கலங்காது கண்ட வினைக்கண் துளங்காது
தூக்கங் கடிந்து செயல்

- குறள் 668

What clearly eye discerns as right, with steadfast will,
And mind unslumbering, that should one fulfil.

Mohan Pyare, I.A.S., (Retd.)
Chairman

Sixth State Finance Commission,
Perasiriyar Ka. Anbazhagan Maaligai,
Anna Salai, Nandanam, Chennai-35.

Sixth State Finance Commission

In accordance with the provisions contained under Article 243 (I) and 243 (Y) of the Constitution of India, under Section 198 of the Tamil Nadu Panchayats Act, 1994, under relevant provisions of District Municipalities Act, 1920 and Municipal Corporations Acts and in terms of the notification issued in G.O.Ms.No.50, Finance (SFC-MC) Department, dated 06.03.2020, the Tamil Nadu Sixth State Finance Commission in its Ninth meeting held on 25.02.2022 resolved to accept and adopt the final report for presentation to the Hon'ble Governor of Tamil Nadu.

Mohan Pyare
Chairman

Katharbatcha Muthuramalingam
Non-Official Member

R. Selvaraj
Member
(Commissioner of Town Panchayats)

Praveen P. Nair
Member
(Director of Rural Development and Panchayat Raj)

P.Ponniah
Member
(Director of Municipal Administration)

Prashant M. Wadnere
Member Secretary

Thiru. Mohan Pyare, I.A.S., (Retd.)
SIXTH STATE FINANCE COMMISSION
Integrated Complex for Finance Department,
No. 571, 6th Floor,
Perasiriyar Ka Anbazhagan Maaligai,
Animal Husbandry Hospital Campus,
Anna Salai, Nandanam, Chennai – 600 035

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

Abbreviation	Full Form
AC	Asbestos Cement
AD (Audit)	Assistant Director (Audit)
AG	Accountant General
AHP	Affordable Housing in Partnership
ARV	Annual Rental Value
ATR	Action Taken Report
BDO	Block Development Officer
BRR	Bus Route Road
C&AG	Comptroller and Auditor General
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
CBED	Community Based Environment Development Programme
CBTP	Capacity Building and Training Programme
CCMC Act	Chennai City Municipal Corporation Act
CEGIS	Centre for Effective Governance of Indian States
CFC	Central Finance Commission
CGF	Capital Grant Fund
CGST	Central Goods and Services Tax
Ch.	Chapter
CMA	Chennai Metropolitan Area
CMDA	Chennai Metropolitan Development Authority
CMSPGHS	Chief Minister's Solar Powered Green House Scheme
CMWSSB	Chennai Metropolitan Water Supply and Sewerage Board
CPHEEO	Central Public Health and Environmental Engineering Organisation
CPI	Consumer Price Index
CSR	Corporate Social Responsibility
CT	Commercial Tax
CTP	Commissioner of Town Panchayat
CV	Capital Value
CWBS	Combined Web Based Service
CWSS	Combined Water Supply Scheme
D&O	Dangerous and Offensive

Abbreviation	Full Form
DCB	Demand, Collection and Balance
DISCOM	Distribution Company
DLFA	Director Local Fund Audit
DMA	Directorate of Municipal Administration
DMF	District Mineral Foundation
DPC	District Planning Committee
DPs	District Panchayats
DRD	Directorate of Rural Development
DRD PR	Directorate of Rural Development and Panchayat Raj
DRDA	District Rural Development Agency
DTCP	Directorate of Town and Country Planning
DTP	Directorate of Town Panchayats
Dy. BDO	Deputy Block Development Officer
EB	Electricity Board
ECS	Electronic Clearance Service
FDMP	Financial Data Management Program
FRA	Forest Rights Act
FSI	Floor Space Index
G.O.	Government Order
GCC	Greater Chennai Corporation
GIS	Geographic information system
GLRs	Ground Level Reservoirs
GOI	Government of India
GoTN	Government of Tamil Nadu
GPRS	General Packet Radio System
GPS	Global Positioning System
GS	Grama Sabha
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
HLC	High Level Committee

Abbreviation	Full Form
HODs	Heads of Departments
HR	Human Resources
HR&CE	Hindu Religious and Charitable Endowments Department
HRMS	Human Resource Management System
IAY	Indira Awas Yojana
IDES	Indian Defence Estates Service
IGFF	Infrastructure Gap Filling Fund
IGR	Inspector General of Registration
ISO	International Organisation for Standardisation
IT	Information Technology
IUDP	Integrated Urban Development Project
JICA	Japan International Cooperation Agency
KPIs	Key Performance Indicators
LAP	Local Body Assistance Programme
LBs	Local Bodies
LC	Local Cess
LCS	Local Cess Surcharge
LFAD	Local Fund Audit Department
LLA	Local Library Authority
LPA	Local Planning Authority
LPCD	Liters Per Capita per Day
LSG	Local Self-Government
MA&WS	Municipal Administration and Water Supply
MCF	Million-Plus Cities Challenge Fund
MD	Managing Director
MDR	Major Districts Road
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MIDS	Madras Institute of Development Studies
MLCP	Multi-Level Car Parking
MLD	Million Litres per Day

Abbreviation	Full Form
MoHFW	Ministry of Health and Family Welfare
MoHUA	Ministry of Housing and Urban Affairs
MoPR	Ministry of Panchayat Raj
MSE	Madras School of Economics
NABARD	National Bank for Agriculture and Rural Development
NGT	National Green Tribunal
NIC	National Informatics Centre
NIPFP	National Institute for Public Finance and Policy
NMAM	National Municipal Accounting Manual
NoC	No Objection Certificate
NTADCL	New Tirupur Area Development Corporation Limited
O&M	Operations and Maintenance
O&MDGF	Operations and Maintenance Deficit Grant Fund
O&MGFF	Operations and Maintenance Gap Filling Fund
ODF	Open Defecation Free
ODR	Other District Road
OECD	Organisation for Economic Cooperation and Development
OFC	Optical Fibre Cable
OHT	Overhead Tank
OMF	Operations and Maintenance Fund
OSR	Open Space Reservation
PAC	Public Accounts Committee
PCCF	Principal Chief Conservator of Forest
PFC	Power Finance Corporation
PMAY(G)	Pradhan Mantri Awas Yojana (Grameen)
PMS	Parking Management System
PPP	Public Private Partnership
PRIA	Panchayat Raj Institutions Accounting System
PS	Panchayat Secretary
PSUs	Public Sector Undertakings

Abbreviation	Full Form
PUs	Panchayat Unions
PUSRS	Panchayat Unions School Renovation Scheme
PWD	Public Works Department
RBE	Revised Budget Estimate
RBMRS	Rural Building Maintenance and Renovation Scheme
RCC	Reinforced Cement Concrete
RD	Rural Development
RD&PR	Rural Development and Panchayat Raj
RDO	Revenue Divisional Officer
REC	Rural Electrification Corporation
RESCO	Renewable Energy Service Company
RIRD	Regional Institute of Rural Development
RIS	Rural Infrastructure Scheme
RLBs	Rural Local Bodies
RRMS	Rural Roads Maintenance Scheme
RTI	Right To Information
RUDF	Resilient Urban Design Framework
RWH	Rain Water Harvesting
SC	Scheduled Caste
SCPAR	Scheme Component of Pool Assignment Revenue
SEBI	Securities and Exchange Board of India
SFC	State Finance Commission
SGST	State Goods and Services Tax
SH	State Highway
SIDCO	Small Industries Development Corporation
SIPCOT	State Industries Promotion Corporation of Tamil Nadu
SIRD	State Institute of Rural Development
SMS	Short Message Service
SONTR	State Own Non-Tax Revenue

Abbreviation	Full Form
SOTR	State Own Tax Revenue
SPSU	State Public Sector Undertaking
SPVs	Special Purpose Vehicles
Sq. Ft.	Square Feet
SQL	Structured Query Language
SSFC	Sixth State Finance Commission
ST	Scheduled Tribe
STAR	Simplified and Transparent Administration of Registration
SWM	Solid Waste Management
T&CP	Town and Country Planning
TANGEDCO	Tamil Nadu Generation and Distribution Corporation Limited
TANII	Tamil Nadu Innovation Initiative
TANSIDCO	Tamil Nadu Small Industries Development Corporation
TDR	Transferable Development Rights
TEDA	Tamil Nadu Energy Development Agency
TNCDSB	Tamil Nadu Combined Development and Building Rules
TNDM Act	Tamil Nadu District Municipalities Act
TNEGA	Tamil Nadu e-Governance Agency
TNHB	Tamil Nadu Housing Board
TNIUS	Tamil Nadu Institute of Urban Studies
TNPCB	Tamil Nadu Pollution Control Board
TNRD	Tamil Nadu Rural Development
TNRRIS	Tamil Nadu Rural roads Improvement Scheme
TNSCB	Tamil Nadu Slum Clearance Board
TNSUDP	Tamil Nadu Sustainable Urban Development Project
TNUHDB	Tamil Nadu Urban Habitat Development Board
TNUIFSL	Tamil Nadu Urban Infrastructure and Financial Services Limited
ToR	Terms of Reference
TPs	Town Panchayats

Abbreviation	Full Form
TSFC	Third State Finance Commission
TTIP	Transatlantic trade and Investment Partnership
TUFIDCO	Tamil Nadu Urban Finance and Infrastructure Development Corporation
TURIF	Tamil Nadu Urban Road Infrastructure Fund
TWAD BOARD	Tamil Nadu Water Supply and Drainage Board
UAV	Unit Area Value
UDAY	Ujwal DISCOM Assurance Yojana
UFW	Unaccounted for Water
UGD	Underground Drainage
UGSS	Underground Sewerage Schemes
UK	United Kingdom
ULBs	Urban Local Bodies
UN	United Nations
UNICEF	United Nations Children's Fund
UPID	Unique Property Identifiers
VCF	Value Capture Financing
VLT	Vacant Land Tax
VP	Village Panchayat
YMCA	Young Men's Christian Association
~	Approximately

List of Charts

Chapter III: Rural Local Bodies Finances

Chapter IV: Urban Local Bodies' Finances

Chapter V: Service Provision by Government Agencies

Chapter VI: Audit and Accounts

Chapter VII : Scheme of Devolution

List of Tables

Commission Secretariat

Officers and Staff served in the Sixth State Finance Commission

Sl. No	Name (Tvl/ Tmt)	Designation
1	V.Revathy	Joint Secretary
2	S.V.Rajasekaran	Executive Consultant (RLBs)
3	K.Krishnamoorthy	Executive Consultant (ULBs)
4	M.Susila	Data Analysis Consultant
5	R.Julius Selvam	Deputy Director of Statistics
6	D.Gopala Krishnan	Under Secretary
7	S.Subburamji	Section Officer
8	K.Suresh	Section Officer
9	A.D.Geethamani	Section Officer
10	A.Sudarmathi	Statistical Officer
11	P.S.Kasthuri	Private Secretary
12	K.Vijaylakshmi	Private Secretary
13	R.Balachander	Superintendent/ Dy.BDO
14	R.S.Matheswaran	Superintendent
15	K.Gopal	Assistant Section Officer
16	V.Suganya	Assistant Section Officer
17	A. Bala Krishnan	Assistant Section Officer

Sl. No	Name (Tvl/ Tmt)	Designation
18	S. Shanmugasundram	Assistant Statistical Investigator
19	J.Deepa	Assistant
20	M. Indumathi	Assistant
21	E.Pitchaimani	Assistant
22	K.Deeptha	Assistant
23	A.Komathi	Personal Assistant
24	K.R.Govindarajan	Programmer
25	K.Premkumar	Personal Assistant
26	T.Ilakkiya	Data Entry Operator
27	A.Anitha	Data Entry Operator
28	V.Kanniyappan	Office Assistant
29	A.Vijayakumar	Office Assistant
30	S.Rexi Daniel	Office Assistant
31	U.Dhanasekar	Office Assistant
32	G.Arun Pandian	Office Assistant

Sixth State Finance Commission Report

Highlights

Local Bodies as
Grass Root Governments

10%
share of States Own Tax Revenue to Local Bodies

Sharing Ratio between Rural and Urban Local Bodies to be
49:51

The devolution to have
Fixed and Variable
components

15 Special Grants
for Rural Local Bodies

Sharing ratio of
7:37:56
to District Panchayats, Block Panchayats and Village Panchayats.

Sharing ratio of
31:36:33
among Municipal Corporations, Municipalities and Town Panchayats.

A new category of ULBs, namely the
Metropolitan Cities

Sharing ratio of
16:84
between Greater Chennai Corporation and the remaining ULBs (Non-Metro ULBs)

12 Special Grants
for Non-Metro Urban Local Bodies

Sixth State Finance Commission Report

Highlights

Periodic high level
review mechanism

Strong
incentive
structure

Inflation linked quinquennial Property
Tax revision

Statutory provisions for ensuring fiscal discipline
among Municipal Corporations.

Deprivation Index
for infrastructure shortfall among urban local bodies.

Templates for measuring
'Cost to Serve'

Transaction challan-based accounting
system

Complementary Responsibility
to Village Panchayats

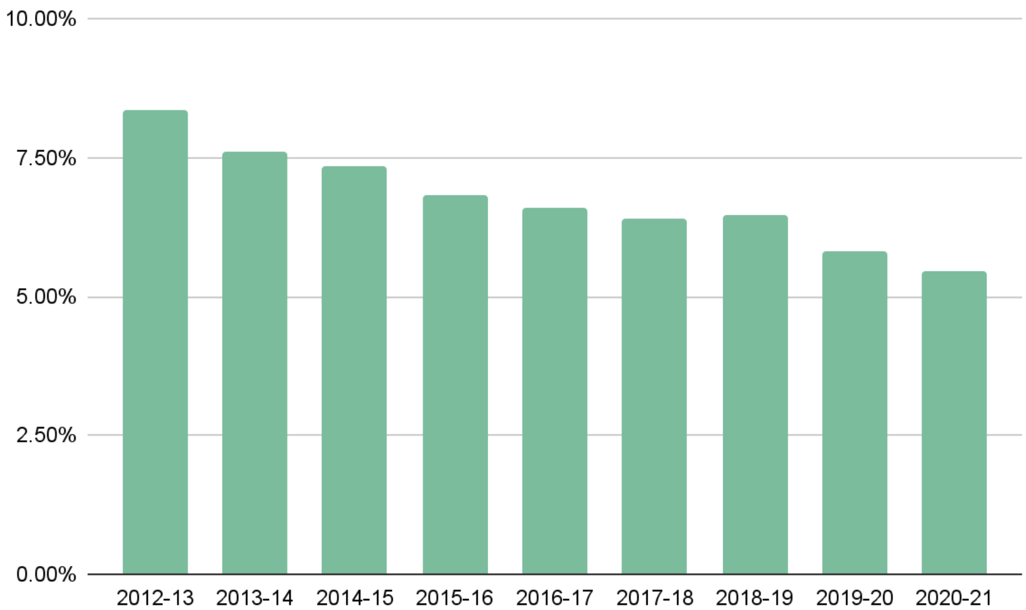
Un-intercepted
fund flow through
direct release
from State Treasury

Transparent provision of
multipliers
to every Local Body

Sharing of devolution based on
population, area, SC/ST population or slum population

The Sixth SFC has attempted to balance the concurrent challenges of limited fiscal space at the State level...

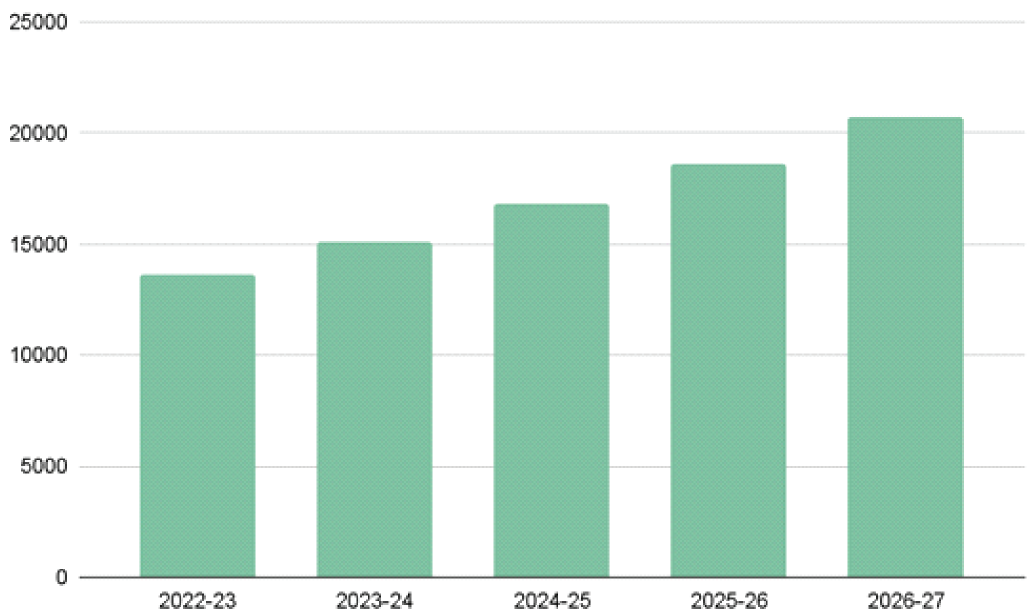
SoTR as % of GSDP



... and large demands on Local Bodies for delivering the services devolved to them

In view of these, the Sixth SFC recommends continuing devolution at the current level of 10% of SoTR…

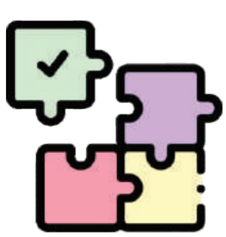
Projected SFC devolution flows to LBs (Rs. crore)



… while also recommending key structural changes to horizontal and vertical devolution within this envelope


Rebalancing between ULBs and RLBs

Fixed and variable components



Need specific Special Grants

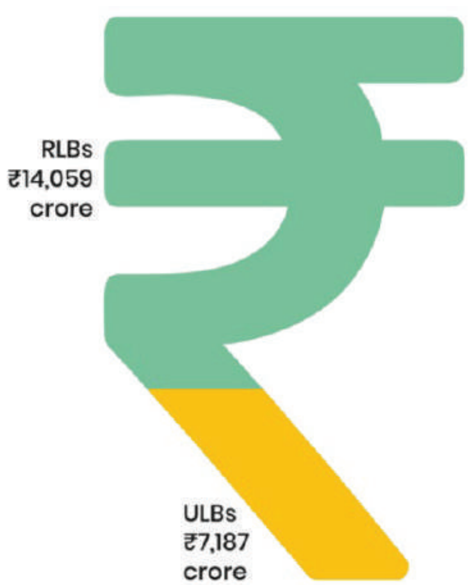
Creation of a new ULB tier

A high level of urbanisation in Tamil Nadu has imposed significant demands on resources of ULBs...

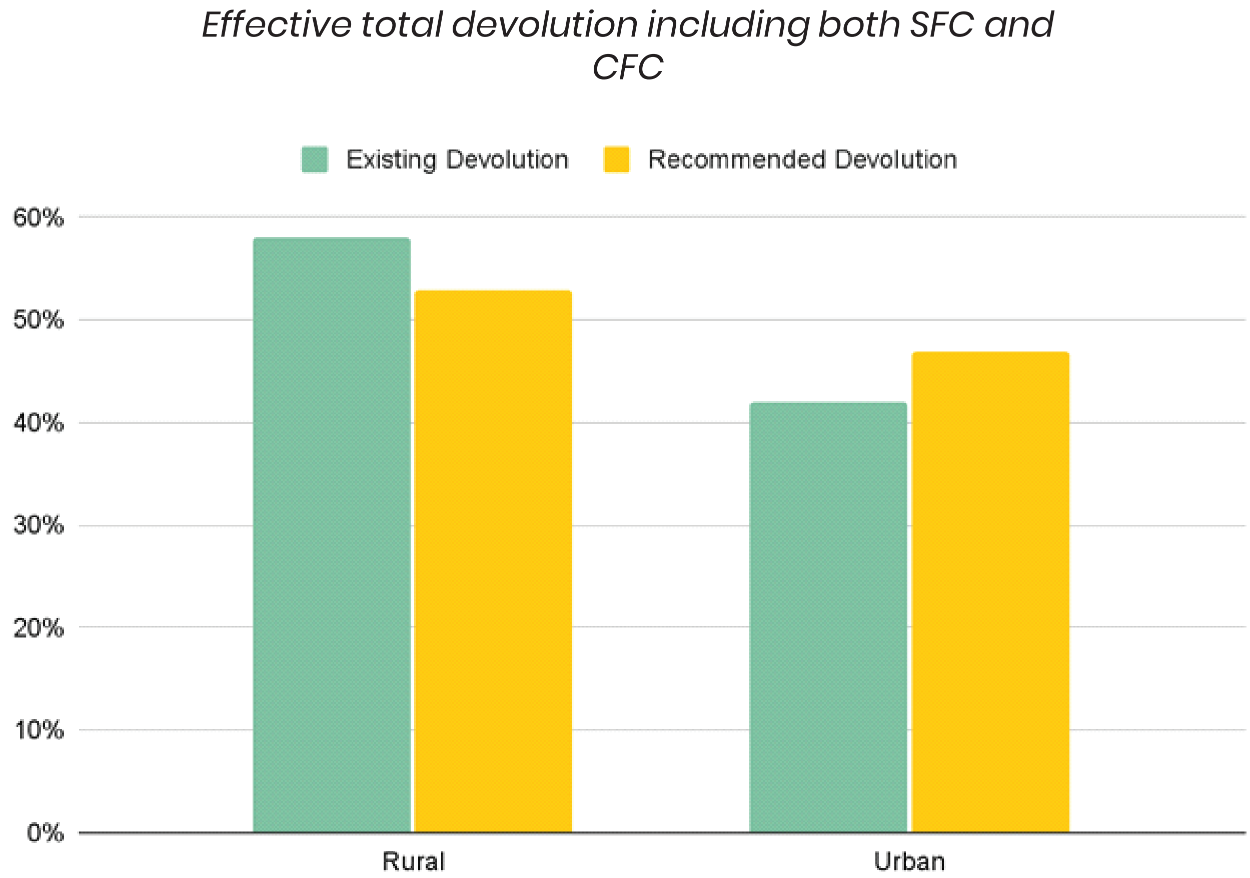
Urban vs. Rural share of State Population

... and the 15th CFC's disproportionately higher allocation for RLBs has further exacerbated the imbalance

15th CFC allocation to TN RLBs vs ULBs (2021-26)



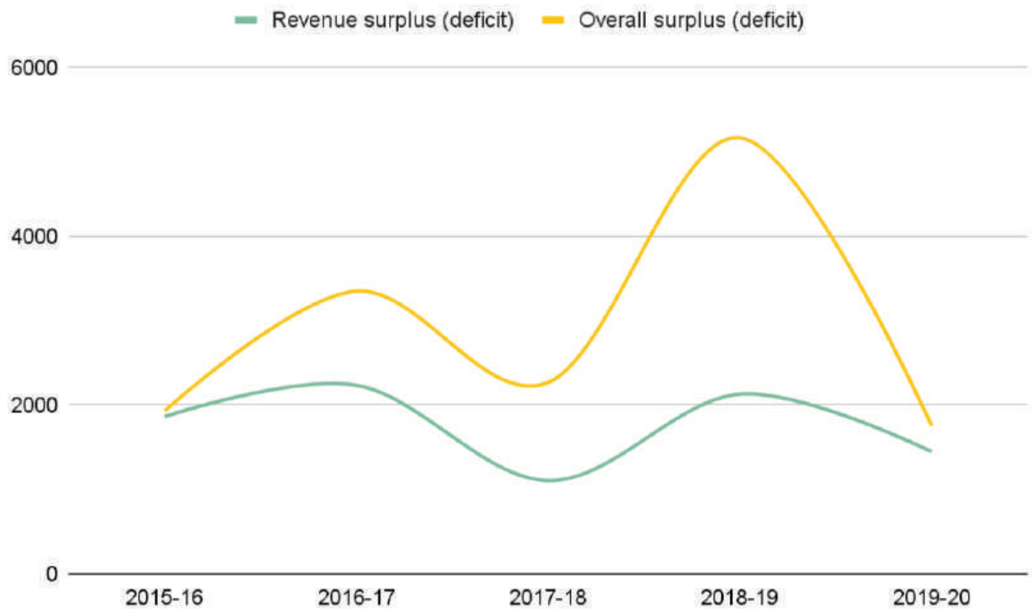
The Sixth SFC hence recommends a 49:51 sharing ratio between RLBs and ULBs...



... to provide a much needed adjustment to optimise resource availability for both categories of LBs

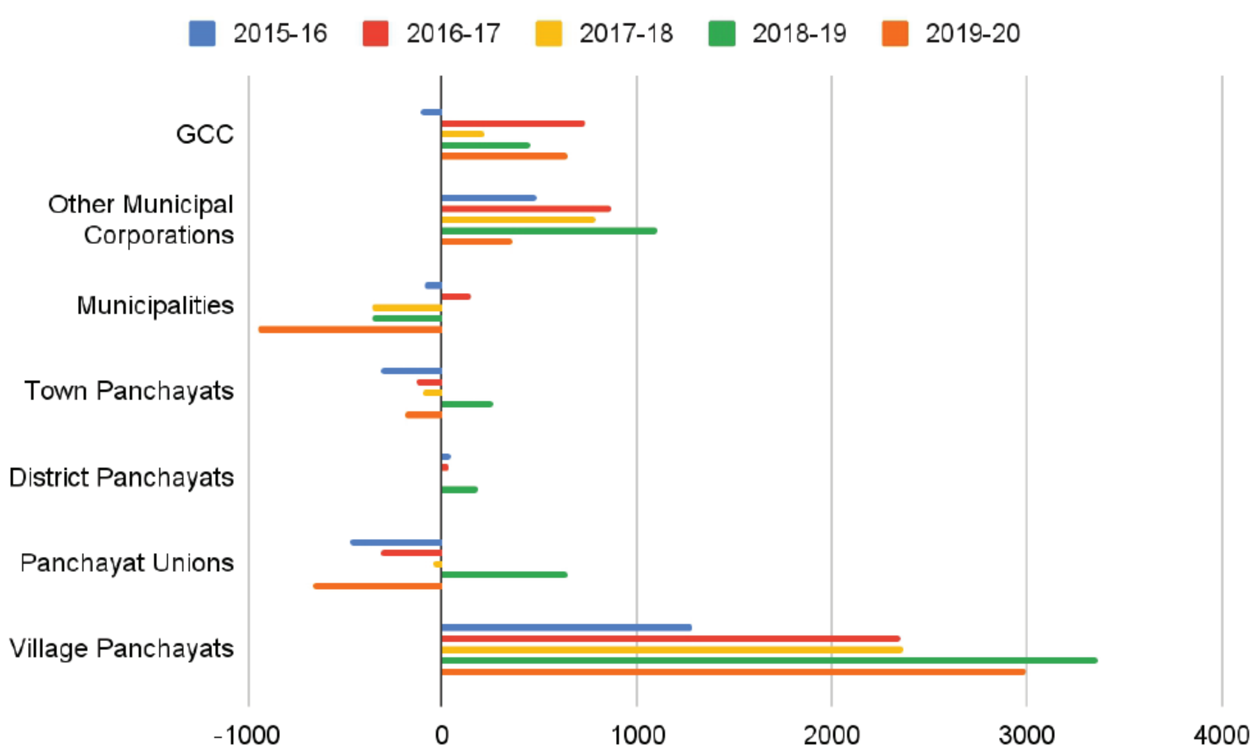
While overall balances of Local Bodies are in surplus...

