats (55:25:20) (Including Minimum Lumpsum Grant)**	**33% of Direct Devolution**	**As per SOTR Growth**

ULBs: Abstract of 5 Year Special Grants

(in ₹ Crore)

S. No.	Special Grants for Non-Metro ULBs	Total	22 - 23	23 - 24	24 - 25	25 - 26	26 - 27
		8210	1380	1507	1634	1781	1908
1.	For funding defict of TWAD	720	120	132	144	156	168
2.	Capital Grant Fund	3,000	500	550	600	650	700
3.	Urban Road Development Fund	1,200	200	220	240	260	280
4.	Operations Maintenance Deficit Grant Fund	1,200	200	220	240	260	280
5.	School Improvement	960	160	176	192	208	224
6.	Grant for Tourist Towns	100	20	20	20	20	20
7.	Grant to TNIUS for training needs	25	5	5	5	5	5
8.	Grant for studies and documentation	25	5	5	5	5	5
9.	Grant for GIS mapping	50	10	10	10	10	10
10.	Advance Library Cess	540	90	99	108	117	126
11.	Grants to Sanitary Workers Welfare Board	50	10	10	10	10	10
12.	Grants to newly upgraded Local Bodies	340	60	60	60	80	80

Rural Scheme of Devolution

(in ₹ Crore)

SFC Devolution- Rural			
I	**Special Grants**		
A	**State Level Grants**	**Annual Grant**	**Per annum Increase**
a	**Capital Grant Fund**	**₹ 861 crore per year**	
1	Rural Infrastructure	₹ 600 crore per year	₹ 60 crore
2	ODR Conversion	₹ 120 crore per year	₹ 12 crore
3	Rural Regional Training Institute	₹ 1 crore per year	
4	Schools	₹ 140 crore per year	₹ 14 crore
b	**Operations Maintenance and Deficit Grant Fund**	**₹ 712 crore per year**	
1	TWAD	₹ 100 crore per year	₹ 10 crore
2	Rural Regional Training Institute	₹ 0.6 crore per year	
3	Fund for Deficit RLBs	₹ 280 crore per year	₹ 28 crore
4	TANGEDCO	₹ 200 crore per year	₹ 20 crore
5	Advance Library Cess	₹ 28 crore per year	₹ 2.8 crore
6	Grants to Sanitary Worker Welfare Board	₹ 5 crore per year	
7	Peri-urban Panchayats	₹ 69 crore per year	
8	Hill area Panchayats	₹ 30 crore per year	
B	**District Level Grants**		
a	**Capital Grant Fund**	**₹ 200 crore per year**	
b	**Operations Maintenance Gap Funding**	**₹ 70 crore per year**	
1	Schools	₹ 60 crore per year	
2	Reward for FRA implementation	₹ 10 crore per year	
II	**Direct Devolution**		
A	**District Panchayat**	**7% of Direct Devolution Grant**	**As per SOTR Growth**
B	**Panchayat Union** (Including Minimum Lumpsum Grant)	**37% of Direct Devolution Grant**	**As per SOTR Growth**
C	**Village Panchayat** (Including Minimum Lumpsum Grant)	**56% of Direct Devolution Grant**	**As per SOTR Growth**

RLBs: Abstract of 5 Year Special Grants

(in ₹ Crore)

Special Grants for RLBs		Year	22 - 23	23-24	24-25	25 - 26	26-27
Total		**10684**	**1843**	**1990**	**2137**	**2284**	**2430**
A	**State Level Grants**	**9334**	**1573**	**1720**	**1867**	**2014**	**2160**
a	**Capital Grant Fund**	**5165**	**861**	**947**	**1033**	**1119**	**1205**
1	Rural Infrastructure	3600	600	660	720	780	840
2	ODR Conversion	720	120	132	144	156	168
3	Rural Regional Training Institute	5	1	1	1	1	1
4	Schools	840	140	154	168	182	196
b	**Operations Maintenance and Deficit Grant Fund**	**4169**	**712**	**773**	**834**	**895**	**955**
1	TWAD	600	100	110	120	130	140
2	Rural Regional Training Institute	3	0.6	0.6	0.6	0.6	0.6
3	Fund for Deficit RLBs	1680	280	308	336	364	392
4	TANGEDCO	1200	200	220	240	260	280
5	Advance Library Cess	168	28	31	34	36	39
6	Grants to Sanitary Worker Welfare Board	25	5	5	5	5	5
7	Peri-urban Panchayats	343	69	69	69	69	69
8	Hill area Panchayats	150	30	30	30	30	30
B	**District Level Grants**	**1350**	**270**	**270**	**270**	**270**	**270**
a	**Capital Grant Fund**	**1000**	**200**	**200**	**200**	**200**	**200**
b	**Operations Maintenance Gap Funding**	**350**	**70**	**70**	**70**	**70**	**70**
1	Schools	300	60	60	60	60	60
2	Reward for FRA implementation	50	10	10	10	10	10

Conclusion

1. Local Bodies are Governments at the grass root level. They have been formed as per the provisions of the Constitution and deserve to be seen as such. The Commission in its approach strives to enable Local Bodies to function in their rightful place as the Government at the local level. Although they depend upon the State and Union Government for support, financially as well as for human resource, their autonomy must be reflected in independence in decision making and implementation. While it is desirable that these Governments at the grass root level, the State Government and the Union Government have alignment of policies, the way to do it is through adequate capacity building, consensus building and democratic participation.