Trends of surplus (deficit) across LBs (Rs. crore)



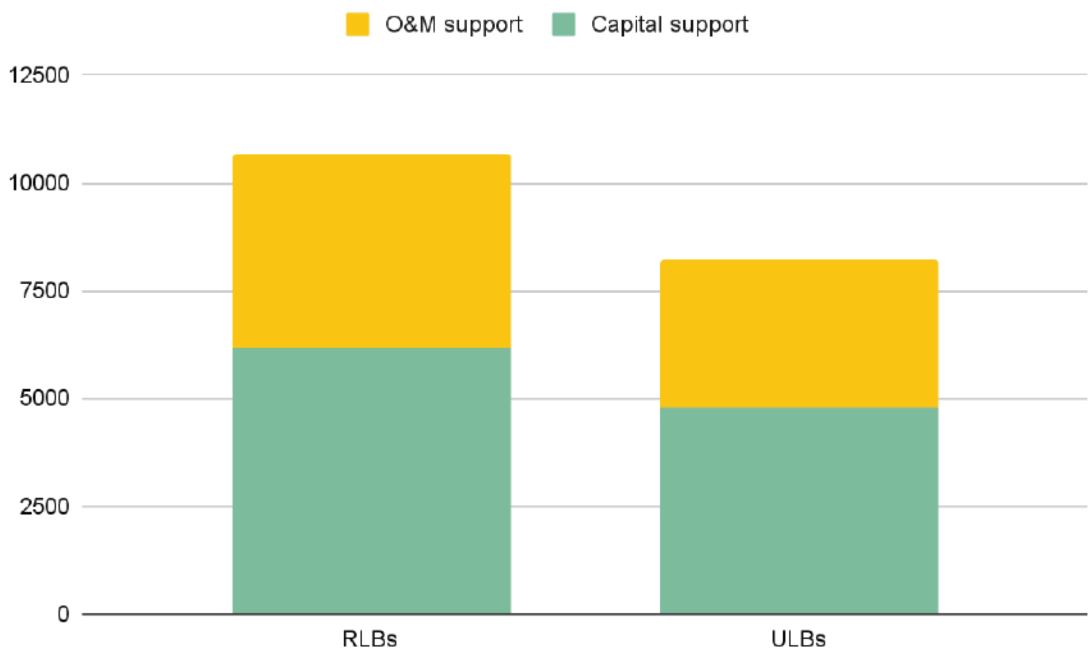
... there are pockets of deficit, both within and across different tiers of ULBs and RLBs

Overall surplus (deficit) by LB tier (Rs. crore)



To address these, the Sixth SFC proposes "fixed components" through special grants...

Capital and O&M support (Rs. Crore) over 2022-27

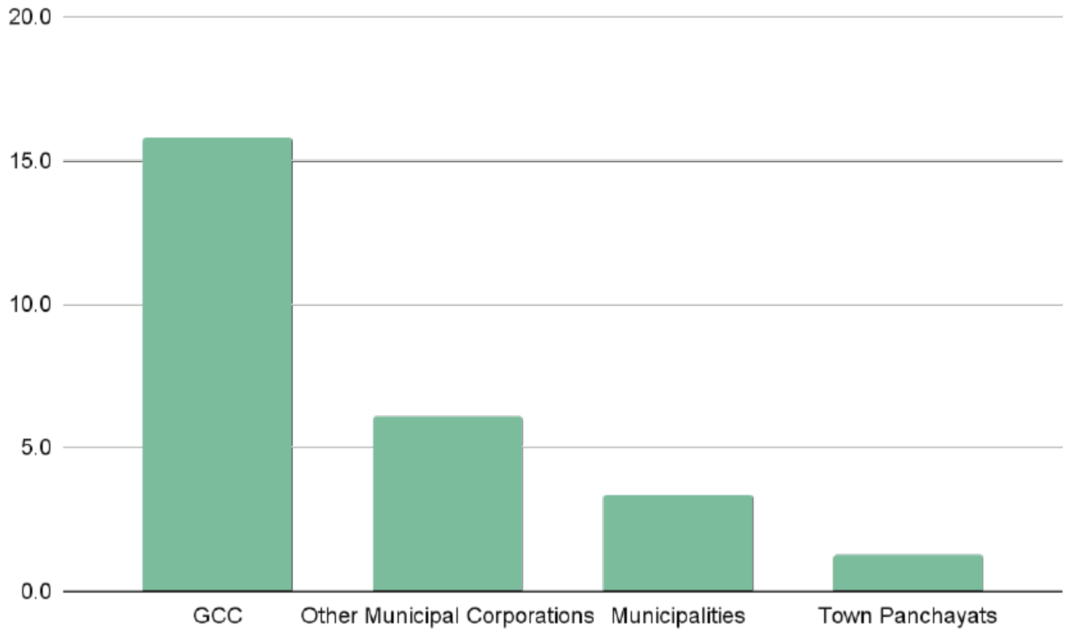


... along with additional targeted Grants to support specific needs of LBs across levels

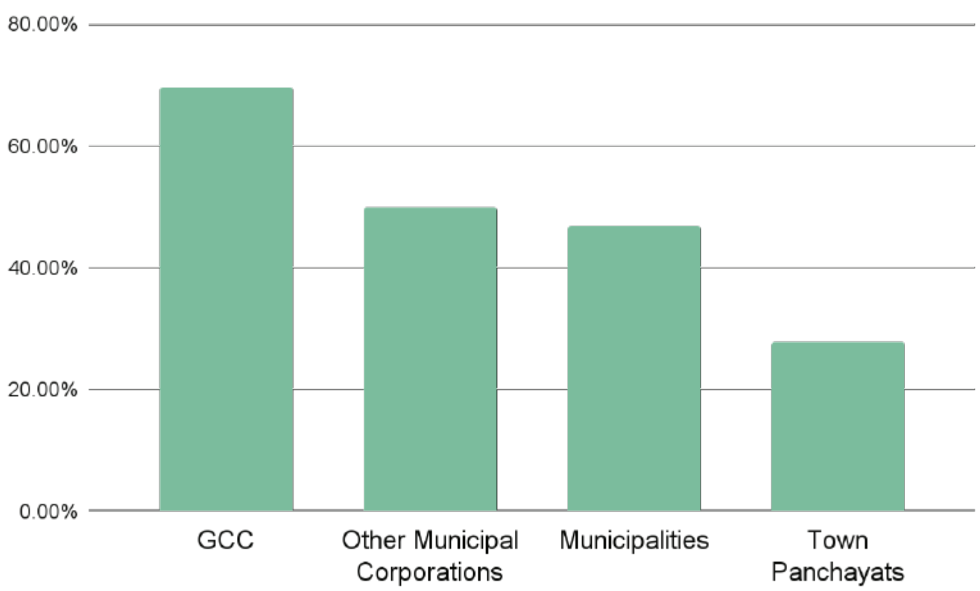
No.	Theme	Detail
1.1	Minimum lumpsum grants	Village Panchayats @ Rs 7 lakh each pa
1.2		Panchayat Unions @ Rs 40 lakh each pa
2.1	Grants for special LBs	Tourist Towns @ Rs 20 crore pa (overall)
2.2		Newly upgraded ULBs @ Rs 60 crore pa (overall)
3.1	Thematic Grants for	GIS mapping @ Rs 10 crore pa
3.2		Sanitary Workers Welfare Board @ Rs 15 crore pa
3.3		TNIUS @ Rs 5 crore pa
3.4		Project Development Grant Fund @ Rs 5 crore pa

In view of the structural uniqueness of GCC on both resource demands and mobilization potential...

*Population density comparison (*1000/Sq.km) – 2011*

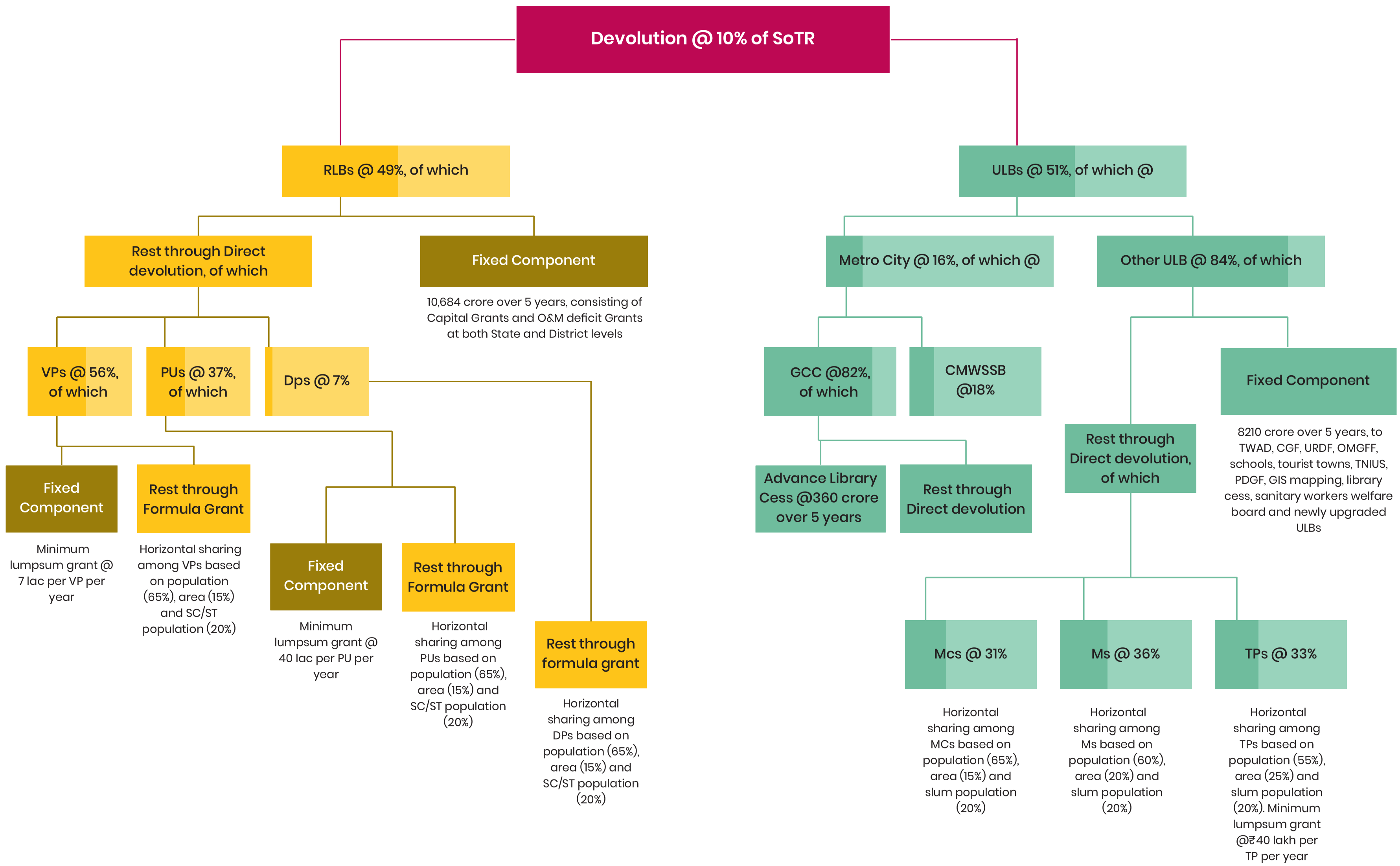


Percentage of Own Revenue to Total Revenue - average from 2015-16 to 2019-20 across ULB tiers

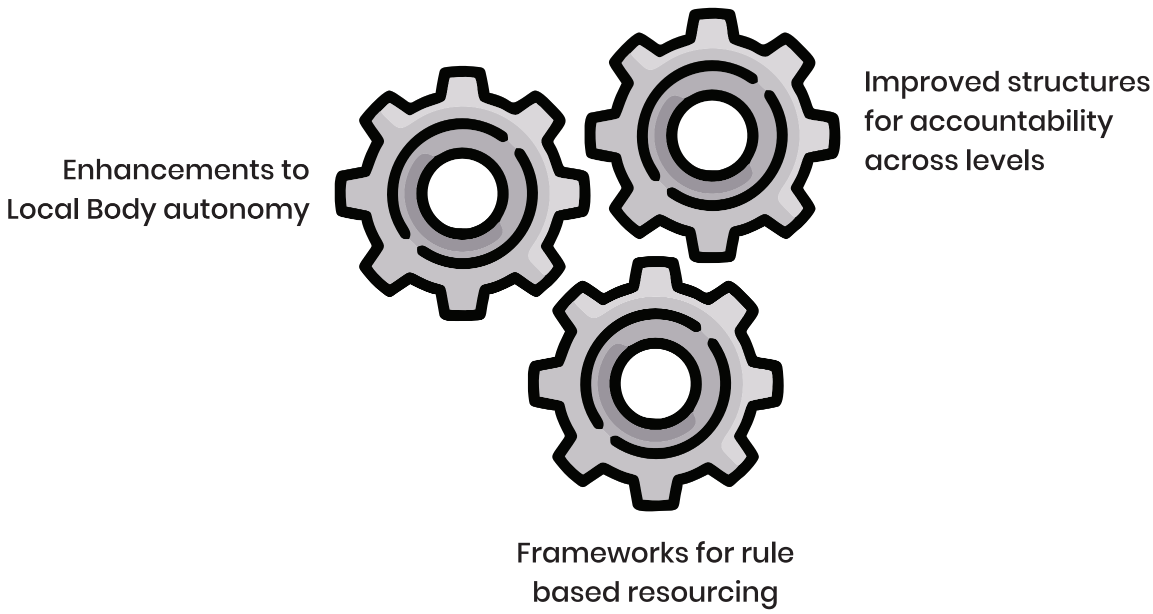


... the Sixth SFC recommends creation of a new tier of ULBs called "Metropolitan City"

Overall Devolution Scheme

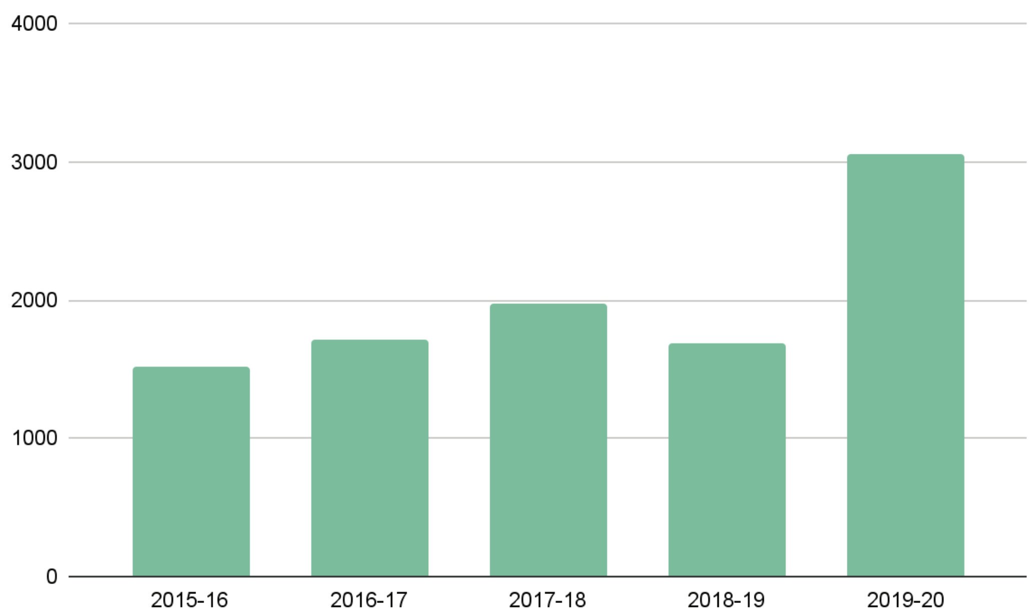


In addition to finances, the Sixth SFC also seeks to empower Lbs by creating an enabling environment...



... starting with recommending revision and indexing of several revenue streams, especially property taxes

Property Tax shortfall (vs. target @0.25% of GSDP) in Rs. crore



The Commission seeks to improve Local Body autonomy on both fund inflows and use...

Direct release to Lbs without interception for untied funds

Transparent provision of multipliers for all LBs for visibility on their allocation

Complementary responsibility for VPs for last mile ownership and demand orientation

... along with robust mechanisms for accountability on cost effective service delivery

Software for accounting and challan based transactions

Online asset registers for immovable assets

Cost to serve templates across providers (LB/ Pvt./ State Agency)

Importantly, the Commission identifies key reforms to be driven by the Rural and Urban Departments...

Reform Area	Rural	Urban
Slab system for house tax	✓	
ULB linked house tax rates for peri urban VPs	✓	
Empowering VPs on advertisement revenues	✓	✓
Additional items under surcharge on stamp duty	✓	✓
Accounting and transaction software	✓	
GIS mapping to expand assessment base		✓
Automatic, CPI linked quinquennial PT revision		✓
Minimum water charge rates and revision %	✓	✓
Online asset register for immovable properties	✓	✓
Collection targets for property/house taxes	✓	✓
Non interception of untied devolution	✓	✓

... along with well defined incentives and review mechanisms to ensure time bound adoption

Incentive of Rs 300 crore each for ULBs and RLBs (collectively) for timely implementation

Disincentive of loss of control over Rs 2,270 cr of Special Grants in case of non adoption by two years

High level committee for quarterly review, half yearly by Hon. FM and annual updates to the Assembly

I
Introduction

Introduction

BACKGROUND

1.1. The Constitution of India envisages a three tier structure of Governance in India- the Union Government, the State Governments and the Local Governments. The Seventh, Eleventh and Twelfth Schedules of the Constitution delineate the subjects allotted to each tier of Government. Within their jurisdiction, each tier is supposed to deliver services and levy and appropriate taxes as per the Schedules. The Local Governments are farthest from the Union Government but closest to the people. The day to day lives of people, their quality of life, are affected most by the service delivery capacity of the Local Governments. A vibrant Local Government is very crucial in the community life of the people. In the same spirit, the Commission considers the share of Local Government from State's Own Tax Revenue as their Constitutional right.

1.2. As envisaged in Article 243 (I) and 243 (Y) of the Constitution of India each State must constitute a State Finance Commission once in five years to review the financial position of the Local Bodies and to make its recommendations to the Governor of the State.

1.3. It is worth mentioning that in accordance with the Constitution of India, the Sixth State Finance Commission should have been constituted in all the States in the Country by 2019. But only a few States have complied with this critical Constitutional mandate as of date. Only seven[1] States of India have regularly formed the State Finance Commissions since beginning. These include, Bihar, Haryana, Himachal Pradesh, Kerala, Punjab, Rajasthan, and Tamil Nadu.

Constitution of Sixth State Finance Commission of Tamil Nadu

1.4. The three-tier structure envisaged under the Constitution has been in place for 28 years in Tamil Nadu. In pursuance of the constitutional provisions and the concomitant State legislations, State Finance Commissions are being constituted in Tamil Nadu. The First State Finance Commission started functioning from the Tamil Nadu formation day, 23rd April, 1994 and since then new Commissions have been constituted every five years.

1.5. As envisaged in Article 243 (I) and 243 (Y) of the Constitution of India and as provided in various relevant legislations[2], the Sixth State Finance Commission (SSFC) was constituted by a government order[3] and notified in the Tamil Nadu Government Gazette[4] for a period up to 31st July 2021 from the date of notification. The period was further extended[5] for five months up to 31st December 2021 and again for two months up to 28th February, 2022. **[Annexures]**

The Composition of the Commission

1.6. The Commission comprises the following members:

1	Chairperson	Thiru Mohan Pyare, I.A.S., (Retd.)
2	Non-official Member	Thiru Katharbatcha Muthuramalingam, Member of Legislative Assembly, Ramanathapuram Constituency
3	Ex-officio Member	Dr. R Selvaraj, Commissioner of Town Panchayats
4	Ex-officio Member	Thiru P Ponniah, Director of Municipal Administration
5	Ex-officio Member	Thiru Praveen P Nair, Director of Rural Development and Panchayat Raj

Thiru Prashant M Wadnere, I.A.S. served as the Member Secretary of the Commission from 31.07.2021 to 28.02.2022.

1.7. The Commission has been served by two[7] non-official members and three[8] Member Secretaries during its tenure.

1.8. Tamil Nadu is one of the few States where Finance Commissions have been regularly constituted and the recommendations have been acted upon. The State has seen significant changes in the socio-economic and fiscal landscape since the First State Finance Commission was constituted and subsequent Commissions have taken note of those changes while making their recommendations. In the backdrop of stable governance, a peaceful law and order situation and the ever increasing expectations from Government and its institutions as providers of services, local bodies in Tamil Nadu have become vibrant institutions for citizen centric service delivery.

1.9. This period has also witnessed robust economic growth, steady improvement in socio-economic indicators and a distinct demographic shift. The population residing in urban areas has grown at a markedly higher rate in the last two and a half decades and today roughly half the State's population is urban. At the same time, fiscal headwinds at the State level have also created a necessity for a higher level of local resource mobilisation, and an emphasis on cost effectiveness. This Commission has taken note of this changing scenario while making its recommendations.

The Terms of Reference (ToR) of the Sixth State Finance Commission are as follows:

1.10. The Terms of Reference of successive State Finance Commissions (SFCs) have been primarily based on the provisions of Articles 243 (I) and 243 (Y) and the relevant Local Bodies Acts. This Commission has been tasked with Terms of Reference as contained in the Constitution and the statutes, which are as follows:

The Commission shall review the financial position of the rural and urban Local Bodies namely Village Panchayats, Panchayat Unions Councils, District Panchayats, Town Panchayats, Municipalities and Municipal Corporations and make recommendations as to

a. The principles which should govern,

- *the distribution between the State and the said Local Bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the said Local Bodies of their respective shares of such proceeds;*
- *the determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Local Bodies;*
- *the grants-in-aid to the Local Bodies from the Consolidated Fund of the State.*

b. The measures needed to improve the financial position of the Local Bodies and identifying new avenues for resources mobilisation in rural and urban Local Bodies keeping in mind the local body tax structure in other States.

c. Suggesting ways to avoid mounting of unpaid *bills of electricity charges to Tamil Nadu Generation and Distribution Corporation (TANGEDCO) and water charges to Tamil Nadu Water Supply & Drainage Board (TWAD)/ Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) and other bulk water providers and to ensure prompt and timely settlement of charges to these utilities.*

d. *Suggesting ways for strengthening the service delivery capacities of local body administration to enable them to effectively discharge the roles and responsibilities entrusted to them in the Constitution of India and the State Legislations,*

e. *Examining the possibility of providing devolution to Cantonment Boards from out of the Consolidated Fund of the State.*

1.11. The main Terms of Reference of the Commissions are similar. The Commission may also be tasked to make recommendations regarding any other matter referred to it by the Governor in the interests of sound finance of the local level governments. Under this provision, additional terms of reference were given to the Second and Third SFCs. The Second SFC was requested to analyse repayment of loans extended by the Government to the Local Bodies, suggest measures and changes needed in the payment of pension to the retired employees of Local Bodies, and assess the accountability of the Local Bodies in utilising the resources raised or received from Central, State and other agencies. Similarly, the Third SFC was asked to focus on reclassification of local bodies other than Town Panchayats and the functions of Gram Sabhas in Village Panchayats. The First and Fifth SFCs were not given such additional Terms of Reference. Para c, d and e above indicate the additional Terms of Reference given to this Commission.

RECOMMENDATIONS OF THE PREVIOUS STATE FINANCE COMMISSIONS

The First SFC

1.12. The First SFC divided the whole devolution into two pools. Pool 'A' comprised taxes such as surcharge on stamp duty, local cess and surcharge on local cess and entertainment tax levied by Local Bodies but collected by the Government. This pool was to be shared with the Local Bodies. Pool 'B' consisted of the rest of the Own Tax Revenue of the State to be distributed among Local Bodies in increasing proportion growing from 8% to 12% over five years. For distribution between RLBs and ULBs, the Commission recommended a ratio of 60:40. For horizontal distribution, the Commission considered criteria such as total population, SC & ST population, financial viability, per capita house tax collection, core civic services, infrastructure maintenance deficiency, per capita receipts under own resources and existing per capita expenses on core services. The Commission also recommended introduction of equalisation and incentive funds, property tax reforms with quinquennial revision, fixing of water supply norms, creation of a capital fund by allocating 10-15% from the revenue of ULBs, and switching over from house tax to property tax in Town Panchayats. While many recommendations were accepted, the main recommendation on sharing a fixed percentage of SoTR with Local Bodies was accepted with a modification, restricting the proportion to 8 % share for the whole of the award period.

The Second SFC

1.13. The Second SFC again recommended increasing the percentage of devolution per annum from 8% to 10%. Considering urban growth, the Commission recommended increasing the share of ULBs from 40% to 42% while RLBs were to be given 58%. For horizontal distribution, the Commission retained both the parameters of population and per capita own income as suggested by the First SFC and introduced five new parameters, viz., area, population of agricultural labourers, asset maintenance resource gap, inverse of per capita land revenue, and salary and pension expenses. The Commission also recommended re-classification of Local Bodies based on 1991 census, incentivisation of taxation efforts, equalisation funds towards self-financing projects on sewerage, drainage and over bridges, strengthening of Gram Sabhas, debt relief package to ULBs and a time frame for audit and placement of Local Body accounts before the Legislative Assembly.

The Third SFC

1.14. The Third SFC recommended a uniform 10% share of tax revenue for the entire award period, retained the concept of Pool 'A' and Pool 'B' and introduced a third, Pool 'C'. This was to comprise specific purpose grants for local bodies with 0.5 - 1.0% of State's Own Tax Revenue (SOTR) share. The Commission retained the RLB to ULB proportion as 58:42. For horizontal distribution, the Commission retained total population, SC/ST population and area as criteria and added two new parameters viz., women population and debt burden of local bodies. The Commission also recommended incentivisation of Solid Waste Management activities, tax mapping by GIS, incentivisation for debt repayment as per schedule and re-classification of local bodies on revenue basis.

The Fourth SFC

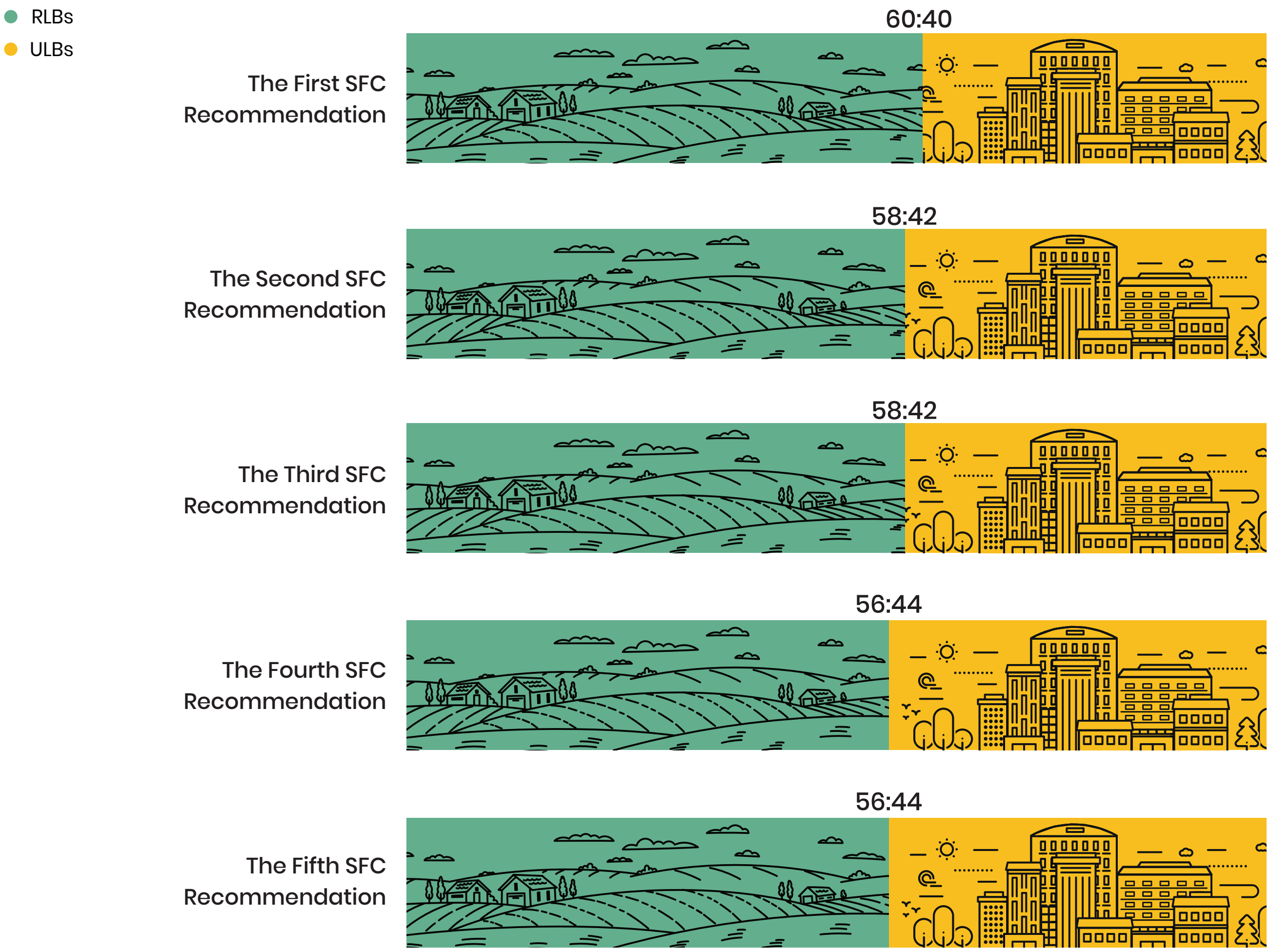
1.15. The Fourth SFC again recommended a uniform 10% share of SOTR for devolution. Devolution to ULBs was recommended to increase from 42% to 48%. For horizontal distribution, the Commission retained the third SFC criteria except for omitting women population. Among other major recommendations, a special grant of ₹200 crore was earmarked for local bodies out of the devolution for Solid Waste Management activities, continuation of the Infrastructure Gap Filling Fund (IGFF) and the Operations and Maintenance Fund (OMF) with some increase and incentives for best practices. However, the Government adopted 44% devolution.

The Fifth SFC

1.16. The Fifth SFC also recommended the existing 10% share of SOTR as devolution to the local bodies for the award period. The distribution between RLBs and ULBs was arrived as 56:44 based on the formula adopted by Second, Third and Fourth SFCs.

1.17. Capital Grant Fund (CGF) was created with 20 % of aggregate devolution to RLBs in lieu of IGFF. Out of this CGF 20% was earmarked for State level Projects and the remaining 80% distributed to the districts based on the formula adopted for horizontal distribution amongst District Panchayats. 10% of the fund allocated to RLBs had been set apart as Pooled Fund for Deficit RLBs to address some chronic deficit issues of RLBs. Out of this 40% was to be distributed amongst those Panchayat Unions and Village Panchayats which were in deficit for at least 3 of the last 5 years based on formula, and 20% was retained at DRD level to handle special

Chart I-1: Recommendations by Previous SFCs on Distribution between RLBs and ULBs



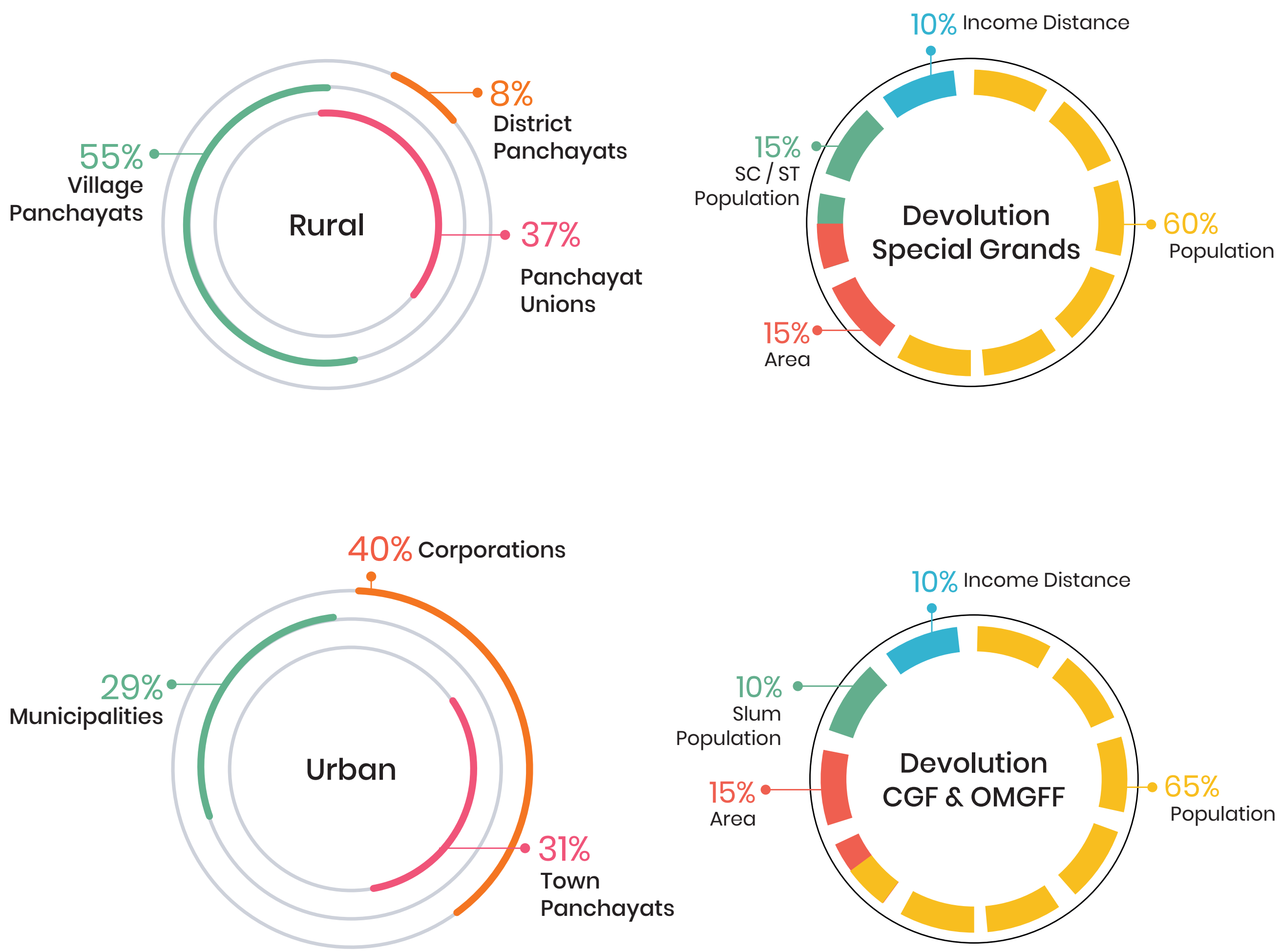
problems in BPs and VPs which could not be solved by any of the existing fund transfer mechanisms / schemes, 20% was provided to TWAD to meet the deficit on CWSS in RLBs, and 20% was to be used by DPCs for RLBs.

1.18. Change in vertical sharing ratio between RLBs from 8:32:60 to 8:37:55 had been recommended. Fifth SFC further recommended for the increase in lump sum amount from ₹5 lakh to ₹7 lakh per Village Panchayat and increase from ₹30 lakh to ₹40 lakh per Panchayat Union. Per Capita Consumption Expenditure Distance had been added as an additional parameter to the already used parameters of population, area, SC/ST population in Fourth SFC to arrive horizontal distribution ratio within each tiers of RLBs.

1.19. Out of the aggregate devolution intended for ULBs, 5% had been set apart as Incentive Fund for efficient tax collection in place of 2.5 % in Fourth SFC.A special grant of ₹25 crore had been provided to TNIUS for the entire award period for capacity building out of the aggregate devolution to ULBs. The weightage for debt outstanding (5%) was deleted, weightage for per capita consumption expenditure distance (10%) and proportion of slum population (10%) was added for both the vertical sharing between tiers and horizontal sharing within the tiers for ULBs. Minimum lumpsum amount for TPs had been increased from ₹20 lakh to ₹30 lakh.

1.20. In ULBs, IGFF was replaced by CGF by setting apart 15% for each tier for capital works linked to basic functions and services out of the aggregate devolution intended for tier wise

Chart I-2: Fifth SFC Devolution Scheme



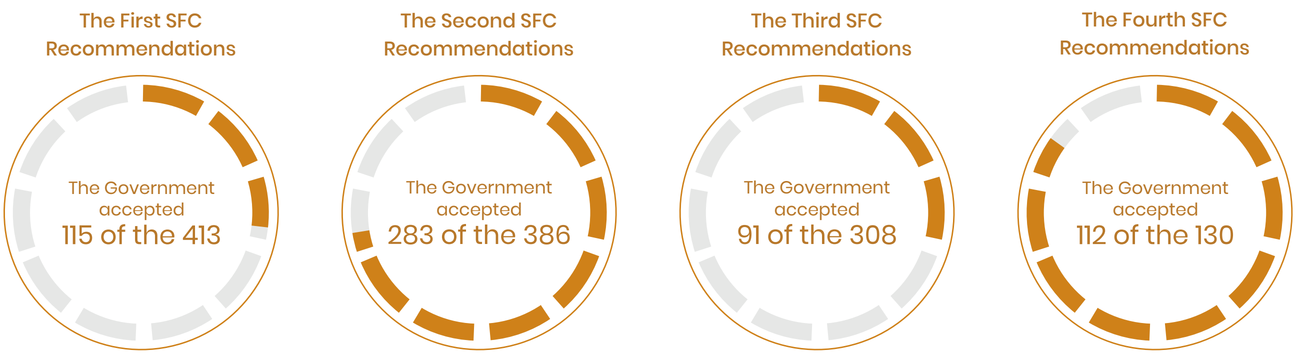
ULBs. A special grant of ₹35 crore in equal instalments over the five-year period have been allocated for implementing GIS-based Property Tax Assessment scheme out of the CGF of TPs. To revive the outlived CWSSs in ULBs a total of ₹280.38 crore had been allocated from CGF.

1.21. To deal with chronic deficit issue of ULBs 3% of O&M Gap Filling Fund in Fourth SFC was enhanced as 5% of the overall ULBs devolution. Out of which 40% was distributed amongst those Corporations, Municipalities and Town Panchayats which were in deficit for at least 3 of the last 5 years based on horizontal distribution formula. From the 40% retained at the CMA and DTP level, 30% was allocated to handle special problems which could not be solved by any of the existing fund transfer mechanisms / schemes and 20% was provided to TWAD to meet the deficit on CWSS in ULBs.

Status of Recommendations of the Fifth State Finance Commission

1.22. The Government's acceptance of the recommendations varied from Commission to Commission. The Government accepted 115 of the 413 recommendations made by the First State Finance Commission, 283 of the 386 recommendations made by the Second State Finance Commission, 91 of the 308 recommendations made by the Third State

Chart I-3A: Status of Previous SFCs' Recommendations

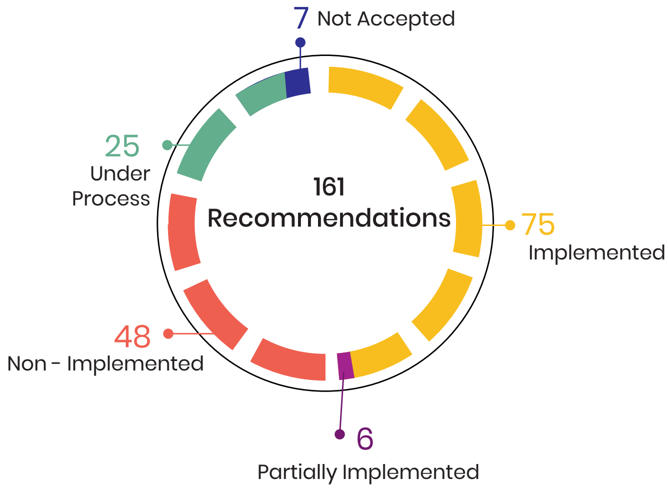


Finance Commission and 112 of the 130 recommendations made by the Fourth State Finance Commission. The Government, has by and large, preferred simpler and fewer parameters to govern horizontal devolution.

1.23. The Fifth State Finance Commission had made 161 recommendations. The Government accepted 154 recommendations. Of these 154, the Government had accepted 9 recommendations with modifications and the rest in toto. However, while assessing the actual implementation of those recommendations only 75 recommendations were fully implemented, 6 recommendations were only partially implemented and 73 recommendations were either not implemented or were at a very preliminary stage even after four years of acceptance of those recommendations by the Government. The overall proportion of fully implemented recommendations is very low. Hence it is essential that the implementation is followed up closely and the implementing agencies are made accountable.

1.24. A detailed note on recommendations of Fifth State Finance Commission and the action taken by State Government on those recommendations is annexed to this report (Annexure-7). It is pertinent to note that although many recommendations were accepted by the State Government, actual implementation left much to be desired. Mostly, the recommendations related to devolution formula were implemented however the recommendations related to reforms were not implemented in full measure.

Chart I-3B: Status of the Recommendations made by the Fifth SFC



CENTRAL FINANCE COMMISSION

1.25. The 15th Central Finance Commission (CFC) required a fixed amount rather than a proportion of the divisible pool of taxes to ensure greater predictability of the quantum and timing of fund flow.

1.26. For inter se distribution among States for rural and urban Local Bodies, weightage of 90% was to be given to population and 10% to the area of the State. The 15th CFC recommended that all States must constitute SFCs, act upon their recommendations and lay the explanatory memorandum as to the action taken thereon before the State legislature on or before March 2024. After March 2024, no grants will be released to a state that wouldn't have complied with the Constitutional provisions in respect of the SFC and these conditions. The Ministry of Panchayat Raj (MoPR) will certify the compliance of all Constitutional provisions by a state in this respect before the release of their share of grants for 2024-25 and 2025-26.

1.27. The entry level condition for rural and urban Local Bodies availing any grants due to them is having both provisional and audited accounts online in the public domain. States will receive grants for those rural and urban Local Bodies that have their provisional accounts for the previous year and audited accounts for the year before the previous, available online. For urban Local Bodies, apart from the entry level condition of having both provisional and audited accounts online in the public domain, after 2021-22, fixation of minimum floor for property tax rates by the relevant State followed by consistent improvement in the collection of property taxes in tandem with the growth rate of State's own Gross State Domestic Product (GSDP) will be an additional mandatory pre-condition.

1.28. To supplement the resources needed to fulfill national priorities, 60% of the grants to rural Local Bodies should be tied to supporting and strengthening the delivery of two categories of basic services: (a) sanitation and maintenance of ODF status; and (b) drinking water, rain water harvesting and water recycling.

1.29. Urban Local Bodies (ULBs) have been categorised into two groups, based on population, and different norms have been used for flow of grants to each, based on their specific needs and aspirations. For cities with million plus population (Million-Plus cities), 100% of the grants are performance-linked through the Million-Plus Cities Challenge Fund (MCF). Basic grants are proposed only for cities/ towns having a population of less than a million.

1.30. Category-I cities (urban agglomerations with a population of more than one million) will be treated as a single unit for monitoring of performance indicators of ambient air quality and service level benchmarks. One-third of the total MCF of each city is earmarked for achieving ambient air quality. The balance two-third of the city-wise MCF is earmarked for achieving service level benchmarks for drinking water (including rainwater harvesting and recycling) and solid waste management. For drinking water (including rainwater harvesting and recycling) and sanitation and solid waste management criteria under service level benchmarks, the Ministry of Housing and Urban Affairs (M/o HUA) shall act as the nodal ministry for determining the eligible urban Local Bodies. 60% of the basic grants for urban Local Bodies in non-Million-Plus cities should be tied to supporting and strengthening the delivery of:

a. Sanitation and solid waste management and attainment of star ratings as developed by the M/o HUA; and

b. Drinking water, rainwater harvesting and water recycling.

1.31.The Commission recommended that for the five-year award period (2021-22 to 2025-26) grants should go to all the three tiers of Panchayat Raj Institutions.

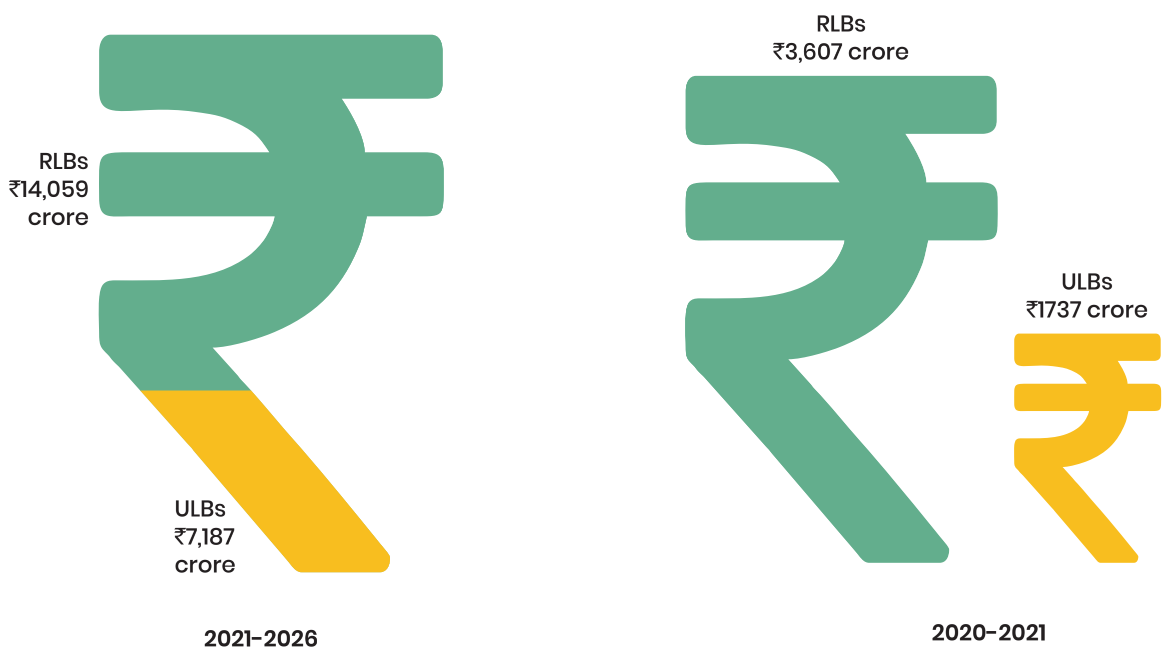
1.32.State Governments, while deciding the share of basic grant among various urban Local Bodies in cities other than Million-Plus cities, shall make allotment of grants (only under basic grants) on a per capita basis for the Cantonment Boards falling within the State.

1.33.The grants recommended by the CFC for rural local bodies and non-Million-Plus cities shall be released in two equal installments each year in June and October after ascertaining the entry level benchmarks and other requirements recommended by the Commission. The CFC also recommended that since the ceiling for Profession Tax has not been revised for the last three decades, it is time that the relevant amendment to the Constitution is carried out on a priority basis.

1.34. A reading of these recommendations makes it clear that the State Finance Commissions' recommendations would apply to the release of basic grant to the local bodies. The SFC cannot make any recommendations on the release of performance grants recommended by the 15th CFC. The recommendations of the 15th CFC are enclosed in the **Annexure- 6**.

1.35.In Tamil Nadu, the total size of the grant to local governments is ₹21,246 crore for the period of 2021-26. Of these total grants, ₹14,059 crore of grants intended for RLBs and ₹7,187 crore (₹2,299 crore for Million Plus cities and ₹4,888 crore for other than Million Plus cities) is for ULBs. During the year 2020-21 an allotment of ₹3,607 crore made for RLBs and ₹ 1,737 crore for ULBs.

Chart I-4: 15th CFC Grants to Local Governments



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

RECOMMENDATIONS

1.36. To improve monitoring of the recommendations of Central and State Finance Commissions, this Commission makes the following recommendations,

1.37. 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 step should be taken:

- **a. A comprehensive Government Order should be issued by 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 Government Orders with detailed guidelines following normal Government procedure.**
- **c. Issuance of the Government Orders and progress in implementation should be reviewed regularly as per the review mechanism recommended hereunder.**

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

1.39. The Government should constitute 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.

1.40. 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.

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

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

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

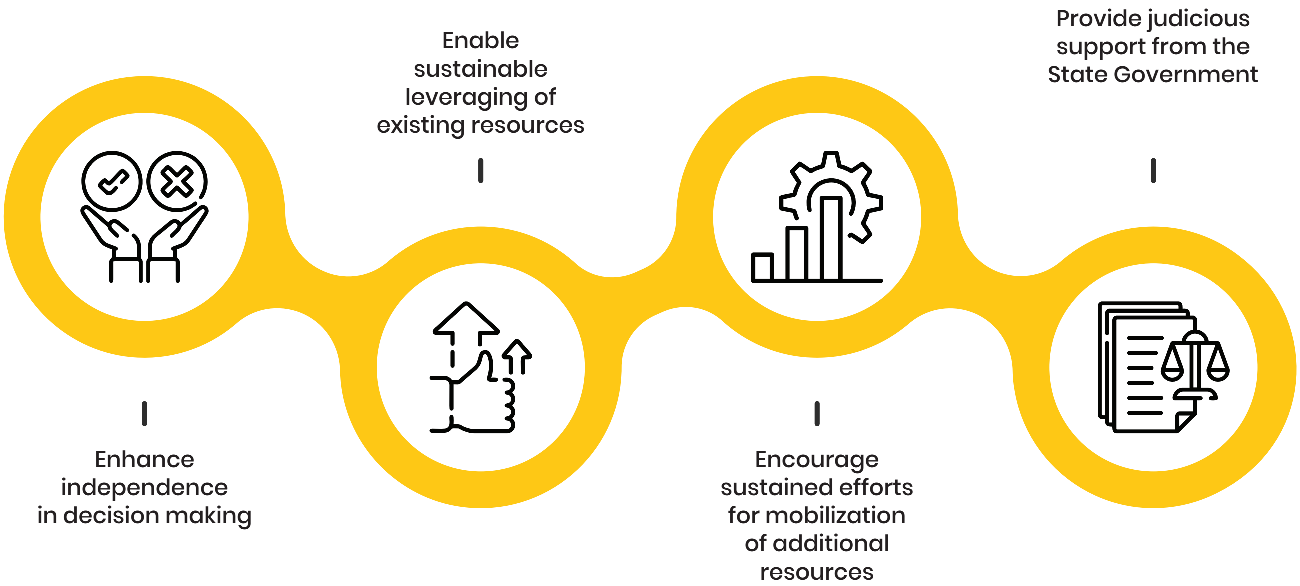
1.44. The data collected by the Commission should be taken up for further analysis and action by various departments.

1.45. 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 Government website.

APPROACH ADOPTED BY THE SIXTH SFC

1.46. The Commission believes that the Local Bodies are the critical tier of governance closest to the people. The quality of service delivery by the Local Bodies makes a significant difference to the quality of life of the people. The Commission has been guided in its approach by the Constitution, relevant legislations and the Terms of Reference. The Commission has focused on assessing aspects such as standards of service delivery, resource availability and functional efficiency. While analysing each type of local

Chart I-5: The Guiding Principles



body, the Commission has also taken into consideration the functions and finances of statutory bodies such as the Tamil Nadu Water Supply and Drainage Board, their role in effective service delivery, financial position and interdependencies.

1.47. While devolution, allocation and distribution of funds was the major area of focus for the Commission, it has also dwelt upon the administrative issues affecting functional efficiency and effective utilisation of devolved funds. The overall approach has been to empower Local Bodies, make them self-reliant and stand on their own coming out of the shadows of higher tiers of Government. The guiding principle has been to enhance their independence in decision making, enable sustainable leveraging of existing resources, encourage sustained efforts for mobilisation of additional resources and provide judicious support from the State Government.

1.48. The Commission does not see the Local Bodies as stand-alone institutions but as part of the larger governance system of the State and the Country. It understands that fulfilling the aspirations of the people would require a broader effort by all stakeholders, public as well as private, and hence has tried to build upon their strengths. The smooth coordination between all stakeholders, including local bodies while marching towards the common goals of higher growth and sustainable development is of utmost importance. The Commission has also considered such good practices from other states.

1.49. While making recommendations, the Commission has valued simplicity and ease of implementation very highly. The Commission believes that simplicity of rules would enable local bodies to internalise the spirit of the recommendations and ultimately be more independent. Hence, the

Commission has avoided complicated formulaic recommendations and has striven to achieve a devolution scheme that is easy to understand, document and account.

1.50. The Commission has been greatly benefitted from reports of previous SFCs and the CFC. The Commission has tried to understand the perspective of previous Commissions on one hand and the challenges faced by the stakeholders in implementing some of their recommendations on the other.

1.51. The Commission recognizes the demographic, economic and social changes that have occurred in the State since the recommendations of the Fifth SFC were made. Tamil Nadu has witnessed rapid growth in urban population and increasing intensity of issues associated with such rapid urbanisation. In a way, Tamil Nadu is at the forefront of this critical demographic change occurring in India and the path taken by Tamil Nadu and its experience will light the path for many other States.

1.52. While recognizing the requirement for creation of new assets through increased capital investment, the Commission has also kept in sight the need for maintaining the existing infrastructure and meeting the running costs of service delivery. Rapid asset creation decoupled from a robust mechanism for maintenance would deteriorate assets and compromise service delivery levels. Creation of assets has also to be accompanied by efforts to improve financial and non-financial capacities for maintenance and management of such assets.

1.53. The Commission has considered the fiscal position of the State Government. Empowered and self-reliant local bodies reduce the burden on State Finances and help free more resources for other pressing developmental commitments. The State Government's efforts to empower the local bodies to mobilise additional resources, through statutory and procedural levers, would improve service delivery not only from local bodies but also from State agencies as well.

ஒல்லும்வா யெல்லாம் வினைநன்றே ஒல்லாக்கால்
செல்லும்வாய் நோக்கிச் செயல்

- குறள் 673

When way is clear, prompt let your action be;
When not, watch till some open path you see.

METHODOLOGY

1.54.As mandated under Article 243 I(3) of the Constitution of India, the Commission evolved a procedure for its functioning and for its Secretariat. The Rules of procedure as adopted by the Sixth SFC are in Annexure - 5. The Covid-19 Pandemic was at its peak when the Commission was constituted. Therefore, the routine functions of the Commission were severely affected and a new strategy had to be adopted for interaction. The Commission has significantly leveraged technology to move a large part of its functioning online.

1.55.The Covid-19 Pandemic was at its peak when the Commission was constituted. The routine functions of the Commission were severely affected and a new strategy had to be adopted for interaction. The Commission has significantly leveraged technology to move a large part of its functioning online.

1.56.Analysis was done of the online data collected by the Commission. Though the reliability of the data has improved, the Commission nevertheless identified several issues in data accuracy. Therefore, it was validated with data received from other agencies such as DLFA & other HODs.

1.57. A questionnaire was prepared taking into consideration the prevailing pandemic situation and Local Bodies were asked to share data (online) on their income, expenditure demographic area and other capital expenditure.