2. It is in the same spirit that the Commission, throughout this report, refers to the provisions of the Constitution but doesn't refer to them as 73rd and 74th amendment. Referring to provisions of Constitution as amendments keeps reminding everyone that they were later additions. This is not the case with most of the other provisions of the Constitution that were inserted through amendments. After 30 years of the amendments, the Commission feels that reference to Constitutional provisions can be made directly rather than through mention of amendments.

3. The Sixth SFC was formed before the Covid pandemic hit the world. The pandemic affected every institution, including the Sixth SFC. Use of physical office space had to be restricted. Personal interactions were limited, and the Commission had to continue working to meet the timelines and make its report available before the first year of the award period.

4. Technology helped in a major way. The commission used virtual platforms not only for data collection but also for interactions with key stakeholders, including the elected local body representatives. It made a few field visits and conducted numerous meetings and seminars. Collecting relevant data from more than thirteen thousand Local Bodies was an uphill task. After collecting the data, the corrections, cross referencing, and analysis was found to be a bigger challenge. The quality of data was a big handicap. The Commission felt that in this era of robust technological solutions, this should not be a constraint for future Commissions and has made many recommendations to ensure that during the award period.

5. The Covid pandemic also brought in a lot of uncertainty in almost every major indicator. Growth rates, revenue potentials, expenditure requirements everything had to be prepared with caution. The Local Bodies played a major role during the pandemic. They didn't let the service delivery falter and played their role in complete co-ordination with the

District Administrations. The resources of Local Bodies, including their revenue sources, were strained a lot but they rose to the occasion. The Commission hopes that the future is bright, and we will see normalcy restored.

6. The Commissions constitution coincided with the report of the Fifteenth Finance Commission. The Sixth State Finance Commission had the advantage of assessing the implications of Central Finance Commission on the resource availability of State and the Local Bodies. It also had the advantage of seeing at least two financial years of the Central Finance Commission award period before making its recommendations. This has greatly influenced the recommendations of this Commission.

7. Given the consistency with which the State Finance Commissions have been constituted in Tamil Nadu, the Commission is happy to note that this advantage may continue in future also.

8. The Commission has considered the reports of previous Commissions, deliberated in detail some of their recommendations and have reiterated many of those it found essential for the benefit of the Local Bodies.

9. For independence in their decision making, the Commission thinks that the untied formula grants devolved to Local Bodies need to go without

interception at any level. The Commission has made some major recommendations to ensure easier and predictable fund flow mechanism. It would help them manage their resources better and in a planned way.

10. The Commission has also taken an entirely new approach in some areas. Inclusion of Cantonment Boards within its purview has been a first. Bringing in fixed amount component in the scheme of devolution is a new approach. While the Commission has recommended a simple devolution formula for untied devolution grants, it has also addressed some specific concerns through some Special Grants. The resource allocation for some of those purposes may still be found inadequate, but their importance has been highlighted through this report. The State Government may take up some of these recommendations even further and augment with its own resources to address those concerns.

11. In the post pandemic period, while the economy would still be recovering, the resources of State Government would continue to be strained at least in the medium term. Given the new GST regime, the scope for resource augmentation through own taxes is very limited for the State Governments. It is essential that in the times to come, when State Budgets are on a tight string, the dependence of Local Bodies on State Resources even for basic service delivery and operations need to reduce. The only way to do that is to harness the

untapped potential of their own revenue sources.

12. The Commission has made few critical recommendations regarding augmentation of Local Bodies' own revenue. Local bodies in Tamil Nadu have very low rates of taxes and service charges. The revisions have been deferred for decades. The Commission thinks that not only for their fund requirements for service delivery but for their functional autonomy also their own revenue augmentation is critical. If the revision of these taxes is demonstrated with better service delivery, the Local Bodies can look forward to higher voluntary compliance from their residents.

13. While ensuring resource availability to Local Bodies, the Commission also had to be conscious of the deficits of Statutory Boards and State Public Sector Undertakings involved in providing basic services like water supply and electricity. Huge arrears of water supply and electricity charges makes it extremely difficult for these agencies to continue delivering services with the same quality and quantity. Local Bodies need to give high priority to these services. The Commission has tried to redress some of these issues through its recommendations.

14. Unfortunately, many recommendations of the previous State Finance Commission have remained unimplemented even after acceptance by the Government. The follow up mechanisms and incentive

structures are weak. Few recommendations remain completely neglected till the next State Finance Commission considers them afresh. The Commission has recommended some new institutional arrangements and incentive structures to ensure time-bound implementation and follow up of the recommendations.

15. The Commission hopes that the implementing agencies adopt these recommendations and take up their implementation in earnest. Strong Local Bodies can be dynamic partners in the growth and development story of Tamil Nadu.

Let's wish for the best.