1.58.The Commission collected data from the Local Bodies online by installing its own server system. Software for online data collection had been developed in-house by the Commission and used through the Commission's website www.sixthsfc.org. The server was made available to all the Local Bodies twenty-four hours a day throughout the period of the Commission. The data sheets were designed to develop data in SQL formats simultaneously with the uploading of data by the Local Bodies. This facilitated the quick compilation by the Commission Secretariat.

1.59.Guidelines to fill up the questionnaires were also prepared and hosted on the Commission's server. Training sessions were conducted for all the end users to access the server IP, with username and password and to upload data on the server. Training sessions on filling up the questionnaires correctly were conducted at Commission office for certain select district officials, and they were designated as master trainers, who in turn gave training at district level.

160.Online meetings were conducted, and designated phone numbers were given to clear the doubts of the officials while filling the questionnaire. Further online meetings were also conducted by the Commission for filling the questionnaire.

1.61.Online meetings with all elected representatives like Panchayat Presidents, Union Chairpersons, and District Panchayat Presidents of all districts were conducted and their views on resource argumentation, analysis of the finance of Local Bodies and the ways for self-sustainability were discussed. Separate online meetings with district officials, Collectors, Municipal Commissioners, Town Panchayat Executive Officers and Assistant Director Panchayats were conducted and their views recorded. Further views and suggestions were welcomed from the Public through post and on the website etc.

1.62.The Sixth SFC toured to inspect the local body offices and to make direct contact with the elected representatives. Furthermore, due to the pandemic period of Covid-19, the survey was conducted in only a few districts of Kanchipuram, Tiruvallur, Madurai, Salem and Thiruvannamalai. Elected representatives of Local Bodies also attended the study. Such a study provided the Commission with important entries necessary to understand the problems of the various Local Bodies and to know the basics of the functioning of the office bearers. Further details of these studies are attached in **Annexure - I (5)**.

1.63.In order to get an outside perspective from experts and in-depth analysis of specific issues, the Commission decided to engage external agencies to study the data collected from Local Bodies and to furnish analytical reports to the Commission. The Commission had engaged four external agencies, namely, the Madras Institute of Development Studies (MIDS), Madras School of Economics (MSE), Centre for Effective Governance of Indian States (CEGIS), and United Nations Children's Fund (UNICEF) to carry out the studies. The studies allotted to each of the agencies are as follow:

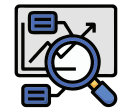


Table I-1: The Studies allotted by the Commission

Sl. No	Agency / Organisation	Subject
1	Madras Institute of Development Studies (MIDS)	Study for need based devolution for Rural Local Bodies in Tamil Nadu
2	Madras School of Economics (MSE)	Tracking property tax potential in Urban Local Bodies of Tamilnadu with specific focus on Town Panchayats.
3	Centre for Effective Governance of Indian States (CEGIS)	Mapping Functions and Finances in 14 Municipal Corporations of Tamil Nadu
4	United Nations Children's Fund (UNICEF)	(1) Study on the infrastructure directly affecting school children in Local Bodies & Role of Local Bodies in High School and Higher Secondary Schools (2) Functional devolution that can be added to Local Bodies (3) Migrant Worker's Children Welfare.

1.64. All the above agencies were given the online data collected from all ULBs/RLBs and other secondary data collected from the line departments relevant to the studies undertaken by them. The external agencies were also advised to use secondary data from other sources relevant to the Terms of Reference of their studies. The reports furnished by the external agencies were further analyzed by the Commission. The executive summary of the study report of all agencies is given in **Annexure-9.**

1.65. Due to Covid-19 pandemic, the Commission had arranged a half-day online seminar on 06.08.2021 on the topic "Issues before the Tamil Nadu Sixth State Finance Commission" in association with NIPFP, New Delhi. Experts from various fields attended the seminar. Eminent experts from urban and rural bodies presented their views on various issues affecting financial health of Local Bodies across the State, Central and State Commission's recommendations, emerging challenges, and solutions for the way forward. The seminar was a useful starting point for the analytical framework for the Commission. The approach adopted by other SFCs, and principles adopted by them in vertical and horizontal resource allocation to their Local Bodies were discussed in detail. The Commission also got the opportunity to interact with the Chairpersons of other SFCs in the seminar. The details of the seminar are appended in **Annexure-7.**

1.66. A total of 30 questionnaires were issued to various stakeholders including Secretaries to Government, Heads of Departments and others. The Commission had special interaction sessions with State Government Agencies like, TEDA, Adi Dravidar Welfare, TNHB, Department of Highways, Geology and Mining Department, TANGEDCO, TNPCB, PCCF, Tribal Welfare, HR&CE and other concerned departments. The views which emerged during these interactions have been duly reflected in the Commission's report.

1.67. While relying on the primary data collected from stakeholders, the Commission also made efforts to make its own analysis and also sought assistance from external agencies. The Commission has also placed emphasis on one-to-one interactions with local body representatives, officials, experts, and other stakeholders. Its approach has been guided by the need to base the understanding and consequent recommendations on a realistic appreciation of the performance of Local Bodies, their constraints, requirements and possibilities of addressing their concerns within the mandate of the Commission.

II State Finances

II

State Finances

**பொருள்கருவி காலம் வினையிடனொடு ஐந்தும்
இருள்தீர எண்ணிச் செயல்**

- குறள் 675

Treasure and instrument and time and deed and place of act:
These five, till every doubt remove, think o'er with care exact.

INTRODUCTION

2.1. Tamil Nadu is one of the major economies in the country, driven by robust infrastructure and development policies aimed at furthering social justice. The State has been at the forefront in pioneering many social welfare schemes that have led to measurable improvements in developmental outcomes. These achievements have been sustained by a vibrant administration and political vision.

2.2. The SFC is required to make recommendations on the principles that govern the distribution of the net proceeds of the taxes, duties, tolls and fees leviable by the State and which may be divided between the State and Local Bodies; the allocation among the said Local Bodies of their respective shares of such proceeds; the determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Local Bodies; and the grants-in-aid to the Local Bodies from the Consolidated Fund of the State.

2.3. To make these recommendations, the Commission needs to assess various aspects of the State Finances such as trends in State's Own Tax Revenue (SOTR), expenditure, debt position, committed liabilities, the challenges arising due to adverse impacts on the economy, the risks faced by the State Finances in the medium term and the expected fiscal trends during the period of concern for the SFC.

2.4. Given that the SFC recommendations are for a five-year period, a detailed assessment/ projection of key fiscal indicators is required to ensure that the devolution schema balances the needs of the local governments with the fiscal space available to the State Government.

2.5. The Finance Department has submitted to the Commission the projections for the award period from 2022-23 to 2026-27. Similarly, it had also submitted its projections to the Fifteenth CFC. However, the COVID pandemic and other economic factors have changed many of the earlier assumptions. The Commission has considered these changes and arrived at the projections for the purpose of the report.

2.6. This chapter highlights the trends and projections of revenue components (States own revenues, GST compensation, non-tax revenues, share in central taxes and Grants from the Union Government) and expenditure components (including support to State PSUs). This assessment is essential to arrive at the available fiscal space from which funds can be devolved to Local Bodies.

ECONOMIC GROWTH

2.7. Tamil Nadu's GSDP growth has been projected at 2.02% for 2020-21 at constant prices. The GSDP growth of Tamil Nadu is estimated to be 11.5% in 2022-23 and 12% in 2023-24 by the 15th CFC. Tamil Nadu's position amongst large states in terms of per capita GSDP has now moved backwards to the 5th position in the period 2016-17 to 2018-19 as per 15th CFC Report.

2.8. Major economic events like Demonetisation (2016), adoption of GST (2017) and stagnation in economic activities due to Covid-19 pandemic have aggravated the problems of growth in the State. The poor growth and fiscal erosion of the state played a significant role in the downward trends of the economic development of the State. The resources of the State Government are limited to own revenue receipts, Central resource transfers through tax devolution and grants and borrowing permitted by the Centre.

2.9. The fiscal shock due to Covid-19 still persists even after the decreasing number of Covid-19 cases since 2021. Despite making efforts to arrest contraction in economic activity, the gap between revenue and expenditures has widened substantially. The economic contraction due to lockdown has resulted in shrinking of the tax base and a sharp fall in revenue. Government expenditure has also increased sharply for saving lives and livelihoods. In addition to the committed budgetary expenses, expenditure for containment of the pandemic, relief and social protection measures and for reviving the economy has resulted in widening of the fiscal gap.

2.10. Considering low growth of GSDP in the last two financial years due to the impact of Covid-19 pandemic and the consequent base effect, the Finance Commission has adopted a conservative average growth rate of 11% for the award period assuming the growth to continue.

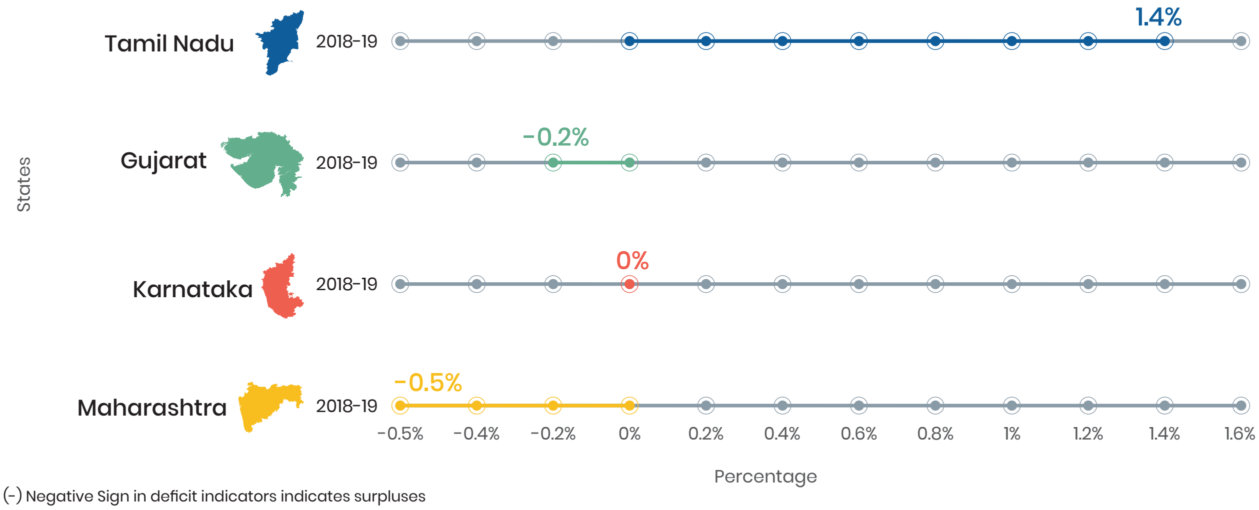
FISCAL INDICATORS

2.11. A serious cause of concern for Tamil Nadu has been the steady deterioration in the finances of the Government, particularly post 2013-14. The COVID pandemic exacerbated the situation, causing further deterioration of an already stressed fiscal situation. While the tax base has remained constant, growth in tax revenue has been stagnant and expenditure has increased on all fronts. This has resulted in a deteriorating fiscal situation marked by rising revenue and fiscal deficits year on year and the consequent increased debt burden.

2.12. Tamil Nadu had largely been a revenue surplus State in the period between 2006-07 to 2012-13. Since 2013-14, the State has continuously been in revenue deficit, and it has been increasing over the years. From a revenue surplus of ₹1,760 crore in 2012-13, the situation worsened and the revenue deficit widened to ₹35,909 crore in 2019-20 even before the COVID pandemic struck. In 2020-21, the situation exacerbated and the revenue deficit was recorded at ₹62,326 crores. When compared with other States, in 2017-18 and 2018-19 while the average revenue deficit for all States and UTs was 0.1% of GSDP in both years, for Tamil Nadu it was 1.5% and 1.4% of GSDP, respectively.

2.13. Tamil Nadu's Debt-GSDP ratio has increased from 17.2% in 2012-13 to 22.6% in 2018-19. For the States, the 15th CFC has recommended that the normal limits for net borrowing may be fixed at 4% of GSDP in 2021-22, 3.5% of GSDP in 2022-23 and be maintained at 3.5% of GSDP from 2023-24 to 2025-26. The Commission has also recommended an extra annual borrowing space for the States, of 0.50% of their GSDP for the period 2021-22 to 2024-25, based on performance criteria in the power sector.

Chart II - 1 : Revenue Deficit as a % of GSDP – Comparison with Similar States



Note: (-) Negative Sign in deficit indicators indicates surpluses

Table II - 1 : Revenue Deficit and Fiscal Deficit

Year	Revenue Deficit / Surplus (in ₹ crores)	Revenue Deficit as a % of GSDP	Fiscal Deficit (in ₹ crores)	Fiscal Deficit % of GSDP
(1)	(2)	(3)	(4)	(5)
2012-13	(+)1760	(-)0.21	-16519	1.93
2013-14	-1789	0.18	-20584	2.13
2014-15	-6408	0.60	-27162	2.53
2015-16	-11985	1.02	-32628	2.77
2016-17	-12964	1.00	-56171	4.31
2017-18	-21594	1.47	-39840	2.72
2018-19	-23459	1.44	-47335	2.90
2019-20	-35909	1.95	-60179	3.26
2020-21	-62,326	3.21	-87,742	4.51

Note: It does not include ₹6,241 crore which was received as back-to-back in lieu of GST Compensation. (+) Positive sign in column 3 indicates that it is a surplus year. Negative (-) sign in deficit indicator in column 5 indicates that it is a revenue surplus year. Source – White Paper on Tamil Nadu Government's Finances

2.14. The fiscal deficit in 2006-07 was ₹3,956 crores which was around 1.21% of GSDP. It has increased to ₹87,742 crores in 2020-21, which is around 4.51% of GSDP. Though the fiscal deficit was largely maintained within the 3% limit prescribed under the Tamil Nadu Fiscal Responsibility Act, 2003, it was done partly by postponing certain items of expenditure as a result of which commitments were built up and deficits hidden. Overall Tamil Nadu's fiscal deficit at 2.7% and 2.9% of GSDP in 2017-18 and 2018-19 respectively was higher than the average of 2.4% across all States in both years. Comparative States like Maharashtra, Gujarat and Karnataka recorded lower fiscal deficits in both years.

Chart II - 2 : Fiscal Deficit as a % of the GSDP – Comparison with Similar States

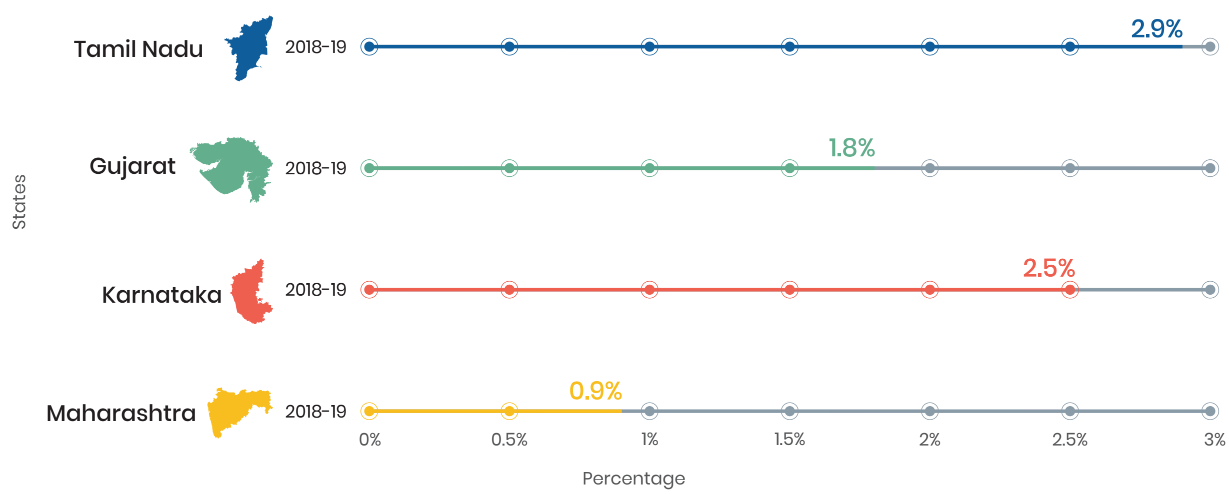


Chart II - 3 : Fiscal Deficit of Tamil Nadu as % of GSDP

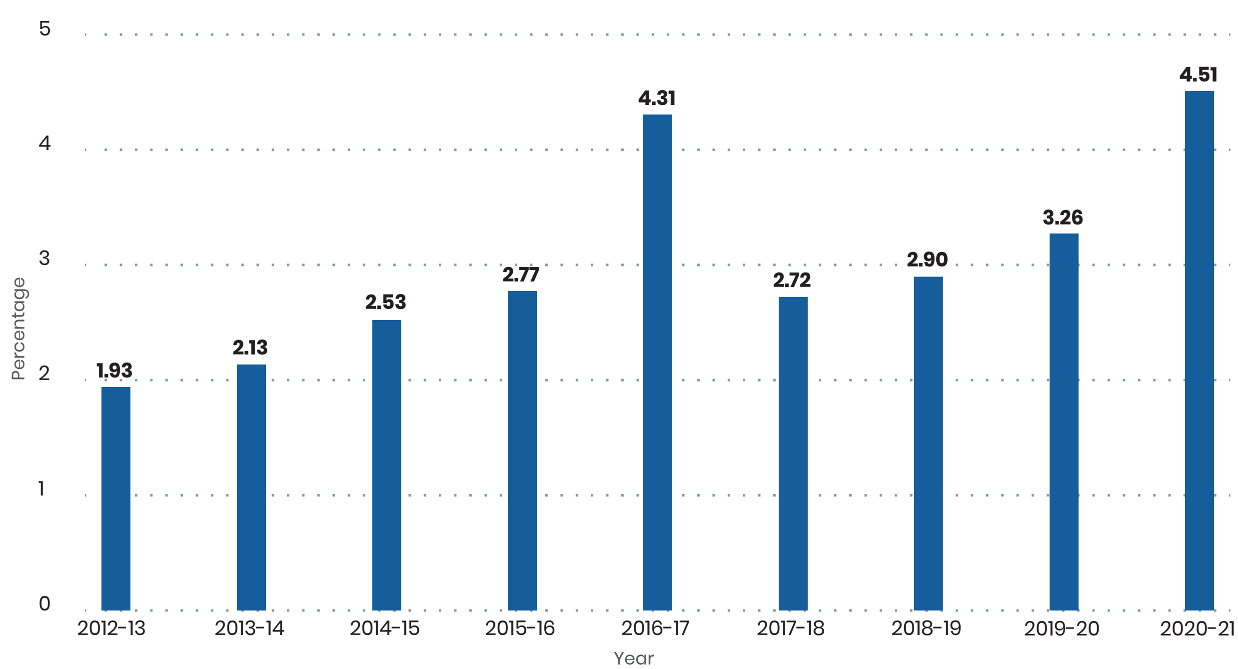
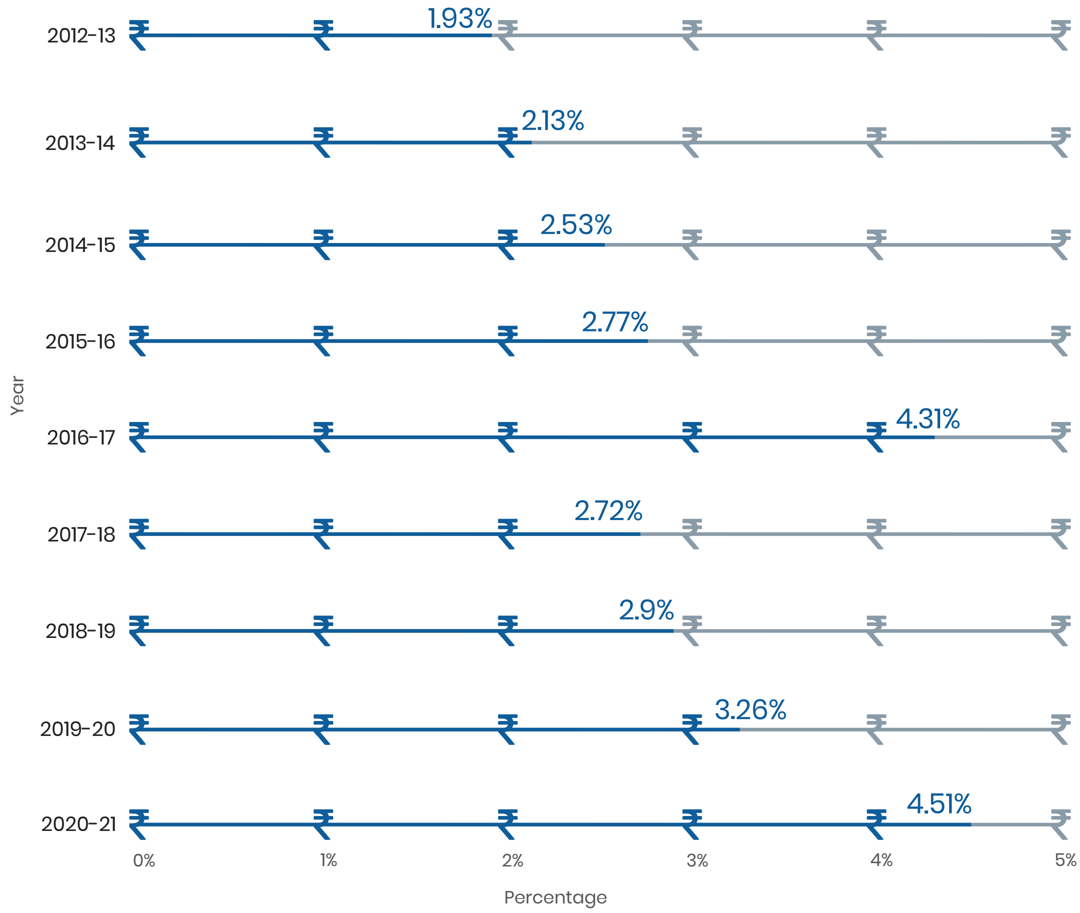


Chart II - 4 : Fiscal Deficit as a Percentage of GSDP



2.15. A significant factor to be noted is that a substantial portion of the fiscal deficit is used to fund the revenue deficit. Since 2017-18, the share of revenue deficit in fiscal deficit has shown a marked jump to 50% or more. As a result, the borrowings of the Government have not contributed to capital expenditure but are instead being used to meet requirements of revenue expenditure commitments.

2.16. In order to fund the increasing level of deficits, borrowing has increased sharply which has increased the total

Table II - 2 : Revenue Deficit as a percentage of Fiscal Deficit

Year	Revenue Deficit / Surplus (in ₹ crores)	Fiscal Deficit (in ₹ crores)	RD as a % of FD
(1)	(2)	(3)	(4)
2012-13	(+)1,760	-16,519	N/a
2013-14	-1,789	-20,584	8.69
2014-15	-6,408	-27,162	23.59
2015-16	-11,985	-32,628	36.73
2016-17	-12,964	-5,6171	23.08
2017-18	-21,594	-39,840	54.20
2018-19	-23,459	-47,335	49.56
2019-20	-35,909	-60,179	59.67
2020-21	-62,326	-87,742	71.63

*N/a indicates that is a revenue surplus year outstanding debt. The Debt-GSDP ratio has worsened from 17.94 in 2016-17 to 27.05 in RBE 2021-22. This situation is unlikely to improve in the medium term unless economic activity picks up leading to growth in GSDP and the State Government takes strong measures to augment revenue resources and optimize revenue expenditure.

Chart II - 5 : Revenue Deficit as a % of Fiscal Deficit

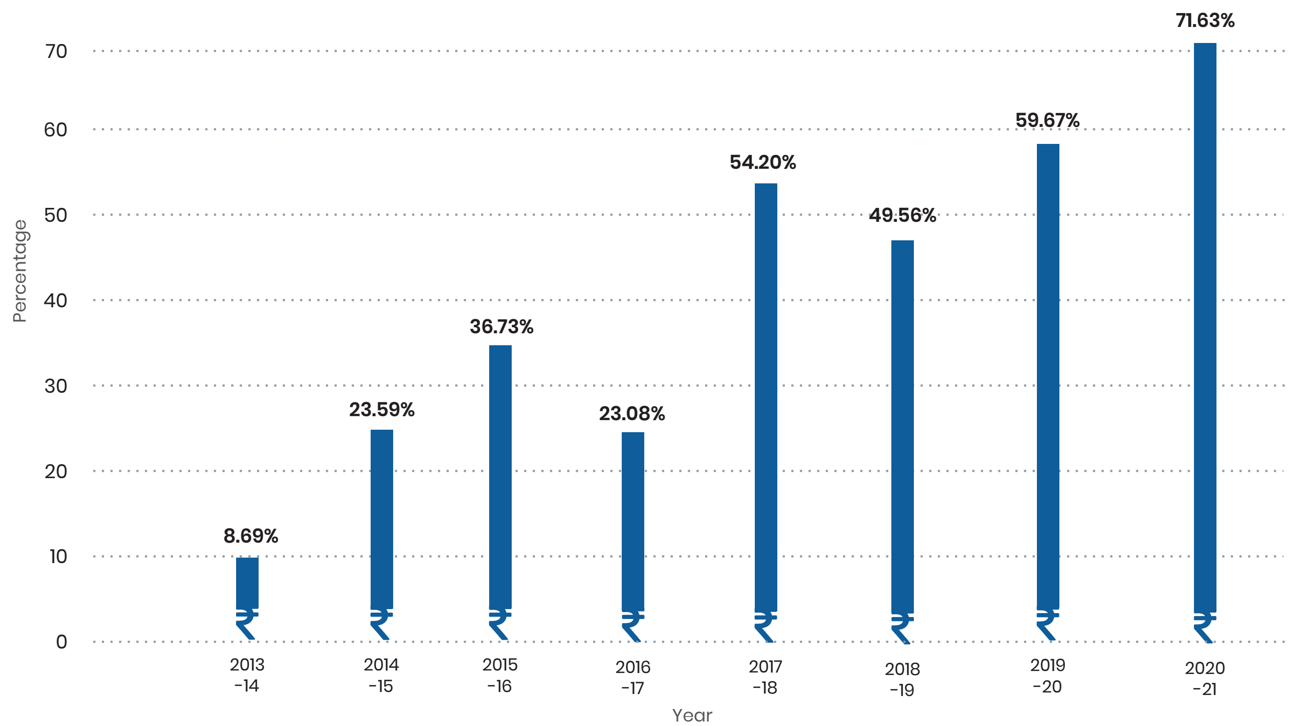


Table II - 3 : Outstanding Debt Trends ^^

(₹ in crores)

Year	Public debt Outstanding at beginning of year	Net Debt during year	Total Public Debt at the end of year	Public Debt as a % of GSDP
2012-13	115412.38	17539.39	132951.77	15.55
2013-14	132951.77	21099.47	154051.24	15.91
2014-15	154051.24	25915.54	179966.79	16.78
2015-16	179966.79	31099.21	211066.00	17.94
2016-17	211066.00	60298.09	271364.09	20.83
2017-18	271364.09	39065.11	310429.19	21.19
2018-19	310429.19	35322.49	345751.68	21.21
2019-20	345751.68	51273.31	397024.99	21.51
2020-21	397024.99	83274.58	480299.52	24.71
RBE 2021-22	485502.54	97074.23	577987.04	27.05

^^ Outstanding Debt includes E-Public Debt and I- Small Savings, Provident Fund, etc.

* It excludes an amount of ₹7,608.38 crore projected as receipts towards B2B Loan for GST Compensation Shortfall

Chart II - 6 : Outstanding Public Debt - Trends (In ₹ Crore)

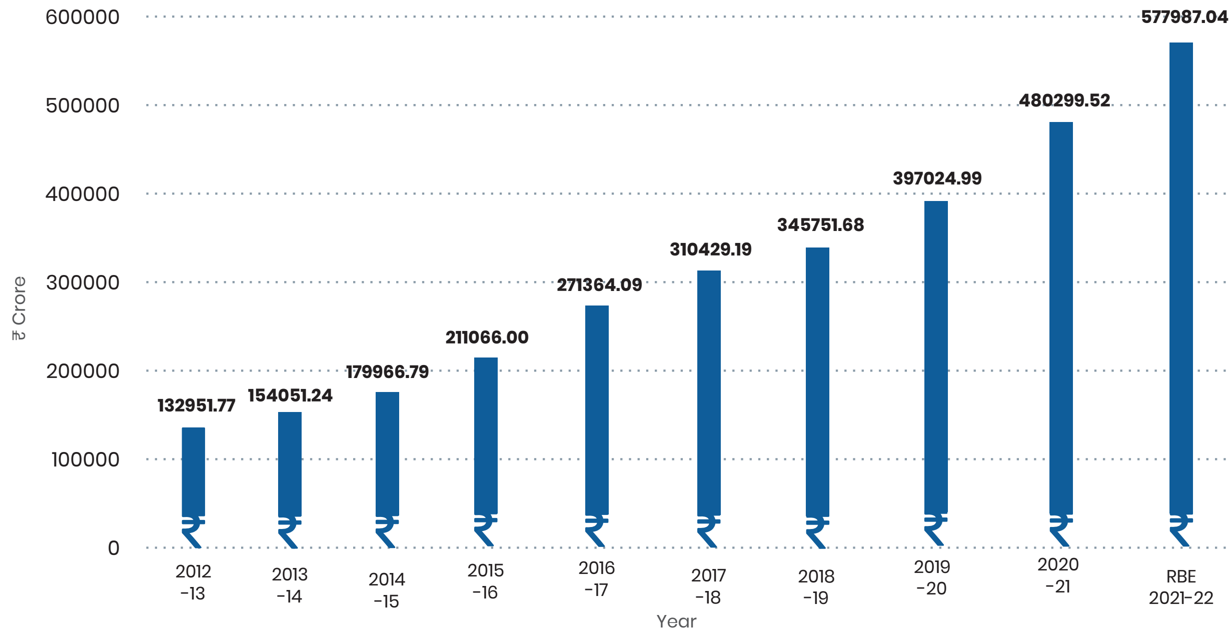
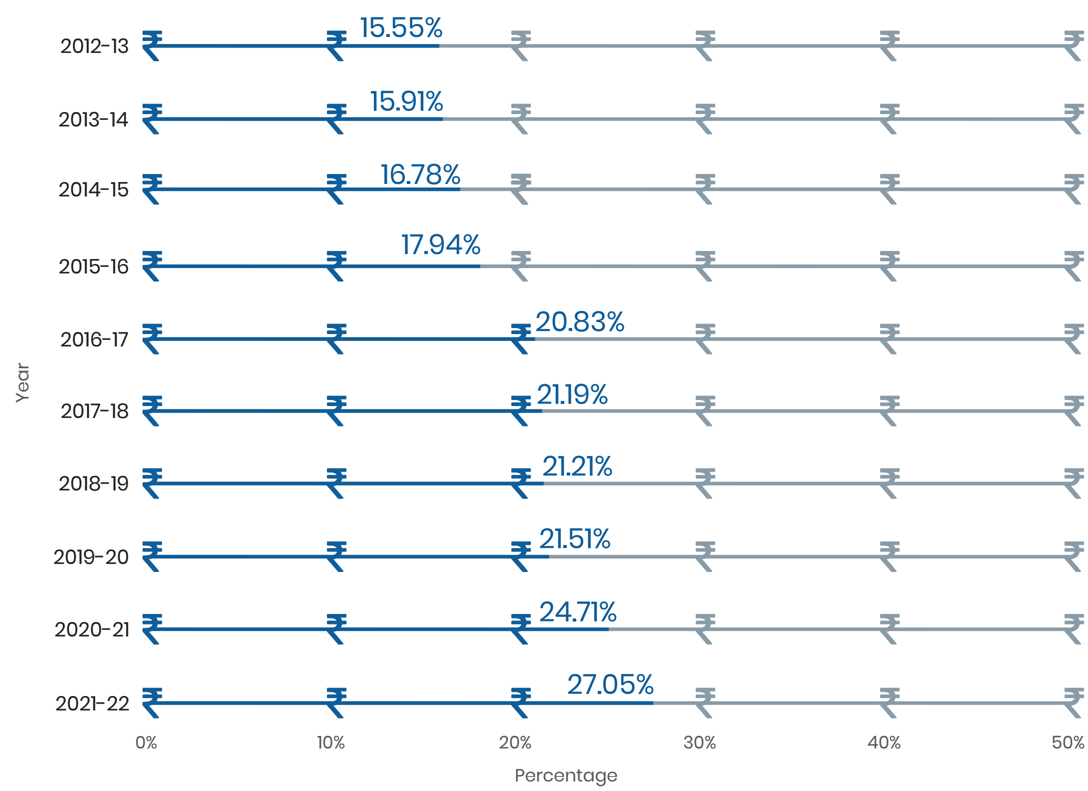


Chart II - 7: Public Debt as a percentage of GSDP



SOURCES OF REVENUE

2.17. The total revenue receipts of the State had declined from 13.35% of GSDP in 2008-09 to 8.96% in 2020-21. It is to be noted that the growth in revenues has not been commensurate with the growth in GSDP.

2.18. The main component of revenue receipts of the State is State's Own Tax Revenue. The CAGR of SOTR was 11.46% in the period between 2006-07 and 2010-11 which had drastically declined to 4.31% between 2016-17 and 2020-21. In 2019-20 and 2020-21, the growth rate has just been 1.83% and (-) 1.22% respectively.

2.19. There has been a steady and consistent decline in SOTR to GSDP ratio since 2011-12. In 2011-12, SOTR as a proportion of GSDP was 11.34% which had drastically declined over the years to 5.46% in 2020-21. This decline is sharper than the average tax to GSDP ratio decline across all states during the period from 2011-12 to 2018-19. The decline has been so marked that for the first time in 2018-19, Tamil Nadu's overall tax to GSDP ratio fell below the national average.

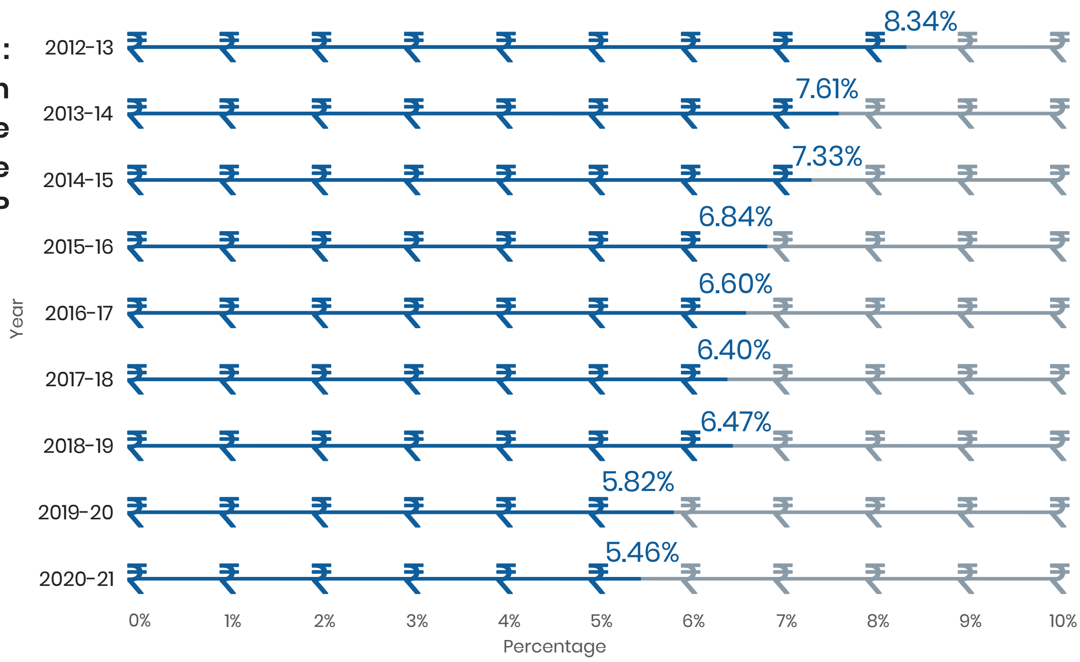
Table II - 4 : State's Own Tax Revenue as a % of GSDP (In ₹ crore)

Year	State's Own Tax Revenue	State's Own Tax Revenue as % of GSDP
2011-12	59517.31	7.92
2012-13	71254.28	8.34
2013-14	73718.11	7.61
2014-15	78656.54	7.33
2015-16	80476.08	6.84
2016-17	85941.41	6.60
2017-18	93736.61	6.40
2018-19	105534.16	6.47
2019-20	107462.29	5.82
2020-21	106152.95	5.46

Table II - 5 : State's Own Tax Revenue-Year on Year Growth and CAGR

Year	State's Own Tax Revenue (%)
2011-12	24.56
2012-13	19.72
2013-14	3.46
2014-15	6.70
2015-16	2.31
CAGR (2011-12 to 2015-16)	6.22
2016-17	6.79
2017-18	9.07
2018-19	12.59
2019-20	1.83
2020-21	-1.21
CAGR (2016-17 to 2020-21)	4.31

Chart II - 8 : State's Own Tax Revenue as percentage of GSDP



2.20. Although the growth rate has been low, particularly in the past five years, the Commission has considered the trend that the post-Covid recovery will happen and the growth in revenue will also pick up. Hence, considering the low base effect, the Commission has assumed an average year on year growth rate of 11% during the award period for SOTR.

2.21. SOTR has been estimated by the Finance Department at ₹1,26,644 crore for the year 2021-22. The cumulative SOTR for the Commission's award period has been estimated as ₹8,75,472 crore.

IMPACT OF GOODS AND SERVICES TAX

2.22. Introduction of GST has had a significant impact on the fiscal autonomy of the State and its revenue profile. The high level of 14% growth anticipated under the GST regime was not realised. Further, the revenues of the State are yet to recover from the pandemic. As the GST compensation comes to end on 30.06.2022, it would adversely affect the fiscal health of the State. The State has no mechanism to garner additional resources through its own taxes. The Covid pandemic has created a possibility, although rare, of unforeseen events causing reduction in State's Revenue.

Table II - 6 : GST Compensation due to Tamil Nadu (In ₹ crore)

Year	Protected Revenue @14%	Actual Tax Collection	Revenue Gap	Compensation Received from GOI	Balance
2017-18 (9 months, from July, 2017 to March,2018)	29032.77	28014.77	1018.00	1018.00	0.00
2018-19	44129.80	38766.72	5363.08	5363.08	0.00
2019-20	50307.98	37979.36	12328.62	12305.00	23.62
2020-21	57351.09	39457.89	17893.20		404.26
Grant Component				11247.94	
B2B Loan Component for GST Compensation shortfall				6241.00	
Total	**180821**	**144218.74**	**36602.9**	**36175.03**	**427.88**

2.23. The gap between the protected revenue and the actual collection of GST and GST subsumed taxes has increased over the years. The revenue gap was ₹5363.08 crore in 2018-19 which has widened to ₹17,893.20 crore in 2020-21. In 2021-22, the gap is estimated to be ₹21,556.05 crore.

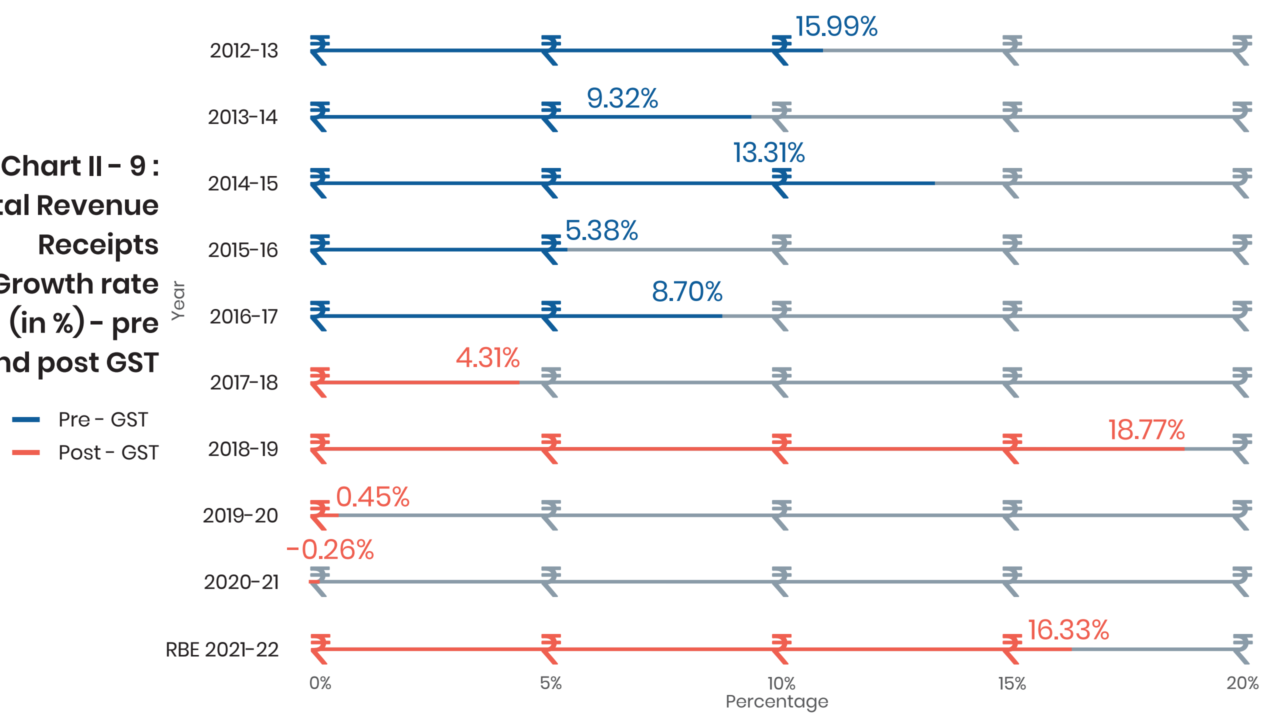
2.24. In order to achieve the levels of 14% protected envisaged under the GST regime, 70% growth is required in the year 2022-23. The actual Collection of GST did not match with the protected revenues even before the onset of COVID pandemic. The lack of buoyancy in GST revenue is a cause of serious concern and this is a major factor on which the fiscal health of the State would depend after the compensation regime comes to an end. The table below shows the impact of pre and post implementation of GST in total revenue receipts of the State over the years.

2.25. The State has recorded a mixed trend of revenue growth with lesser fluctuations in pre-GST era. However, since then the State has been recording a consistent declining rate with huge fluctuations in revenue receipts. The base year of 2015-16 chosen for calculation of compensation has an unrepresentative single digit revenue growth and the same trend is observed in 2016-17 and 2017-18. During the year 2020-21, the growth in revenue receipt over previous year was -0.26% owing to Covid-19 pandemic, and in the Revised Budget Estimate 2021-22 the growth rate of revenue receipt is estimated at 16.33%.

Table II - 7 : Trends in Revenue Receipts

Year	Total Revenue Receipts (₹ In Crore)	Increase/decrease over previous year (in %)
Pre - GST		
2011-12	85202.14	
2012-13	98827.71	15.99
2013-14	108036.42	9.32
2014-15	122420.44	13.31
2015-16	129007.87	5.38
2016-17	140231.13	8.70
Post - GST		
2017-18	146279.75	4.31
2018-19	173741.16	18.77
2019-20	174525.92	0.45
2020-21	174076.30	-0.26
RBE 2021-22	202495.89	16.33

Chart II - 9 : Total Revenue Receipts - Growth rate (in %) - pre and post GST



2.26. Since the introduction of GST, the State Government has had few avenues to compensate for the losses as it has ceded the space to levy its own taxes. To add to these, the Covid-19 pandemic has disrupted the financial position of the State to a significant extent on the expenditure side as well. It is all the more reason for the Local Bodies to augment their own resources to reduce their dependence on the increasingly tight fiscal space in State budget.

2.27. Grants-in-aid from GOI is projected to grow at 10% while the share in Central taxes has been shown to increase at 12%. As these growth projections seem realistic, the Commission concurs with the projections of the State Government. While making its recommendations the Commission has also considered the possibility, however remote, of reduction in State's Own Tax Revenue.

SHARE IN CENTRAL TAXES

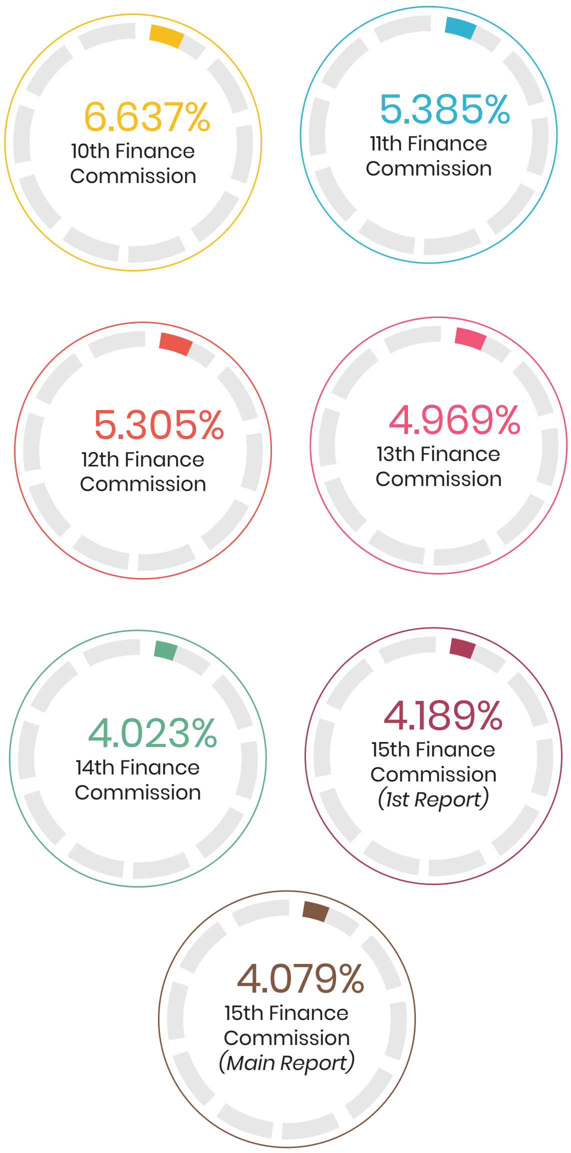
2.28. Tamil Nadu's share in central taxes has dropped sharply from a peak of 1.70% of GSDP in 2012-13 to 1.43% in 2019-20, and further still to only 1.28% in 2020-21.

Table II - 8 : Share in Central Taxes for Tamil Nadu

Year	Share in Central Taxes (₹in crore)	Share in Central Taxes As a % of GSDP
2012-13	14,519.69	1.70
2013-14	15,852.76	1.64
2014-15	16,824.03	1.57
2015-16	20,353.86	1.73
2016-17	24,537.76	1.88
2017-18	27,099.70	1.85
2018-19	30,638.77	1.88
2019-20	26,392.41	1.43
2020-21	24,924.52	1.28

2.29. The pattern in devolution to Local Bodies from the Union Government as per the recommendations of the CFCs has a significant impact on the State's finances. Tamil Nadu's share of the divisible pool of Union taxes has declined in successive Finance Commission periods. This share declined from 6.637% during the 10th Finance Commission period when the global sharing system was introduced, to 4.023% in the 14th Finance Commission period. The 15th CFC has reduced the vertical devolution to States from 42% to 41% but has marginally increased the horizontal inter-se share of Tamil Nadu from 4.023% to 4.189% in 2020-21 and 4.079% from 2021-22 onwards.

Chart II - 10 : Finance Commissions: Share in Central Taxes



2.30. The switch to using the 2011 Census population (instead of the 1971 population) by both the 14th and 15th Finance Commissions has adversely affected Tamil Nadu and other States which excelled at population management in the national interest. The increased weightage for the area criteria and the introduction of forest cover criteria also affected Tamil Nadu. Though Tamil Nadu has a 6.124% share of population and is one of the higher income states, it receives a much lower share in the divisible pool of taxes.

2.31. The increasing proportion of cesses and surcharges levied by the Government of India which are not sharable with the States is a serious source of concern. The proportion of cesses and surcharges has gone up from 10.4% in 2011-12 to 20.2% in the Revised Estimates for 2019-20. These cesses and surcharges are not shareable with the States.

2.32. Further, the Union Government releases the grant in two half yearly installments in the months of July and January on receipt of the utilisation certificate for the previous half-yearly duly countersigned by the Secretary, Finance of the State Government. However, this process has not been followed seamlessly. For instance, during the 14th FC award period, the performance grant for the year 2017-18 was not released despite the utilization certificate furnished by the State for the year 2016-17. It is also seen that the Union Government has released the grant for the year 2017-18 for some States and not to others. Despite being reminded frequently in various forums by the State Government, the Government of India is yet to accede to this request.

2.33. The 15th FC has recommended that Urban Local Bodies to be eligible for grants have to fulfil the entry level additional mandatory conditions including fixation and operationalisation of minimum floor rate for Property Tax in 2021-22 by the State, consistent improvement in the collection of Property Tax in tandem with the growth rate of State's GSDP and timely placing of audited accounts in the public domain. The condition of notifying the floor rates of Property Tax in 2021-22 will apply for eligibility of CFC grants from 2022-23.

2.34. Tamil Nadu's share in Central Taxes is estimated at ₹27,148.31 crore in Revised Budget Estimate 2021-22, which is based on the estimates in 2021-22. The cumulative share in Central Taxes for the Commission's award period have been estimated as ₹1,93,165.36 crore.

NON-TAX REVENUE

2.35. Non -tax revenue includes interest receipts, receipts from user charges and fees related to urban development, mines and minerals and industries. Farm forest receipts, lease, rents, royalty and seigniorage fees from certain minor minerals are shared with Local Bodies. The State's Own Non-Tax Revenue as a percentage of GSDP touched a high of 1.39% in 2008-09. Since 2010-11, this revenue as a percentage of GSDP has generally remained below 0.8%, except in 2013-14 and 2018-19. This is a source of revenue which has a lot of scope for improvement in the State.

Table II - 9: State's Own Non-Tax Revenue as a % of GSDP

Year	Non Tax Revenue	As a % of GSDP
2012-13	6,554.26	0.77
2013-14	9,343.27	0.96
2014-15	8,350.6	0.78
2015-16	8,918.31	0.76
2016-17	9,913.76	0.76
2017-18	10,764.00	0.73
2018-19	14,200.02	0.87
2019-20	12,887.85	0.70
2020-21	10,421.85	0.54

GRANTS-IN-AID

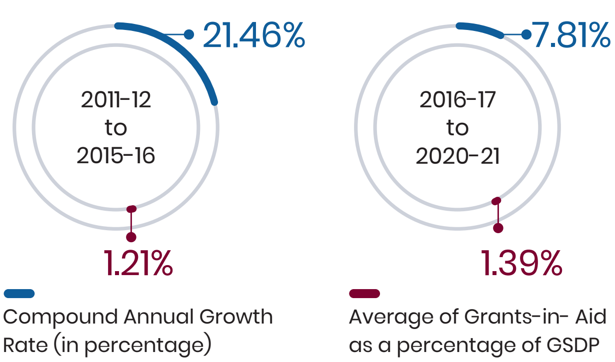
2.36. The growing proportion of grants to the overall revenue receipts in the period since 2014-15 indicates a higher dependence of the State Government on discretionary flows from the Government of India. Grants, even those recommended by the Finance Commission, are not released in time for a variety of reasons by the Union Government.

2.37. In 2019-20 and 2020-21, grants in aid exceeded the share in central taxes that Tamil Nadu received. It is to be noted that GST Compensation payments by Government of India from the GST Compensation Cess Fund are accounted as Grants in aid. Hence, even as non-discretionary flows are reduced, discretionary flows have increased, leading to uncertainty as such grants can be unilaterally changed by the Union Government.

2.38. The Grants-in aid from the GoI have been estimated at ₹34,564.42 crore in the Revised Budget Estimate 2021-22 by considering the existing trends and provisions in the Union Budget 2021-22. The cumulative Grants-in-aid from the GoI for the Commission's award period have been estimated as ₹2,32,121.16 crore.

2.39. The chart below shows the average of Grants-in-aid as a percentage of GSDP and CAGR of the State over the years:

Chart II - 11 : Percentage of Grants-in-aid to GSDP and Compound Annual Growth Rate[3]



TRENDS IN EXPENDITURE

2.40. Revenue expenditure constitutes the largest component of the State's overall expenditure. Committed expenditure such as Salaries & Wages, Pensions and Interest payments form nearly 50% of the Revenue expenditure. The total revenue expenditure has ranged between 11.16% and 13.00% of GSDP over the past 15 years.

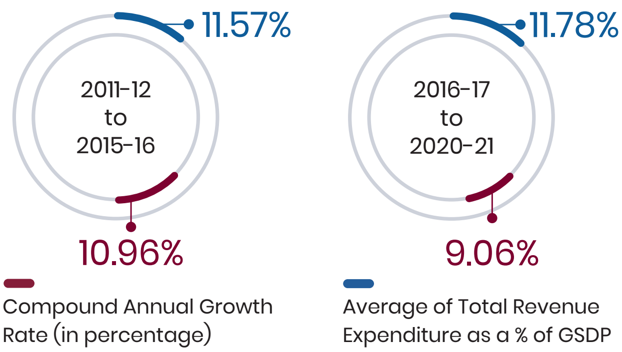
2.41. The expenditure has increased steadily over the last ten years. With the State witnessing a rapidly rising revenue deficit, capital expenditure has suffered. Capital expenditure as a proportion of GSDP has been continuously below 3% and reducing. In a way, revenue expenditure is eating into fiscal space for capital expenditure as asset creation has been drastically constrained. The State has explored various externally aided projects for asset creation in Local Bodies. Even adjusting for this, capital expenditure is low. The Local Bodies, especially ULBs, have not sufficiently explored possibilities of Public Private Partnerships (PPPs) even though the PPP rules were adopted by the State in 2012. Thus, the State has been unable to mobilise resources within or outside budgetary allocation. This has created a huge burden on the State's Own Tax Revenue as the sole source of funding expenditure.

2.42. Salaries and pension commitments form a substantial part of the revenue expenditure. The Seventh Pay Commission's recommendations were adopted in the State Government with some minor modifications resulting in significant jump in salary expenditure.

2.43. In addition, introduction of several subsidy schemes and increasing burden of interest payments have increased expenditure. While welfare schemes have a wider justification in overall development of the State, the budgetary implications of the subsidies are undeniable.

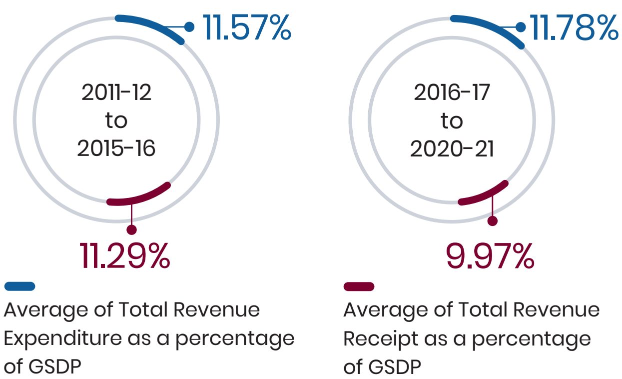
2.44. Introduction of new schemes, increase in costs and coverage of the schemes, and taking over expenditure liabilities of State PSUs and statutory boards have together strained the available resources. Within the fiscal space available, the revenue expenditure schemes dominated significantly over asset creation schemes. In many cases the commitments have built up over a period and liabilities have increased. The full implication of the expenditure commitment had not been projected.

Chart II - 12 : Revenue Expenditure as % of GSDP[4]



2.45. A comparative chart shows Average of Total Revenue Expenditure with that of Total Revenue Receipts as a percentage of GSDP of the State over the years:

Chart II - 13 : Revenue Expenditure vis-à-vis Revenue Receipts



2.46. It is clear that despite marginal reduction of revenue expenditure as a percentage of GSDP, the rate of reduction of expenditure (decadal reduction from 12.06% to 11.78%) has not been able to compensate for the reduction of revenue receipts (decadal reduction from 12.31% to 9.97% of GSDP). This widening gap between receipts and expenditure has led to the worsening Revenue Deficit of the State.

2.47. Another important point to note is that while the revenue expenditure has crowded out capital expenditure, even within revenue expenditure, allocation for asset maintenance has been stagnant or has grown very slowly. In real value terms the allocation has not improved at all.

2.48. It is seen that the State Government spends more on social services due to the pandemic Covid-19. Expenditure in General Services has increased from 2014-15 to 2018-19 whereas it has been reduced by two-fold during the financial year 2019-20. The Commission finds that the growth rate adopted by the State Government in the revenue expenditure projections for the forecast period are reasonable and can be adopted as such.

2.49. Interest payment and servicing of debt has increased from the financial year 2017-18 i.e., post implementation of GST. Interest rates have drastically reduced in the past two years. However, the payments during the award period would not benefit from such reduction in rates as most of the liabilities are from loans taken during the high interest regime between 2012-2017.

2.50. The interest payment to Total Revenue Receipts has been assumed to be in the ratio of 14.50%. The pension and other retirement benefits are expected to grow at 12.85%. Capital Receipts are assumed to grow at about 14.20% while the capital outlay at about 15%. Although the Commission hopes that with better growth in the economy and fiscal reforms the revenue expenditure can be curtailed and allocation for capital expenditure can be increased. To that extent the above projections are qualified. Considering the reasonableness in the projections made by the State Government, the Commission decided to adopt the projections.

STATE PUBLIC SECTOR UNDERTAKINGS

2.51. State PSUs are set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low & stable prices besides meeting certain socio-economic obligations.

2.52. It was also envisaged that these PSUs would generate further surpluses apart from spearheading economic development in the State and would yield some minimum rate of return on the investment made in them.

2.53. Over the past years, the financial position of SPSUs has deteriorated, and currently many of the State PSUs cannot borrow without a guarantee from the State Government. State PSUs in power and transportation are making heavy losses due to a combination of factors such as high level of indebtedness and limitations in ability to charge. Hence, in order to improve the efficiency of PSUs and make profits, detailed quantitative analytical risk assessment of PSUs based on indicators such as profitability, liquidity, solvency and financial performance, to indicate the likelihood of materialisation of risk of contingent liabilities needs to be undertaken. Additionally, an assessment of the role of State PSUs vs. other market instruments (e.g., policy, regulation) needs to be carried out, to evaluate the most cost-effective ways for delivery of key services.

2.54. The profit/loss position of major State PSUs is shown below:

Table II - 10 : Financial Performance Details of Major State PSUs

Amount (In ₹ crore)

Name of the Board / Corporation	Turnover	Surplus/ Deficit
	2017-18	2017-18
Chennai Metropolitan Water Supply and Sewerage Board	772.96	-294.93
Tamil Nadu Pollution Control Board	238.25	83.66
Chennai Metropolitan Development Authority	241.12	175.10
Tamil Nadu Water Supply and Drainage Board	683.46	-567.91
Tamil Nadu Urban Habitat Development Board	107.31	0.67
Tamil Nadu Housing Board	1203.19	-0.91

2.55. The Fifteenth CFC has studied and indicated that the budgetary support to State PSUs of Tamil Nadu has increased from ₹13,918 crore in 2012-13 to ₹46,127 crore in 2016-17. It has recommended that the State needs to closely monitor the State PSUs to avoid contingent liabilities that impose additional fiscal burden on the State. It has also stated that a time-bound programme of restructuring State PSUs should be adopted soon to remove the major hurdles in their performance. These have also been reiterated in the White Paper on State Finances released recently by the Government of Tamil Nadu.

2.56. The State Government has issued various guidelines for observance of economy in expenditure by the State PSUs. The major budgetary support sanctioned by Government of Tamil Nadu has been to Power Sector PSUs as per Government of India scheme viz., Ujwal Discom Assurance Yojana (UDAY) for a financial restructuring of DISCOMS. Under this scheme, the State

Government had to take on 75% of the debt (₹30,420 crore) of the DISCOM and convert/write off 25% of the debt of DISCOMs owned by State Government by releasing grants in aid and with a commitment for taking over progressively the losses of the DISCOMs, in proportion of 5% of the losses in 2016-17, 10% in 2017-18, 25% in 2018-19, 50% in 2019-20 and so on. Accordingly, the State Government has released grants to Tamil Nadu Generation and Distribution Corporation Limited.

2.57. Now, under the Atmanirbhar Scheme, loans were extended to TANGEDCO by REC and PFC to the extent of ₹30,000 crore under some stringent conditions. One of the major conditions is that the State Government should finance 100% losses for the year 2021-22 onwards. This would greatly impact the already constrained fiscal space. The subsidy burden along with additional loss financing would be more than ₹20,000 crore per annum.

2.58.While sanctioning budgetary support to State PSUs, the Government normally used to analyze the issues on a case-to-case basis and also used to release the required funds on need basis. The major borrowing entities are in the process of swapping their high-cost borrowings to low-cost borrowings duly availing Government guarantee for such loans based on the instructions issued by the Government.

EFFORTS TO IMPROVE FISCAL SITUATION

2.59.Discussions and meetings have been held with the Economic Advisory Council to the Chief Minister and inputs sought on measures to be taken for fiscal consolidation. The Government is acting upon the recommendations and suggestions made during these meetings.

2.60.The 15[th]th FC itself has acknowledged that the State has taken some steps to increase the Own Tax Revenue by increasing the excise duty and levied special fee on liquor. Further, the VAT/GST on petroleum products was increased in March 2017. After a decade, the State has increased the water tariff and sewerage charges, building an annual increase of 5% for domestic and 10% for commercial consumers into the tariff structure. The State Government is also pursuing expeditious action to improve its revenue receipts by plugging the leakages. In order to ascertain the reasons behind the deterioration in fiscal indicators, the State Government has come up with a white paper on Tamil Nadu Government's finances which would help the State to bring its fiscal indicators back on track.

2.61.Revenue Expenditure is the largest component of State's overall expenditure. Cost effectiveness of alternative means of delivering the intended financial assistance to stakeholders could be explored, without compromising on the delivery of essential commodities and services to vulnerable segments of the population.

2.62.Tamil Nadu has lower tax rates than many States. Certain taxes like Motor Vehicle Tax which have not been revised for many years need to be revised. State's Own Non-Tax Revenue (SONTR) is a source of revenue which remains under-utilised in our State both non levy and leakage. New sources of revenue in terms of royalty on mines and minerals, interest receipts and other various fees need to be identified.

2.63. The Ways and Means Advances released to different departments / HOD's need to be recovered scrupulously. Delay in the repayment of loan may be levied severe penal interest to ensure that payment is received in time as scheduled.

CONCLUSION

2.64. The State is recovering from major economic challenges and striving for meeting the increasing expenditure commitments with a tight purse. The Commission has recognised the State's constraints while making its recommendations in the report.

2.65. While the own tax revenue potential through increase in tax rates or introducing new taxes has been severely restricted for the State Government, such is not the case for the Local Bodies. Hence, going forward, the share of Local Bodies' own funds in their overall revenue receipts has to increase.


ஊராட்சி ஒன்றிய அலுவலகம்,
ஆனைமலை


மாவட்ட ஊராட்சி அலுவலகம்
திருவள்ளூர்


மதுரை கிழக்கு ஊராட்சி

III Rural Local Bodies' Finances

தொட்டனைத் தூறும் மணற்கேணி மாந்தர்க்குக்
கற்றனைத் தூறும் அறிவு.

- குறள் 396

In sandy soil, when deep you delve, you reach the springs below;
The more you learn, the freer streams of wisdom flow

INTRODUCTION

3.1. Based on the 73rd Constitutional Amendment Act, the Government of Tamil Nadu enacted Tamil Nadu Panchayats Act,1994,(Tamil Nadu Act 21 of 1994).The three tier structure of Panchayat Raj Institutions viz., Village Panchayats (VPs),Panchayat Unions or Block Panchayats (BPs) and District Panchayats (DPs) ensures the implementation and execution of basic functions envisaged under the Act.

3.2. The Commission collected data from all the Rural Local Bodies in the State through an online platform. The data collection process was a huge task and required continuous interactions with the District level officials and the Local Bodies. The account keeping capacity at the local body level, especially at the Village Panchayat level is very limited. Although the Commission cross checked with other data sources such as Local Fund Audit Department and data available at the Directorate of Rural Development, anomalies in the data remained and precise correction of data retrospectively would require a separate exercise. The Commission has tried to adjust it for outliers and distortions.

3.3. The finances of Rural Local Bodies show a wide variation. The expenditure commitments and revenue sources varied across the State and exceptions were found for every general trend. Hence, the Commission has focused on analysis of gross numbers.

3.4. A summary of the profile of RLBs in Tamil Nadu is provided below:

Table III -1: Demographic Profile

36	District Panchayats
388	Panchayat Unions
12,525	Village Panchayats
79,395	Habitations
6	Average Habitations per Panchayat
1,04,149.61	Rural Geographical Area (in sq. km)
8.32	Average area per panchayat (in sq. km)
4,04,86,223	Rural Population (as per 2011 Census)
2,01,73,040	Women Population (as per 2011 Census)
389	Population Density per sq. km
993	Sex Ratio
99,69,580 (25%)	SC Population (as per 2011 Census)
6,69,086 (7%)	ST Population (as per 2011 Census)

RECEIPTS AND EXPENDITURE OF RURAL LOCAL BODIES

3.5. Own Tax Revenue, Non-tax revenue, State Finance Commission devolution, Central Finance Commission grants and Assigned / Pooled Assigned Revenue are the main sources of revenue of rural local bodies. The expenditure of RLBs is classified as administrative / Revenue Expenditure and Capital Expenditure

3.6. Table III-2 in Annexure depicts the receipts and expenditure of the Rural Local Bodies from the year 2015-16 to 2019-20. SFC devolution is the single largest source of the receipts of Rural Local Bodies which is 59.7% of the Total Receipts. Receipts from the Central Finance Commission (16.1%) is the second major contributor of RLBs receipts. Tax Revenue contributes only 3.7% of total receipts whereas non-tax sources added 5.6% of the Total Receipts. Assigned Pooled Revenue constitutes 8.0% and revenue from other sources is 6.9% during the period under review.

3.7. Percentage of SFC devolution to Own Receipts decreased from 61.7% in the year 2018-19 to 53.8% during 2019-20. CFC grants increased from 17.5% to 19.3% in the same period.

3.8. Expenditure on salaries increased from 16% of Total Expenditure in 2015-16 to over 21% in 2019-20. Consequently, Capital Expenditure has declined from ~ 41% to under 39% in the same period. Similarly, O&M expenditure has also declined, and these trends are a source of concern.

Rural Local Bodies- Tamil Nadu

Table III-3: Key Financial Indicators on Per Capita Basis (2011 population) (in ₹)

Sl. No.	Head	2015-16	2016-17	2017-18	2018-19	2019-20
A	Receipts					
A (A1+A2)	Total Receipts	1848	2041	1888	2314	2289
A1	Revenue Receipt	1703	1905	1762	2157	2141
A1.1	Own Tax	70	73	82	82	79
A1.2	Assigned / Pooled Assigned Revenue	176	164	126	101	260
A1.3	Non-Tax	115	95	101	144	128
A1.4	SFC devolution	1070	1206	1266	1427	1232
A1.5	CFC grants	272	367	187	404	441
A2	Others	145	136	126	157	149
B	Expenditure					
B	Total Expenditure	1126	988	804	1023	1333
B1	Salary	180	165	157	187	284
B2	Others	485	421	390	515	531
B3	Capital Expenditure	461	403	258	321	517

*excluding Central and State Government scheme grants and expenditure

Table III-4: Trends in Key Receipt and Expenditure Heads

S.No	Category	Average % contribution over past 5 years	Average annual growth over past 5 years
1	**Total receipts**		**6%**
a	Own tax	3.7%	3.2%
b	Assigned/ Pooled assigned revenue	8%	11.9%
c	Non-tax	5.6%	2.8%
d	SFC devolution	59.7%	3.8%
e	CFC Grants	16.1%	15.5%
f	Others	6.9%	0.7%
2	**Expenditure**		
a	Total expenditure		4.6%
b	Salary	18.4%	14.4%
c	Others (including O&M)	44.4%	2.4%
d	Capital Expenditure	37.2%	3%

Over the review period, salary expenditure has grown highest, with some of this growth at the cost of productive O&M expenditure.

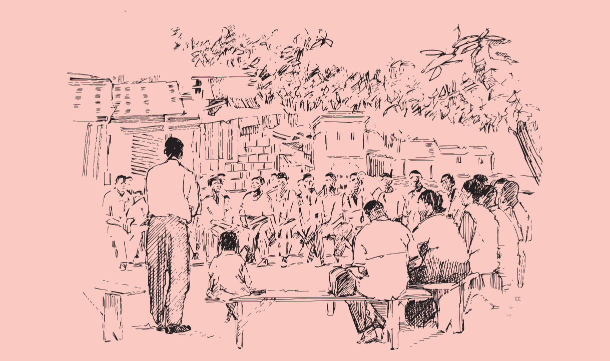
Own tax and non tax revenues of RLBs have shown sluggish growth over the review period.

3.9. It is seen from the table that the per capita total receipt showed a mixed trend. Per capita total receipts increased in absolute terms from ₹ 1847.7 in the year 2015-16 to ₹ 2289.2 during 2019-20. Per capita expenditure is within the per capita receipts throughout the five year period.

3.10. Percentage of total receipts to Gross State Domestic Product (GSDP) decreased marginally between 2018-19 to 2019-20 by 0.05% and the percentage of total expenditure to GSDP showed an increase by the same amount. Details are given in Table III-5 in Annexure.

3.11. It can also be seen that roughly 50% of increase in per capita expenditure is due to salaries alone.

VILLAGE PANCHAYATS



3.12. The Village Panchayat is the unit of local self government at the grass root level. In Tamil Nadu, there are 12,525 Village Panchayats. The total number of habitations in 12,525 Village Panchayats is 79,395. The number of habitations per district ranges from 314 in Perambalur district to 5109 in Salem District.

Functions

Mandatory Functions

3.13. Section 110 of the Tamil Nadu Panchayat Act 1994 mandates that it shall be the duty of the Village Panchayat to undertake the following activities in rural areas:-

- Construction, repair and maintenance of all village roads (other than those classified as Highways and Panchayat Union roads),all bridges, culverts and cause-ways.
- Street lights in built up areas.
- Construction of drains and disposal of drainage.
- Cleaning of streets and improvement of sanitary conditions through Solid Waste Management activities.
- Provision of public latrine.
- Provision of burial and cremation grounds.
- Supply of drinking water.
- Maintenance of community assets.
- Sinking and repairing of wells, the excavation, repair and maintenance of ponds.
- Other duties that the Government may by notification impose.

Discretionary Functions

3.14 Section 111 of Tamil Nadu Panchayats Act,1994 warrants Village Panchayats to carry out the following requirements, which are deemed to be discretionary functions of the Village Panchayats subject to the limits of its resources:

- Planting and perseveration of trees.
- Lighting of public roads and public places other than built-up areas.
- Opening and maintenance of public markets.
- Control of fairs and festivals.
- Opening and maintenance of cart stands and cattle sheds, public slaughter houses and reading rooms.
- Formation and maintenance of playgrounds, parks and gyms etc.
- The Gram Sabha approves the Village Development Plan, Annual Budget, Audit Report, lists of beneficiaries under various schemes and also reviews various schemes implemented by different departments. Gram Sabhas also act as Social Audit fora.

Staff Position in VPs

3.15. The post of Panchayat Secretary (PS) has been created for all the 12,525 Village Panchayats to look after all matters relating to Village Panchayat administration. Total number of posts sanctioned for VPs are 79,348 which includes PSs, Over Head Tank Operators and Thooimai Paniyalargal. The details are shown in Table III – 6 .

3.16. Panchayat Secretaries in Village Panchayats are responsible for the management of the Village Panchayat funds. Panchayat Secretaries in the Village Panchayats are appointed at the discretion of the Village Panchayats presidents. On an average, a Village Panchayat received approximately 2 crores during the review period of five years which is being handled by the Panchayat Secretaries.

3.17. The Panchayat Secretary's responsibilities regarding Gram Sabha meetings include finalising agenda, issuing notice, preparing and presenting action taken report on past resolutions, notes and agenda items, facilitating logistics, logging attendance and minutes, recording voting on resolutions, coordinating with the Village Panchayat President and ward members on implementation of resolutions, and sending reports on GS meeting to relevant officials.

3.18. At present 11 Accounts are being maintained at the Village Panchayat level but up to 31.03.2020 only 10 accounts were maintained. These include the Village Panchayat General Fund, payments to utilities, scheme accounts, separate accounts for MGNREGS, housing schemes, Chief Minister's Solar Powered Greenhouse Scheme, staff salaries, SWM, CFC Grant and Jal Jeevan Mission. The details of receipts and expenditures and mode of operation of the ten accounts are captured in Table III - 7 in the Annexure.

3.19. The capacity of the Panchayat Secretaries and other staff is very limited. A massive exercise of training and capacity building needs to be undertaken including hands-on experience. It is also essential that the Panchayat Secretaries, who handle huge amounts of money and participate in critical decision making at the village level have basic eligibility before qualifying for the job.

3.20. Hence, the Commission recommends that a qualifying entrance test should be made mandatory for the post of panchayat secretary. Any candidate applying for the post should posses the qualifying certificate. However, Certificate of passing in such test would not confer the right to appointment automatically.

3.21. This would ensure that the candidates would train themselves on the basic information and skills before applying for the job.

Table III-6: Details of Posts Sanctioned in Village Panchayats

S.No	Category	No. of Post Sanctioned	Staff in Position	No. of vacant posts (vacancy %)
1	Panchayat Secretary (PS)	12,525	11,835	690 (5.5%)
2	OHT Operator	40,419	36,103	4,316 (10.7%)
3	Thooimai Paniyalargal	26,404	20,778	5,626 (21.3%)
Total		79,348	68,716	10,632 (13.4%)

Receipts

3.22. The overall revenue receipts and expenditure is summarized in the table III 8 in annexure, along with average numbers per VP. Detailed account wise receipt and expenditure figures are available in tables III – 11 to III – 14 in the Annexure. While there have been fluctuations on both receipts and expenses over the period, on an average the revenue deficit of VPs has largely been eliminated.

3.23. While analysing the year wise and account wise receipts and expenditure, it is observed that the Account No.III dealing with MGNREG Scheme shows a consistent deficit from the year 2015 – 16 due to the fact that the wages under this scheme are not transferred to Village Panchayat account but transferred directly to the beneficiaries account. As a result, the entry in Account No. III should be discarded. Similarly, Account No.VI (CMSPGHS) also shows deficit during 2015-16 to 2017-18 and surplus during 2018-19 and 2019-20. There were deficits found in Account No.VII, salary account of the Village Panchayats throughout the period under review.

Own Tax Revenue

3.24. Own tax revenue of a Village Panchayat consists of House Tax, Profession Tax and Advertisement taxes. Own Tax Revenues as a percentage of own revenues (own tax + assigned and shared + non tax) decreased from 19.4% in 2015-16 to 16.9% in 2019-20.

Chart III -8: Revenue Receipts and Expenditure of Village Panchayats

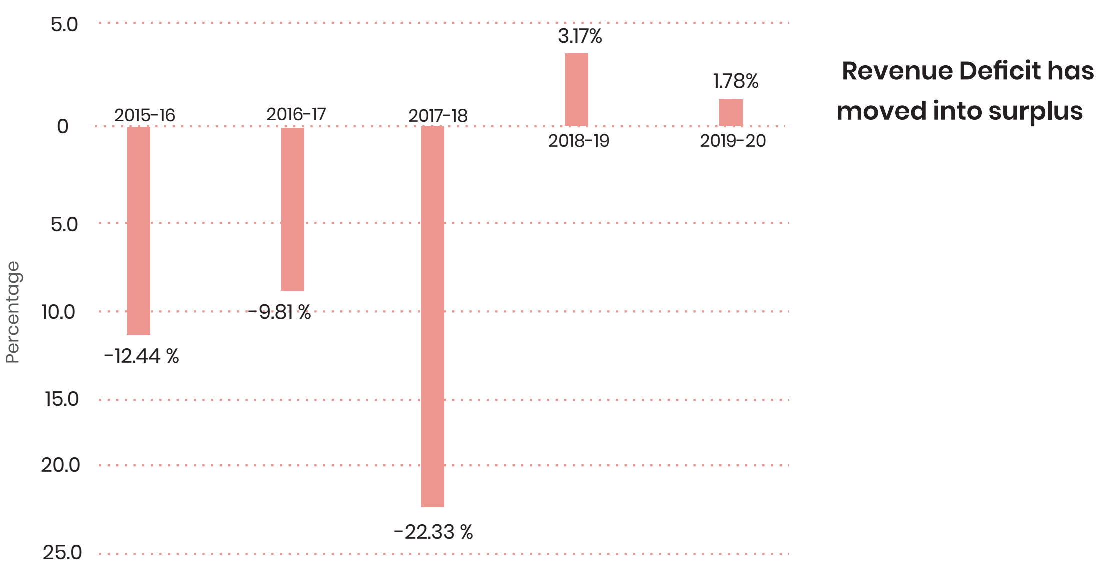


Table III-10: Own Tax and Non Tax

S.No	Category	Average annual growth rate over past 5 years	Share of total Own Revenues
1	House tax	1.9%	38.76%
2	Profession tax	7.44%	17.31%
3	Advertisement tax	-7.54%	0.18%
4	Building plan and layout approval charges	26.74%	18.89%
5	Water charges	8.59%	13.6%
6	Library Cess	2.5%	3.78%
7	Trade license fees	1.61%	2.28%
8	Other rents/ leases/ fees	1.85%	5.2%

Table III-9: Major Own Tax Revenue of Village Panchayats (₹in Lakh)

Sl. No.	Year	House Tax		Profession Tax		Advertisement Tax		Total	
		Total	per V.P	Total	per V.P	Total	per V.P	Total	per V.P
1	2015-16	19724	1.6	8399	0.7	116	0.009	28239	2.3
2	2016-17	20264	1.6	9039	0.7	108	0.009	29410	2.4
3	2017-18	24097	1.9	8968	0.7	114	0.009	33178	2.7
4	2018-19	22396	1.8	10774	0.9	70	0.006	33240	2.7
5	2019-20	21150	1.7	10905	0.9	81	0.007	32137	2.6
Total		107631		48083		489		156204	2.6

House Tax / Property Tax

3.25. Collection of House Tax / Property Tax registered a growth of 7% from 2015-16 to 2019-20. The percentage share of this component to Own Tax Revenue ranges from 66% to 73% during the review period of 2015-16 to 2019-20. During 2020-21, House Tax collection decreased due to the COVID 19 pandemic. Overall average for the five year period was ₹2.6 lakh per Village Panchayat.

3.26. Section 172 of Tamil Nadu Panchayats Act, 1994 has empowered the Village Panchayats to levy House Tax / Property Tax. Every approved building constructed in the Village Panchayat area is levied with House Tax / Property Tax by the concerned Village Panchayat. The guidelines for assessment of House Tax are given in G.O. (Ms.) No. 255, Rural Development & Panchayat Raj Department, dated 13.12.1999.

Basis for Assessment of House Tax

3.27. The Tamil Nadu Panchayats Act, 1994 indicates that the House Tax can be levied at the rate and on the basis which were in force prior to the commencement of the 1994 Act or on the classified plinth area at the rate specified in Schedule-I of the Act. Prior to the Tamil Nadu Panchayats Act 1994, the Panchayats were given option to levy on the basis of

i. Capital Value or

ii. Annual Rental Value or

iii. Plinth Area Basis

3.28. The minimum and maximum rates were suggested by the Tamil Nadu Panchayat Act, 1958. The provision of Tamil Nadu Panchayats Act, 1994 indicates that a Village Panchayat would have the option to continue the basis adopted at the commencement of the 1994 Act or switch over to the rate fixed on plinth area basis. Rule 3 of the Tamil Nadu Village Panchayats (Assessment and Collection of Taxes) Rules 1999, empowers the executive authority to determine the capital value of houses and thereby House Tax.

3.29. Self-Financing Educational Institutions have been brought under House Tax net vide G.O.(Ms).No. 38, RD & PR (PR-1) Department, dated: 05.03.2008. They are being assessed on a plinth area basis. For new constructions, House Tax is being levied only on plinth area basis.

3.30. In practice, the assessment is fixed by the Village Panchayat Presidents without any clear guidelines regarding land value, value of building, area of houses, type of houses, age of houses etc. About 55% of houses are assessed on capital value basis, and the rest, on plinth area basis (details in Table III – 15 in Annexure). When compared with the Fifth SFC review period, houses assessed by capital value method have increased by 25% during the review period of 2015-16 to 2019-20.

3.31. Therefore, to asses House Tax collection and to settle the issues on the tax assessment, Tribunals and arbitral authorities need to be constituted at District level.

3.32. The Fourth SFC recommended that in respect of houses with plinth area of more than 200 sq. ft. the existing rates be increased by 25% under plinth area based taxation and in respect of assessment on capital value basis, the existing rates be increased by 25% subject to minimum of ₹ 40 per annum during the next revision. This is yet to be implemented.

3.33. The Fifth SFC also reiterated the recommendation of the Fourth SFC that the quinquennial revision of House Tax in respect of Village Panchayats be brought to a common date i.e., 1st April 2013 through appropriate amendments to the Act and Rules so as to ensure that Village Panchayats do not postpone or not revise House Tax.

3.34. Apart from the above, the Fifth SFC also recommended the following for enhancing House Tax collection.

i. GPS, GIS techniques are to be used for tax assessment.

ii. Hand billing machines should be used for House Tax collection.

iii. Slab system should be introduced for various types of houses to have transparent and non discretionary levy.

iv. Unassessed buildings should be brought under tax net by comparing with the list of electricity service connections and Commercial Taxes registration list.

v. The minimum rate of House Tax may be revised to ₹100 per annum.

3.35. As recommended by the Fifth SFC, an online portal has been developed by NIC, Chennai to assess and collect tax. This portal has an inbuilt mechanism for GPS and GIS integration, and handheld billing machines are also proposed to be used once the online portal comes into force Hand Billing machines were also proposed to be used once the online system of tax collection comes into force.

3.36. As most of the individual benefit schemes for construction of houses and toilet are being implemented in rural areas using GIS tags, there is already enough capacity at the grass root level to expand the scope of this exercise beyond beneficiary oriented schemes to encompass all the tax paying properties.

3.37. Unassessed buildings are being brought under the tax net. During the last five years, 6.25 lakh buildings have been brought under the tax net. Further, caution has been taken in assessing the buildings, i.e., the buildings encroaching on water bodies, Panchayat porombokes, temple lands etc. are not assessed. The proposal to revise the minimum rate of House Tax as ₹100 is yet to be sent to the Government.

3.38. The Tamil Nadu Panchayats Act, 1994 mentions about the House Tax in detail and those pertaining to Property Tax are also listed under the title house tax(Chapter IX - Taxation and Finance, Section 171, Section 172, SCHEDULE – I See Section 172(1)]) and there is no separate title called 'Property Tax' . This has led to an impression that only houses are taxed and those including commercial and government buildings are exempted from the tax net. The same confusion does not exist in the Tamil Nadu Municipalities Act 1994 as they have chosen the title Property Tax.

3.39. To avoid the confusion and bring in clarity, the title 'House Tax' in the Tamil Nadu Panchayat Raj Act, 1994 needs to be changed to the generic title 'property tax.

3.40. A study commissioned by this SFC has suggested the need for uniformity in levying House Tax as their sample field study revealed different methods and different rates across Village Panchayats. It recommends a thorough reform of the House Tax system as it may have a significant impact on the tax and fee regimes of the VPs. This involves issuing of house number and receipt to all the houses in each village once in every year to ensure that all new houses are brought into the tax net, and moving all houses that have been extended or rebuilt to their appropriate tax brackets. Addressing the issue of underpayment also can provide a substantial boost to revenue from house taxes. Meanwhile, caution should be exercised to keep in mind the cultural and economic settings which may be heterogeneous in nature while attempting to provide a uniformity to the tax rate.

3.41. Several studies show that panchayats in Tamil Nadu have the potential to significantly raise resources and finance their operations thereby decreasing their reliance on funds from the State. Nagarajan et al. (2014) show that in Tamil Nadu panchayats tax revenue makes up only between 0.15% and 0.2% of total village income, indicating that there is a high potential to increase this number and thus augment tax-generated income. Some scholars feel that local institutions can only be said to enjoy fiscal autonomy if they can raise on their own at least 50% of their revenue (Rani, 1999).

3.42. A general contention against levying and collecting taxes is that the tax base is non-existent: people are not in a position to pay taxes due to poor resources. This has been challenged by Sahasranaman (2012) and Nagarajan et al. (2014) who argue that "it is not the lack of tax bases that hold revenue-raising back, but lack of willingness to tax." by tax planners/authorities at the grass root level.

3.43. Along similar lines, the recent NIPFP 2019 report finds that local governments' income efforts have been inadequate, and they continue to rely on higher levels of government for funding, and acting as agents executing different programs of both the State and Union administrations.

3.44. As per DRD&PR in Village Panchayats quinquennial revision is not effected. Given the high potential of House Tax, this Commission feels that enhancing house tax is unavoidable to augment Village Panchayats revenue through improved House Tax Collection in Rural Local bodies which is the major source of revenue. This would create awareness and generate demand from tax payers for better amenities.

3.45. To enhance the revenue of the RLBs, the House Tax can be linked with cost of service such as streetlight maintenance and regular water supply. Some of the expenditure for water charges and street light maintenance should be met out from the House Tax collected by the Local Bodies. Residents should be sensitised that the prompt tax payment is linked with better service delivery.

3.46. The Fourth and The Fifth SFCs recommended that windmills, and 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. It is learnt from DRD&PR that the wind mills, solar power plants and cell phone tower erected buildings are levied at the rate of commercial buildings but there are various litigations.

3.47. However, collection of tax has not improved as expected after the implementation of the above recommendation. ₹0.27 Crore was collected as property tax during 2015-16 on buildings in which cell phone towers are erected decreased to ₹0.16 Crore in the year 2019-20. This recommendation should be reiterated since the full tax potential is not exploited in augmenting House Tax revenue.

Recommendations on House Tax / Property Tax

3.48. 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.

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

3.50. 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.

3.51. 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.

Table III-16: Minimum Tax Rates for Houses

S. No	Type of House	Tax to be levied bi-annually (in ₹)
1	Huts	min. 100
2	Tiled House	min. 200
3	RCC House	Min.300 based on plinth area @ ₹ 1 per sq. ft.

3.52. Till the amendment of House tax as Property Tax take place taxation for industrial/ commercial buildings should be as follows:

Table III-17: Minimum Tax Rates for Industrial and Commercial Buildings

S. No	Area	Industrial	commercial
1	Up to 5000 Sq. ft	₹1 per sq. ft of plinth area	₹1 per sq. ft of plinth area
2	Above 5000 Sq. ft	₹2 per sq. ft of plinth area	₹3 per sq. ft of plinth area

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

3.54.Sixth SFC recommends that un-assessed buildings should be brought under the tax net by comparing with the list of electricity service connections and Commercial Taxes registration list.

3.55.All buildings of Central Government organisations, educational institutions, State Government organisations should be brought under the Property Tax net. Necessary amendment may be brought in act/rules.

3.56.Sixth SFC recommends that, 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 purpose actual area on which cell phone towers are built should be taken in lieu of total area of the building.

3.57.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.

3.58.Online payment of tax should be enabled for all the Village Panchayats. Till the roll out 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

3.59.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.

3.60.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 /hand-held 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

3.61. House Tax Collection in Rural Local Bodies which is a major source of own revenue should be linked with cost of service delivery such as streetlight maintenance and regular water supply. A portion of the expenditure for water charges and street light maintenance should be met out from the House Tax collected by the Local Bodies. Residents should be sensitised that the prompt tax payment is linked with better service delivery.

Profession Tax

3.62. Article 276 read with Entry 60 in List II of Schedule VII of the Constitution empowers States to levy a tax on professions, trades, callings and employments. Village Panchayats are empowered to collect Profession Tax through an amendment to section 198 A of Tamil Nadu Panchayat Act 1994. The tax can also be levied on the employer to deduct from the salaries or wages of the employees and remit to the local body. The Profession Tax collected for the review period is given below:

Table III-18: Profession Tax Collection

(₹ In Crore)

Year	2015 -16	2016 -17	2017 -18	2018 -19	2019 -20
Profession Tax	84.0	90.4	89.7	107.7	109.1

3.63. Profession Tax collection improved from ₹84.0 crores to ₹109.1 crores with a growth of 30% and its share to Own Tax Revenue also increased from 30% to 34% during the five years period.

3.64. The Fifth SFC reiterated the recommendation of The Fourth SFC and 14th CFC regarding the upward revision of the ceiling limit as ₹2500/- per annum on Profession Tax and also recommended that the Government of Tamil Nadu should strongly take up the issue with the Government of India for necessary Constitutional amendments to increase the ceiling on Profession Tax and simplify the process of raising the limit in future as recommended by the 14th CFC.

3.65. As recommended by the Fifth SFC, the Government of India has been appraised regarding this issue and the same has also been raised in the South Zonal Council meeting. The amendment is yet to be implemented by the GOI.

3.66. Village Panchayats, which have been vested with the power to revise the Profession taxes, have been revising them periodically, with the latest revision in 2020. However, due to the Covid Pandemic, the Government vide G.O. (D) No.125 RD & PR Dept (PR-II) Department dated.08.06.2021 has provided holiday for 3 months to pay Profession Tax.

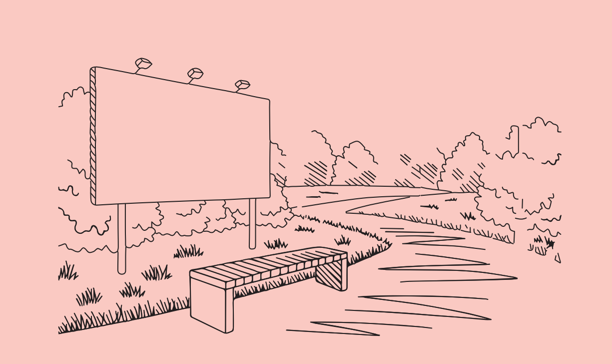
Recommendations on Profession Tax

3.67. 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 simplify the process of raising the limit in future as recommended by the 14th CFC and 5th SFC.

3.68. The State Government should create a comprehensive database of all Professions liable for payment of Profession Tax. It should co-ordinate with State and Central Government agencies like the Commercial Taxes Department, Labour and Employment Department, Employee Provident Fund Organisation and Profession self-regulating organisations to enable more effective collection of Profession Tax by providing list of staff / employees under their pay roll to the respective local bodies.

3.69. The State Government should create exclusive institutional structure at State level to manage the database and assist local bodies in collection of Profession Tax.

Advertisement Tax



3.70. As per the Tamil Nadu Panchayats (Licensing and Levy and Collection of Advertisements) Rule 2009 the power to levy and collect Advertisement Tax and fee was vested with the District Collector. In accordance with the Fourth SFC recommendation, necessary instructions have been issued by the DRD & PR to the District Collectors to periodically assess the number of advertisements and hoardings put up in rural areas and to credit the amount to concerned Village Panchayat's accounts.

3.71. The share of Advertisement Tax is less than 1% in total Own Tax Revenue. The collection has decreased from ₹1.16 crores to ₹0.81 crores in the corresponding period, which translates to a 30% reduction as presented in Table III-19 in the Annexure.

3.72. The unauthorised hoardings, advertisements and flagpoles have been removed in the rural areas by the departments during 2018. A massive exercise was undertaken in this regard in 2018. In addition, a litigation pending before the Hon'ble High Court of Madras has resulted in complete removal of unauthorised hoardings. Penalty to the tune of ₹28.56 Lakhs had been collected by the local bodies.

3.73. As recommended by The Fifth SFC, the Rural Local Bodies have not yet been instructed to collect all types of Advertisement including paintings / writings / poster / banners and flex boards.

3.74. In the Tamil Nadu Panchayats rules 2009, the license for Advertisement Tax is granted for 3 years and the collection of tax is by every half year.

Recommendations on Advertisement Tax

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

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

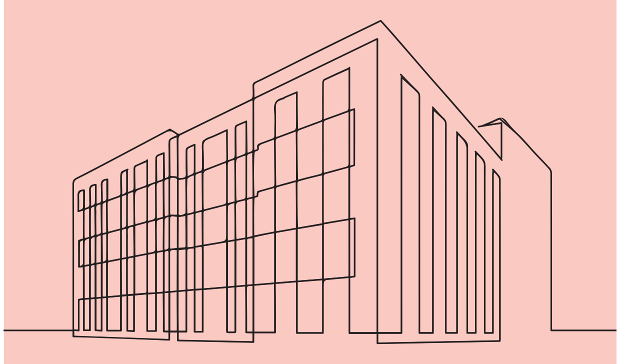
3.77. Licensing for shorter periods could be considered. The revision of tax should be done annually with an upward revision of at least 5% per year.

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

Non -Tax Revenue

3.79. Non tax revenues increased by 31% over the five year period, from ₹2162 Crore (2015-16) to 2846 Crore (2019-20). Of these, the major sources accounting for about 80% of the total non-tax revenues, along with their contribution to the total (average across five years from 2015-16 to 2019-20) are – Building plan and layout approval fees (34.5%), Water Charges (25.8%), Library Cess (7.2%), interest (5%), D&O Trade License Fees (4.3%) and market/shop rents (2.2%). The detailed composition of average non tax revenue per Village Panchayat is shown in Table III – 20 in Annexure.

Income from Assets



3.80. The 14th CFC recommended that the State Governments should take action to assign productive local assets to the panchayats and put in place enabling rules so that they can obtain the best returns while leasing or renting common resources.

3.81. As recommended by 14th CFC, a large number of productive local assets (Shandies, Fish ponds, Shops, Community Halls, Rental Buildings, Trees and Plantations, R.O. Plants, Bicycle and Motor cycle sheds etc.) including buildings for various purposes have been created in Village Panchayats under many Central and State schemes vide the Tamil Nadu Panchayats (Procedure for Conducting Public Auction of Leases and Sales in Panchayats) Rules 2001 and the Tamil Nadu Panchayats (Acquisition and Transfer of Immovable Property) Rules 2000.

3.82. The utilisation of these buildings for the original purpose has ceased for various reasons. Such assets can be put to better use which can gain some revenue for the Village Panchayats.

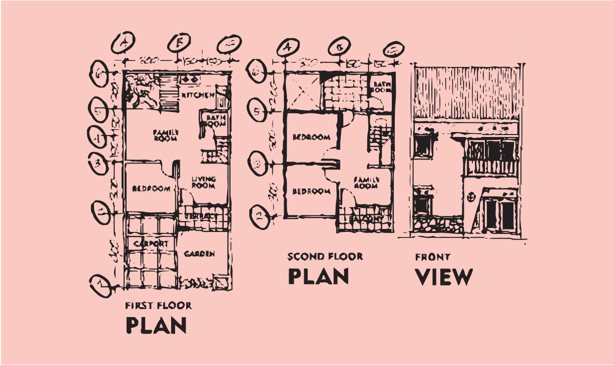
3.83. As per the The Fifth SFC recommendation an exercise was done to enumerate the assets lying vacant and those which are in use and in disuse. These assets include schools, anganwadi centres, public health centres, community halls and VP service centres. In 2019-20, it was found that out of 1,13,305 total assets, 3822 were in a non-functional condition requiring minor or major repairs. Details of these are provided in Table III – 21 and III-22 in the Annexure.

Recommendations

3.84. Properties already identified and not repaired / renovated should be repaired / renovated and rented out to augment RLBs revenue and it should be a continuous process.

3.85. 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.

Building Plan and Layout Approval Fee



3.86. As per the Tamil Nadu Panchayat Building Rules, 1997 the layout plan of a land is approved by the executive authority of Village Panchayats with the prior concurrence of the Director of Town and Country Planning.

3.87. The District Collector through Assistant Director (Panchayats) ensures timely grant of layout approval by the Village Panchayat Presidents. The Block Development Officer (Village Panchayats) ensures the receipt of layout approval fee and the registration by the Village Panchayat of Open Space Reservation (OSR) land handed over by the layout applicant and its recording in the Village Panchayat Assets Register.

3.88. In respect of residential buildings with plinth area less than 4000 sq. ft. and commercial buildings with plinth area up to 2000 Sq. ft., building plan approval is given by the Village Panchayat President. For plan approvals exceeding this limit, the Village Panchayat

President gives approval with the prior concurrence of DTCP.

3.89.Unlike Urban Local Bodies, Panchayat Raj Institutions do not have planning officials for technical evaluation of layout and building plan approval. There is a need for a separate wing at least at the district level to provide technical support and to monitor layout and building plan approval by Village Panchayats.

3.90. Regularisation of unapproved layouts can be a potential source for expanding House Tax collection. Delay in this regard is causing considerable revenue loss to local bodies, as they are unable to collect House Tax from persons residing in such layouts. Further, some expenditure on providing basic services is also getting incurred in such cases as people reside in unapproved layouts. Necessary regulatory and legal measures must also be taken to ensure that the problem of unapproved layouts does not recur.

3.91.The fees for building plan and layout approval were last revised in 18.08.1997. Revision of these rates is long overdue. They are currently levied at the rates sumarized in Table III-23.

3.92.The Building Plan and Layout Approval fee received is detailed below:

Table III-24: Building Layout Approval Fees Collection

(₹ In Crore)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Fees Collected	72	72	80	152	149	525

3.93.Regularisation of unapproved layouts caused the steep rise in the revenue of Building plan and Layout approval fee during 2018-19 and 2019-20.

Table III-23: Rates for Building Plan and Layout Approval

Sl. No.	Category	Nature of construction / actIllity	Maximum rates	Minimum rates
1	Building Plan approval	1. Building Area	₹ 100 per sq. metre or part thereof	₹ 5 per sq. metre or part thereof
		2.Construction of Well	₹ 100	₹ 25
		3. Compound Wall	₹ 100 (lump sum)	₹ 25 (lump sum)
		4. Inspection Fees	₹ 50	₹ 25
		5. Plan Copy for more than 3 copies	₹ 10 per additional copy	₹ 5 per additional copy
2	Lay-out approval		₹ 1000 per acre	₹ 500 per acre

Recommendations

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

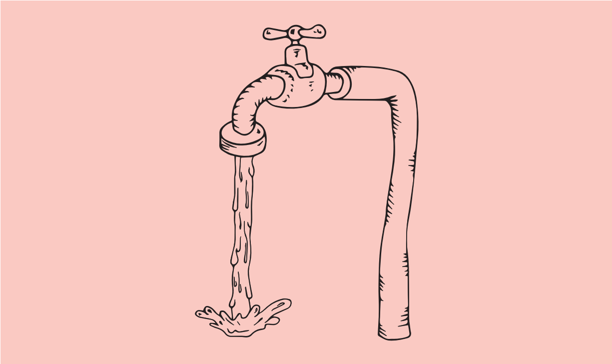
3.95.The Tamil Nadu Panchayat Buildings Rules, 1997 should be amended fixing time limit for grant of building plan approval by the Executive Authority of Village Panchayat and the appropriate authority (DTCP / CMDA) mentioned in Rule 3(1).

3.96. 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 & Housing and Urban Planning Department.

3.97. Local bodies should continuously monitor the construction activities in their jurisdiction and should takes steps to avoid necessity of post-facto regularizations. The Government should consider levying penalty on the local bodies where new unapproved layouts come up after a given cut-off date.

3.98. Government should consider levying annual penalty on the properties in such unapproved layouts at least 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 penalities should be shared with the concerned local bodies.

Water Charges



3.99.Provision of safe drinking water is the basic duty of the Village Panchayat. Hand pumps and power pumps are the major sources of drinking water supply in areas with adequate locally available sources. In other areas and places with poor quality of groundwater, Combined Water Supply Schemes executed by the Tamil Nadu Water Supply & Drainage Board supply protected bulk water. Over Head Tanks (OHTs), Ground Level Reservoirs (GLRs) and Mini tanks are the major water storage structures in the Village Panchayats. The number of water supply sources in operation in rural areas are given in Table III – 26 in the Annexure.

3100.In G.O. (Ms). No. 260, Rural Development Department, dated 09.12.1998, Local Bodies were required to collect a deposit of ₹1000/- and fix a monthly water charge of at least ₹30/- for the supply of drinking water through household connections. No upper ceiling for water charges is prescribed in the Government order. Accordingly, the Village Panchayats fix the rates of monthly water charges and deposits based on Panchayat resolutions. The income derived from water charges and operation and maintenance expenditure for water supply are compared in the following table:

Table III-25: Income and O&M Expenditure for Water Supply

Year	INCOME through Water Supply Charges (₹ In Crore)	O&M EXPENDITURE (₹. In Crore)				% of Coverage of expenditure
		Amount Paid to TWAD Board	EB Charges (for water supply)	Maintenance Expenditure	Total Expenditure	
2015-16	64	104	47	494	645	9.9%
2016-17	69	138	31	325	494	14.0%
2017-18	75	130	33	312	475	15.8%
2018-19	84	225	50	450	725	11.6%
2019-20	86	224	51	450	725	11.9%
Total	378	821	212	2031	3064	12.3%

3.101.Despite modest increase in coverage of expenditure through charges, there is a large gap between income and expenditure.

3.102.As per established policy, provision of water supply through public fountains is the first priority for Village Panchayats. If there is sufficient quantity of water in Village Panchayats, then house service connections are given. The guidelines issued by the Government in G.O. M.S. No.260, RD Department Dated: 09.12.1998 do not cover supply of drinking water to business, commercial, institutional and industrial establishments. Accordingly, Village Panchayats are focusing on providing adequate quantities of drinking water primarily for domestic purposes.

3.103.As recommended by the Fifth SFC, at present water charges are fixed by the Village Panchayats and the water charge of ₹30 per month is mentioned in the Government order 260 RD & PR Dept. dated.09.12.1998. The Panchayat where the current consumption charges are heavy and provide desired quantity of water may collect the water charges, in addition to the mentioned amount.

3.104. The Jal Jeevan Mission is being implemented in the State from the year 2019-20. The aim of the scheme is to provide functional Household Tap connections to all Households in the Village Panchayats. In addition, the illegal water connections in the Village Panchayats are identified and they are regularised after getting the security deposit. As per the reports 6,37,143 water service connections have been regularised in the Village Panchayats.

3.105.The Capital Grant Fund has been created out of the State Finance Commission grant with 20% of the total allocation to RLBs. Out of the 20% of allocation to, an amount of ₹25 crore has been earmarked for the installation of Bulk water meter. Accordingly, an amount of ₹25 crore spread over two years has been released to the TWAD Board.

But no such bulk water meters have been observed in the Village Panchayats.

3.106.The State Government has recommended to Establish Reverse osmosis plant in the Village Panchayats.

3.107.The minimum rate of water security deposit is ₹1000 per connection. The Village Panchayats are now providing connections to domestic purpose on priority basis. Depending upon the availability of excess water, the connections to commercial institutions are given.

3.108.Village Panchayats are fixing minimum and maximum charges as per the panchayat resolution. The minimum water charges levied for domestic water connections is ₹30 and for commercial it is ₹50 and the maximum charges for both the categories are ₹100.

Recommendations on Water Charges

3.109. 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.

3.110. The existing deposit for new water connections for households should be enhanced at least by 100%. For industries purpose water connections the rate should be not less than twice than that for the residential connection. Slab system should be introduced similar to the recommendation on property tax.

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

Dangerous and Offensive (D&O) Trades License Fees

3.112. Under the Tamil Nadu Panchayat Act 1958, trades which are likely to be offensive or dangerous to human life were listed. Section 159 of the Tamil Nadu Panchayats Act 1994, empowers Village Panchayats to issue D & O Trade Licenses.. Based on the provisions in the said Act, the Government had last notified the list of D&O trades in 1977.

3.113.The rates of D&O Trade license fees are revised once in 5 years through notification by the Collector in the District Gazette. The list of trades is also to be updated and notified in the District Gazette.

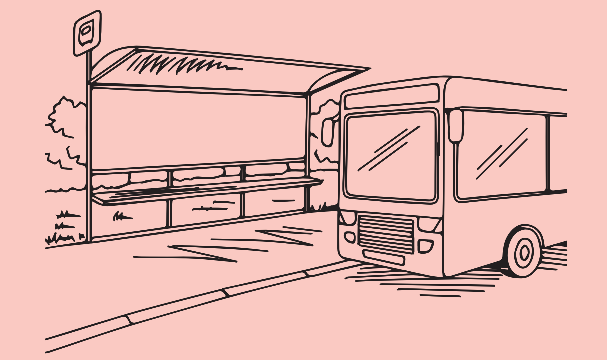
3.114.Collection of D&O Trades License Fees has largely remained static over the past five years, at an average of ₹12.7 crore per year (details in Table III-27 in Annexure)

Recommendations on (D&O) Trades License Fees

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

3.116.Revision of D&O Trades License Fees should be done annually.

Bus Stand Fees



3.117.The Second SFC recommended the revision of Bus Stand fees. Based on the recommendations, orders were issued in G.O. (M.S) No. 175, Home (Transport-III) Department, Dated:04.03.2002 and amendment was made in 2004 to the Tamil Nadu Panchayat (Public Landing Places, Halting Places, Cart Stands) Rules 1999.

3.118.After 2002, there has been no revision of Bus Stand fees in respect of motor vehicle (Heavy and Light). The Fourth SFC had recommended a revision of the bus stand fees by 25 %. However, this has not been implemented so far. The Bus stand fees collected declined from ₹50 lakh (2015-16) to ₹38 lakh (2019-20) (details in Table III – 28 in Annexure)

Recommendation on Bus stand Fees

3.119.Bus Stand fees should be enhanced at least by 100% from the existing rate.

Track Rent on Optical Fibre Cable

3.120.The Government has issued consolidated policy guidelines for grant of permission for use of public right of way for laying optic fibre cables in 2001. Payment of ₹4,400/- per km. per year as annual track rent by the applicants has been prescribed in respect of Village Panchayats by the Government. Further Government has specified the terms and conditions for the grant of permission for the use of public right of way by any applicant proposing to lay Optical Fibre Cable (OFC) and for the collection of Annual Track Rent by concerned Village Panchayat from the commercial institution for the laying of cables.

3.121.The collection over the past five years is ₹ 1.60 crore only. Given that OFC have been laid for significantly longer distances across the State by Public and Private companies than this amount implies, there is significant potential to enhance revenues from this source.

3.122. As per the recommendation of The Fifth SFC, Comprehensive Telecom policy has been prepared by the IT Department to enable the collection of Track Rent by resolving issues if any.

Recommendations on Track Rent on Optical Fibre Cable

3.123. 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.

3.124. 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 rules in force.

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

Library Cess

3.126.The Library Cess has been levied on the House Tax / Property Tax levied by the Village Panchayats. The 10% of the House Tax demand has been levied as Library Cess in addition to the House Tax /Property Tax. Library Cess is levied under the section 12 (1)(a) of Tamil Nadu Public Libraries Act 1948. Library Cess collected during the years from 2015-16 to 2019-20 is given below:

Table III-29: Library Cess Collected by Village Panchayats

(₹ In Crore)

Year	2015 -16	2016 -17	2017-18	2018 -19	2019 -20
Library cess	20	21	21	21	22

3.127. From the above table it is observed that, on an average the library cess collected is ₹21.04 crore over the periods from 2015-16 to 2019-20.

3.128. The Library Cess was abnormally accumulated during the year 2017-18. In order to clear the dues to library authorities a drive was carried out in an organised manner. As per the above drive, the dues of library cess have been cleared to a great extent.

Assigned Revenue

3.129.The taxes, duties, cesses and surcharges collected by the State Government on behalf of local bodies and assigned to them are called Assigned Revenue. This category includes Entertainment Tax and Surcharge on Stamp Duty. Earlier, local cess and local cess surcharge on land revenue were also an important source of revenue for Rural Local Bodies which are no longer available.

3.130.The practice of pooling of the assigned revenue at the State level and thereafter apportioning the amount not on the basis of where the tax is collected but another criteria amounts to a deviation from decentralisation and devolution. In respect of RLBs the Pooled Assigned Revenue was apportioned 2/3rd on population basis and 1/3rd for priority schemes at the State level. In the case of Entertainment Tax, revenue was pooled at State level in respect of RLBs with effect from 2007-2008 and 1/3rd of the dues was passed on to them till 2010-11 and the balance 2/3rd was allocated towards the funds for priority schemes. Subsequently, it has been ordered by the Government to distribute 2/3rd of the Entertainment Tax to RLBs on population basis and 1/3rd for priority schemes from 2011-12. The Government has modified the ratio of pooling of assigned revenue to 50:50 in 2016-17.

3.131.The assigned revenue due to the Rural Local Bodies from the proceeds of the Surcharge on Stamp Duty and Entertainment Tax is being pooled at the State level. One third of the total pooled assigned revenue is apportioned to Village Panchayats and Panchayat Unions in the ratio of 67:33. The remaining 2/3rdis used for the priority schemes in rural local bodies.

3.132.The quantum of the pooled amount is tentatively fixed on the basis of the collection of taxes during the previous years for making necessary budgetary allocation. The apportionment of assigned revenue to rural local bodies and contribution to the fund is done to the level of tentative allocation and finally adjusted in the next financial year after determining the entitlement of the rural local bodies. The pooled assigned revenue for the review periods is detailed below:

Table III-30: Pooled Assigned Revenue

(₹ In Crore)

Source	2015-16	2016-17	2017-18	2018-19	2019-20
Pooled Assigned Revenue	713	667	511	408	1054

The pooled assigned revenue registered ₹713.0 Crore during 2015-16 and declined to ₹407.7 crore in 2018-19 and escalated to ₹ 1053.5 Crore in 2019-20.

Table III – 31: Pooled Assigned Revenue of Village Panchayats

Head	Basis
Pooled assigned revenue (Entertainment Tax and Surcharge on Stamp Duty)	33.33% based on population; 66.67% for schemes
Fishery Rental	50%
Social Forestry	75% of net, cap on wage expenditure at 35% of gross collection
Mines and Minerals (minor minerals)	75% with source VP, 25% to affected VPs, additional 30% for DMF

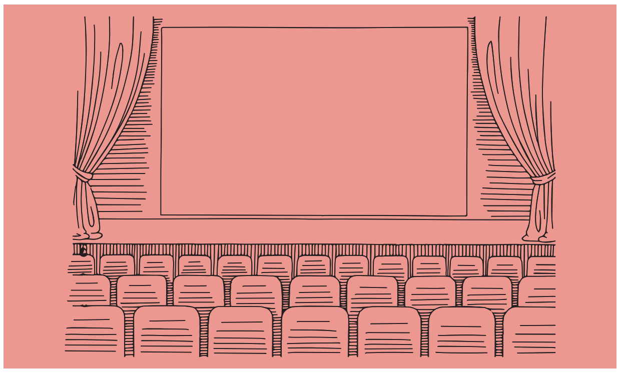
Recommendations

3.133.The practice of using the assigned revenue for priority schemes at the State level should be done away with.

3.134.The Commission recommends that 75% of revenue should be transferred to the respective local bodies and the remaining portion should be used for the requirements of weaker local bodies on the lines of Grants to Deficit RLBs as recommended in the scheme of devolution in this report. The State level Committee constituted for that purpose may be authorised to monitor this fund as well.

3.135.Proportion of resource allocation from such fund should at least be maintained at the block level under which the respective panchayats fall.

Entertainment Tax



3.136. The Entertainment Tax is part of the Assigned Revenue, and till the year 2017 the Entertainment Tax was Pooled at the State level by the Commercial Tax department and it would be combined with surcharge on Stamp Duty collected by the Registration department and termed as Pooled Assigned Revenue.

3.137. As the Entertainment Tax would be subsumed under GST, the 5th SFC Commission had recommended the Government to take urgent action to legislate and to permit Local Bodies to levy and collect Entertainment Tax before the new GST provisions come into force.

3.138. In this regard, the Government of Tamil Nadu has enacted the Tamil Nadu Local Authorities Entertainments Tax Act 2017 and the same has been notified vide Tamil Nadu Government Gazette Extraordinary no.195 dated 28.06.2017.

3.139. As per the Tamil Nadu Local Authorities Entertainment Tax Act 2017, the Local Bodies are empowered to Levy and collect Entertainment Tax from Cinematograph Exhibition, Amusement Parks, and Recreation Parlors etc.

3.140.As per Section 3 (6) of the above mentioned act, the Entertainment Tax on Amusement

Parks shall be calculated at the rate of ten percent on each payment for admission to an Amusement Park. So, Amusement Parks shall have to pay 18% GST (9% CGST & 9% SGST) and it is to be pointed out that prior to introduction of GST, the Entertainment Tax was 10% on each admission and now it is 28 % including GST.

3.141.In Tamil Nadu, 9 theme Parks are located in rural areas. The total revenue from Entertainment was about ₹4.8 Crore in the year 2017 – 18 and ₹4.7 Crore in the year 2018 – 19 which includes Cinematograph Exhibition, Amusement Parks and Recreation Parlors etc. The Collection of Entertainment Tax from 9 Amusement Parks during the year 2018-19 was ₹32.2 Lakh. For the year 2019-20- an amount of ₹ 36.9 Lakh was collected.

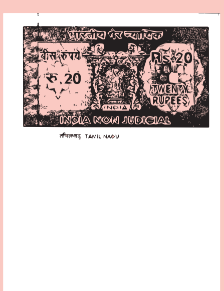
Table III-32: Collection of Entertainment Tax

(₹ In Crore)

Year	2015 -16	2016 -17	2017 -18	2018 -19	2019 -20
Entertainment Tax	4.7	4.8	4.8	4.7	4.9

Source: Finance Dept.

Surcharge on Stamp Duty



3.142.Surcharge on Stamp Duty is levied at 2% of the value of the transfer of immovable property based on the provisions contained in the respective Local Body Act. Given the large value of many of these transactions, the revenue potential of Surcharge on Stamp Duty is high.

3.143.The details on change of ownership by registration of properties are transferred automatically to the Revenue department from 12.02.2018 onwards using the web based software of Registration department (STAR 2.0), which is linked with Tamil Nilam (Rural) software.

3.144.The Surcharge on Stamp Duty transferred to RLBs by Registration department is detailed below:

Table III-33: Surcharge on Stamp Duty Transferred to RLBs by Registration Department

(₹ In Crore)

Year	2015 -16	2016 -17	2017 -18	2018 -19	2019 -20	Total
Transferred	708	607	507	730	674	3227

Recommendations on Surcharge on Stamp Duties

3.145. The Government should levy Surcharge on Stamp Duty on documents relating to (i) Agreement (ii) Power of Attorney (iii) Release of benami right (III) Release of right in favour of partners and (v) settlement to augment revenue to the local bodies should be levied.

3.146. 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.

Shared Revenue

Fishery Rental

3.147 The Third State Finance Commission recommended that 50% of the fishery rental in Panchayat Union tanks be shared with Village Panchayats and 25% of the proceeds of fishery rental in respect of PWD tanks be shared with Village Panchayats.The Government while agreeing to the first recommendation has modified the sharing pattern in respect of Public Works Department tanks.

3.148. The Lease and Licensing of fishery rights in water sources vested and regulated by Village Panchayats and Panchayat Union Councils Rules 1999 is governed under the G.O Ms No. 169 Rural Development (P3) Department, Dated 16.08.1999.

3.149. During interactions, local bodies also complained of delays in release of their shares. Further, issues such as ineffective auctions were also mentioned.

3.150. As per the State Finance Commission's recommendation, the proceeds of fishery rental pertaining to Panchayat Unions are shared with the Village Panchayats.

Table III-34: Income through Fishery Rental

(₹ In Crore)

Year	2015 -16	2016 -17	2017 -18	2018 -19	2019 -20	Total
Income	3.22	1.33	1.82	1.75	2.62	10.74

3.151. The tank/ponds maintained by the Village Panchayats are 100% entitled to the village panchayats and the panchayat Unions share of fishery rental and PWDs' share of fishery rental is not yet determined.

Recommendations on Fishery Rental

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

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

3.154.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 quarterly review.

Social Forestry

3.155.Social Forestry is one of the major components under shared Revenues of the Village Panchayats. The mature plantations are sold in public auction. The sale proceeds from plantations raised in panchayat lands are shared between respective panchayats and the Forest department in 75:25 ratio with a cap on wage expenditure at 35% of the gross collection as per the standing orders and amendments.

3.156.As per G.O (MS) No.114 Environment & Forests Department dated 19.9.2014, the entitlement on the share of social forestry proceeds to Village Panchayats for previous year shall be released early in the first quarter of the subsequent year by authorising the Commissioner of Rural Development and Panchayat to draw the amount and release the funds directly to Village Panchayats. The estimates on the release of share of Village Panchayats in the proceeds of Social Forestry be routed by District Forest Officer / Divisional Forest Officer through the Commissioner of Rural Development & Panchayat Department.

Table III-35: Shares of Village Panchayats from 2015-16 to 2019-20 released by Forest department

(₹ In Crore)

Year	Net proceeds (65% of the Gross proceeds)	Forest Dept. (25 %)	Panchayat Share (75%)
2015-16	10.2	2.6	7.6
2016-17	7.6	1.9	5.7
2017-18	7.5	1.9	5.6
2018-19	7.7	1.9	5.9
2019-20	5.9	1.5	4.5

3.157. The release of Social Forestry proceeds, up to 2018-19 were sent to the Commissioner, DRD&PR and for the year 2019-20 and 2020-21 Social Forestry proceeds estimates are yet to be sent to the Commissioner, DRD & PR.

3.158.Forests department suggested that the powers may be delegated to the District Forest Officer / Divisional Forest Officer for making payments of admissible panchayat share amount directly to the Panchayats through ECS method under intimation to the concerned District Collector, Project Director, DRDA of the District and concerned BDO in order to monitor the utilisation of released share properly by the panchayats by following the prevailing rules and regulations.

3.159. As recommended by the Fifth State Finance Commission, the plantation activities are carried out by the Village Panchayats under MGNREGS. The amount required for the same in terms of Labour Component and Material component has been utilised as per the norms.

Recommendation

3.160.A simple procedure should be evolved to release the share of social forestry sale proceeds to the concerned panchayat 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.

Mines and Minerals

3.161.As per Section 188 (q) of Tamil Nadu Panchayats Act 1994, a sum equivalent to the seigniorage fees collected by the Government every year from persons permitted to quarry for road materials in the Village Panchayat shall be credited to the Village Panchayat fund. The quarry lease rent and seigniorage fees collected by the Department of Geology and Mining on the minor minerals savudu, gravel, sand and rough stones is apportioned to the respective Local Bodies. The Department of Geology and Mining collects the lease rent and seigniorage fees and remits the amounts into Government account. The year wise details of the collections, entitlement to Local Bodies and the amount actually adjusted to the local bodies are given below:

Table III-36: Details of Lease Amount and Seigniorage fees collected by Mines Dept and adjustment made to RLBs

Year	Lease Amount (₹in crore)			Seigniorage fees (₹in crore)		
	Collection	Entitlement to Local Bodies	Adjustment made	Collection	Entitlement to Local Bodies	Adjustment made
2015-16	61	61	6	179	107	105
2016-17	23	23	23	216	130	125
2017-18	114	114	24	178	140	135
2018-19	79	79	44	208	182	157
2019-20	115	115	67	203	173	140
Total	392	392	164	984	732	662

3.162.From the above tables it is observed that the difference between the entitlement and actual adjustment to local bodies in both lease amount and seigniorage fees together from 2015-2016 to 2019-20 amounting to ₹297.0 crore is due to procedural delay in bill presentation, not obtaining permits, non-availability of details, non-grant of lease and pending litigations.

3.163.As per the Fourth SFC's recommendation, the Government directed that the 75% of the revenue from seigniorage fee due to a particular Village Panchayats having quarries be passed on by the District Collector concerned to the respective Village Panchayats and the balance of the seigniorage fee will be shared with the Village Panchayats affected by the above Mining / Quarrying activity.

3.164.At present the entire receipts from mining lease of the specified categories of minor minerals is shared with the local bodies. The quarry lease rent and seigniorage fees collected from both major and minor minerals are remitted into a single head of account. Therefore, the exact amount of lease rent and seigniorage fees intended to be apportioned to the local bodies could not be verified from the Government receipt accounts.

3.165.Many local body representatives indicated to the Commission that prior to the entrusting of quarrying of river sand exclusively to the Public Works Departments, local bodies received river sand quarry receipts too from the Government. The Public Works Department currently directly undertakes mining and remits the sale proceeds directly to Government. Local bodies represent that the quarrying and transportation operations adversely affect the roads and other infrastructure in their areas and hence this revenue should also be shared with the Local Bodies.

3.166.There is considerable merit in the demand that the revenue from sand quarries should be shared with the Local Bodies.

3.167.It has been represented to the Commission that the share of the Village Panchayats in the revenue from mines and minerals are released to them after a considerable lag.

3.168.The Mines and Minerals (Development and Regulation) Act mandates the formation of District Mineral Foundations in areas affected by mining. As per the District Mineral Foundation Rules, 30% of the seigniorage / royalty fee payable on all types of mining will be collected additionally for the DMF. The DMF trust is chaired by the District Collector and the fund is used for various welfare and development activities in the areas which are affected by such mining.

Recommendations on Mines and Minerals

3.169. 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.

3.170. The proportion of the revenue from minor minerals to be shared with local bodies should be fixed at 75%.

3.171. 25% of the revenue from sand quarrying should also be transferred to local bodies. The distributation 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 quarrying activity.

3.172. 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 and the release mechanism should be centralised. The advance release can be adjusted against actual collection subsequently.

Central Finance Commission Grant

3.173.The 15th Finance Commission has devolved the fund to all three tiers of RLBs. The Fifteenth Finance Commission has recommended that the grants for Rural Local Bodies (RLBs) are in two parts, namely

- Basic or Untied Grant
- Tied Grants

3.174. The sharing pattern between tied and untied grants for the year 2020-21 is 50:50 and for the award period from 2021-22 to 2025-26 it is 60:40.

3.175. Basic Grants are untied and can be used by RLBs for location-specific felt needs, except for salary or other establishment expenditure.

3.176. Tied Grant is to be used for the basic services of:

- Sanitation and maintenance of open defecation free (ODF) status - 50% and
- Supply of drinking water, Rain water harvesting and recycling. – Jal Jeevan Mission - 50%

3.177. Government of Tamil Nadu vide G.O. No.18 dated: 03.02.2021 has issued Guidelines for utilisation of the 15th CFC Basic Grant.

- Minimum lump sum grant – ₹ 3 Lakh sanctioned per Panchayat to pay EB charges.
- Balance amount distributed based on horizontal sharing ratio followed in SFC devolution.
- Works are selected based on the Annual plan prepared by the Village Panchayats and approved by Grama Sabha.
- Not less than 30% of the allocation is earmarked for provision of basic amenities in SC/ST Habitations.

Table III-38: Central Finance Commission Grant

(₹ In crore)

Year	Details	Amount
2015-16	14th CFC Grant	1101
2016-17		1484
2017-18		758
2018-19		1635
2019-20		1787
	Total	6765
2020-21	15th CFC Grant	3607
2021-22		2666

Scheme Grants

3.178. Various Central and State funded schemes are implemented through Village Panchayats. The funds received for these schemes are deposited in different accounts. The details of receipts of these fund accounts are as follows.

i. Account No.III (Village Panchayat Scheme Fund Account) - The Village Panchayat funds from various schemes such as Indira Awaas Yojana (IAY), Rural Infrastructure Scheme (RIS) and Rural Building Maintenance and Renovation Scheme (RBMRS) were maintained at Account No.III. The IAY scheme is revamped and renamed as PMAY(G) and the funds under this scheme is maintained in another account. The other schemes, RIS and RBMRS were stopped and the interest on the unspent amount of these schemes are maintained in this Account.

ii. Account No.IV (MGNREGS Scheme) - The Village Panchayats maintain a separate account for Mahatma Gandhi National Rural Employment Guarantee Scheme. The Central Government bears 100% wage cost of unskilled manual labour. The material cost is shared in the ratio of 75:25 between the Central and State Governments. The wages are credited to the workers' bank account directly from the Union Government from 2014-15 onwards. The administrative and material expenditures under MGNREGS are maintained in this account.

iii. Account No.V (Rural Housing Scheme) - The Village Panchayats maintain a separate account for the erstwhile Rural Housing Scheme. This Account is for 100% State Government Schemes. This Scheme has been stopped and only the interest on the unspent amount is maintained in this account

iv. Account No.VIII (Solid Waste Management System) - In order to keep the Village Panchayat clean and tidy, the Government has established a Solid Waste Management System with recycling and waste disposal facilities in the Village Panchayats. The staff salary under this scheme, Receipts garbage wastage auction and interest on unspent amount are maintained in this Account No.VIII.

v. Account No.IX (15th CFC) - This account is exclusively opened for the payment of works under 15th CFC

vi. Account No.X (Jal Jeevan Mission) - This account deals with the Jal Jeevan Mission. The mission's goal is to provide safe and adequate water through individual household tap connections to all households in rural India by 2024. Fund under this scheme, water pipeline deposit and interest on unspent amount are maintained in this account.

3.179. The aggregate account wise receipts declined by 15% from ₹ 1925.45 crore during 2015-16 to ₹ 1635.56 crore during 2019-20. Of the total receipts the share of receipts under account III is low as the MGNREGS wages are directly transferred to the beneficiaries. As the schemes maintained in the Accounts IV,V,VI are closed, only the interests are maintained in those accounts.

3.180. Aggregated account wise expenditure of Village Panchayats declined faster than receipts (31%) over the fire year period. The Total Expenditure is maintained within the receipts during all the years except2015-16 and 2017-18. Details of the receipts and expenditure by Account (except 1, 2 and 7) over the years is available in Table III – 39 in Annexure.

3.181. Apart from scheme funds, Accounts I (General Fund), II (TANGEDCO and TWAD) and VIII (salaries) cover non-scheme items. In particular, the expenditure on TANGEDCO and TWAD Board which is maintained in Account II exceeds its receipts in all the years in the review period. Details are available in Table III – 40 in Annexure.

Expenditure

3.182.The aggregated expenditure incurred by the Village Panchayats are detailed below. Account wise expenditure is available in Table III - 41 and III – 42 in Annexure.

Table III-42A: Expenditure of Village Panchayats

(across accounts)

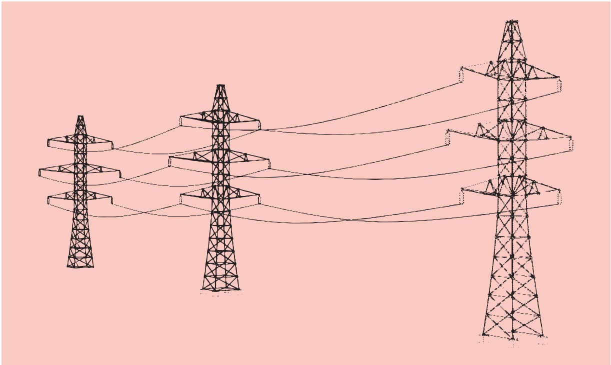
Account	2015 -16	2016 -17	2017-18	2018 -19	2019 -20
Total expenditure (₹ Crore)	5222	4480	4838	4772	4857
Average expenditure per VP (₹ lakh)	42	36	39	38	39

Village Fund Account No. I

3.183.The regular operational expenditure of Village Panchayats are met from the Village Panchayat Fund Account No.I. Expenditure incurred under this include general administrative expenditure (honoraria, allowances, stationery, rent for buildings, insurance, bonus, telephone charges, GS meeting expenses, advertisements, bonus etc.), capital expenditure (construction of buildings, roads, bridges, water supply and sanitation works), maintenance expenditure (maintenance of street lights, hand pumps and power pumps, Village Panchayat roads, burial and burning grounds and sanitation facilities), and miscellaneous expenditure (repayment of loans, refund of deposits etc.)

3.184.General administration accounts for a significant share of expenditure. Out of the total average administrative expenditure, pay and allowance accounted major portion (77.1% over past five years), followed by other admin expenditure (10.9%) and expenditure on stationeries (3.7%). On an average the expenditure per year per Village Panchayat over the past five year period was ₹ 3.77 lakhs. Details are available in Annexure-Table III-43.

Electricity Charges



3.185.The major expenditure item for Village Panchayats is on electricity consumption charges. Although this expenditure is to be primarily met out of Account No II, when there is a shortfall in that account, the expenditure is incurred out of Account No I as well. The details of average Electricity Charges incurred by per Village Panchayat are presented below:

Table III-44: Average Electricity Charges per Village Panchayat

(In ₹)

Electricity Charges	2015-16	2016-17	2017-18	2018-19	2019-20
Street Lights (Acct. No. I)	53058	38667	32602	49786	51995
Water Pumps (Acct. No.I)	37845	24643	26062	39524	40296
Village Panchayat Buildings (Acct. No.I)	4397	2881	2672	3314	4062
CC Charges(Acct. No.II)	665521	718937	742516	691032	697824
Total	760821	785128	803852	783656	794177

3.186. The present electricity consumption tariff rate in Urban and Local bodies for Office building the tariff rate is ₹ 8.00 per unit and for Street light, water supply, sewerage plant and for crematorium the tariff rate charged by TANGEDCO is ₹ 6.35/- per unit. A comparison of these tariffs with other States shows that the charges are in line with norms. Details are available in Table III – 45 in Annexure

3.187. The below table pertains the demand, collection and balance details of current consumption charges in RLBs. It is observed that there is a large outstanding amount on current consumption charges in village Panchayats, which is ~ 59% of the annual demand for 2019-20.

3.188. The data pertaining to demand and payment of the current consumption charges of Rural Local Body Service connection are transferred on a daily basis to TNRD website since 2017-18. The data provided by the TANGEDCO is utilised for monitoring the demand and settlement. But the payment of Electricity Service Connection wise dues is not done. Further, the option of payment of electricity connection wise demand through a banking interface (Indian Bank) was also explored but yet to be implemented.

3.189. Further, a mechanism to pay service connection wise demand through an online portal is being prepared and is expected to be rolled out soon.

Table III-46: Demand, Collection and Balance details of Current Consumption Charges

(₹ In Crore)

Account	Name of the Local Body	Outstanding as on 1.4.2019	Demand Raised from 04/2019 to 3/2020	Amount Received from 1.4.2019 to 03/2020	Outstanding as on 31.3.2020
RLB	Village Panchayats	405	984	813	577

Recommendations on Electricity Charges

3.190. TANGEDCO should ensure accuracy in billing after taking and recording the actual meter reading and reconcile discrepancies, if any, with the concerned Local Bodies.

3.191. 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.

3.192. TANGEDCO should use multiple modes of communications 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.

3.193. 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.

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

3.195. There should be complete ban on new installation of high mast lights in RLBs and steps to be taken de-commissioning of old High Mast Lights in a phased manner.

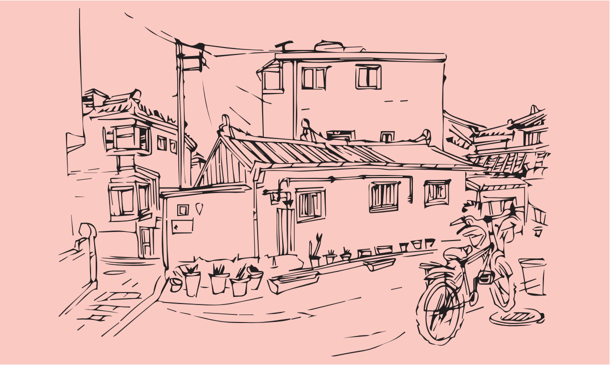
Operations and Maintenance

3.196. The expenses incurred under the head include purchase of spares and maintenance for buildings of the Village Panchayat, hand pumps, power pumps, mini motors, street lights, roads, bridges and streets.

3.197. Maintenance expenditure per Village Panchayat has declined from ₹ 9.8 lakhs in 2015-16 to ₹7.8 lakhs in 2019-20 which is a 20% reduction. Key heads under maintenance expenditure are purchase of spare parts for hand pump / power pump and mini motors (40%), followed by purchase of spare parts for street lights (19%), purchase of sanitation material (8%) and maintenance of roads (6%). Given the importance of O&M in maintaining useful life of capital assets, this merits attention. For instance, given that Village Panchayats are in charge of ~ 1,24,600 kms of roads (across categories), the amount spent on road maintenance is disproportionately small. Item wise details are available in Table III–47 and III-48 under annexures.

3.198. Account wise expenditure of Village Panchayats is provided in Table III – 49 in Annexure. From the Total Expenditure under Account II TANGEDCO charges account for 82% and TWAD share is around 15% over the five years of period. A small amount of fund is transferred to Account no. I and III on need basis. As noted earlier, since 2014-15, the wages are credited to the workers' bank account directly from union Government through DRD&PR. For the purpose of identifying MGNREGS fund received per village panchayats from GOI, the total MGNREGS fund received from GOI is taken into account. Similarly, The expenditure under Chief Minister's Solar Powered Green House Scheme during the period 2015-16 recorded as ₹4.4 Lakhs and a declining trend is observed from 2016-17 onwards since the amount under this scheme is transferred directly to the beneficiaries from 2016-17 onwards.

Peri Urban Panchayats



3.199. The Village Panchayats which are situated within a radius of fIIle kilometres from the Municipalities and Municipal Corporations are termed Peri Urban Panchayats. District Collectors identified and reported to the Fifth State Finance Commission that there are 687 peri urban panchayats in the State.

3.200. As per the recommendation of The Fifth State Finance Commission and accepted by the Government that, 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.

3.201. The Delimitation Commission was constituted in 2017 by the Government of Tamil Nadu. Further, the delimitation Commission has stated that the number of local bodies that were present during the constitution of the delimitation commission should not be changed. Further, due to multiple litigation pending before the Hon'ble Courts on further delimitation and the further elections to Rural Local Bodies in state, the process of bifurcation of large Peri Urban Village Panchayats was not taken up.

3.202. The Rural Local Body elections have been completed and the elected representatives have assumed office. Hence, large Peri Urban Village Panchayats with the need for bifurcation need to be identified and the necessary actions are to be taken up.

Recommendations on Peri Urban Panchayats

3.203. 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 may be collected at the rates existing in adjacent ULBs.

3.204. 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. Basis for levy may be area in lieu of plinth area as in ULBs by amending the Tamil Nadu Panchayats Act, 1994.

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

3.206. The Peri Urban village panchayats are facing special issues on liquid waste management & 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.

General Recommendations for Village Panchayats

3.207. The Commission recommends that Village level Citizens' Charter be prepared and displayed in front of a permanent Public Office.

3.208. For all the 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.

Complementary Resonsibility

3.209. Village Panchayats are the only tier of Rural Local Bodies that has the powers to levy and collect taxes. It is also the only Governance structure where the people can directly participate in the decision-making process through the Gramsabha. Analysis of their finances for the past five years indicate an overall surplus in resources. The Central Finance Commission grants have further increased their resources. They also have some space to improve their own resources.

3.210. Hence the Commission is of the view that more functions need to be delegated to the Village Panchayats. This is especially so for maintenance of assets and social sector programmes.

3.211.Presently, in most of the schemes, role of Village Panchayats is restricted to either beneficiary identification or monitoring committees. The village level Government agencies implementing various programmes hardly depend on the resources or active involvement of the Local Bodies. Neither can the Village Panchayats attend to the pressing needs of the residents of the village, however small or easily doable, even if they have resources and willingness to spend. Even if a Village Panchayat has a badly formed road within, say, a Public Health Center or a serious damage to the toilets in the school, it cannot prioritise these needs over its own assets and has to rather spend the money on something of lesser importance even if that's not the most desirable thing to do.

3.212.Thus, the Commission is of the view that at the only level of Governance where people can directly participate in the decision making, the basis of resource allocation and expenditure should be the felt needs of the residents and not merely the ownership of assets.

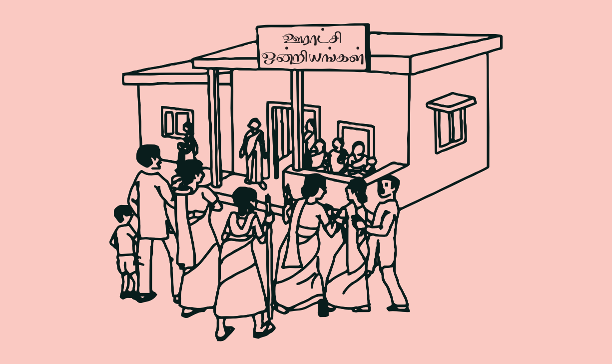
3.213. Hence the Commission recommends that, while Village Panchayats continue to maintain the assets owned by themselves, it is time that they take some responsibility for assets owned by some of the Government departments as well. They should have responsibilities complementary to the Government departments.

3.214.This new approach of **Complementary Responsibility** would go a long way in increasing functional autonomy of the Village Panchayats and addressing the immediate requirements of local population.

3.215.Village Panchayats can be permitted to execute small capital works and maintenance works in all physical assets owned by 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.

3.216. Similarly, for employment generation and poverty alleviation, they can play an active role including resource allocation by complementing Government agencies implementing programmes for Self Help Groups, micro industries, agricultural activities etc. They can co-ordinate with TN Women development Corporation, Skill Development Corporation, Labor Welfare Boards etc.

PANCHAYAT UNIONS



3.217. The Panchayat Unions are the intermediate level rural local body, which have traditionally played a very important role in the implementation of various development programmes in rural areas. The Panchayat Unions act as the link between Village Panchayats and District Panchayat. In Tamil Nadu, there were 385 Panchayat Unions till the year 2019 and three Panchayat Unions were newly formed raising the total number to 388 at present.

3.218. The Panchayat Union Council is not empowered to levy taxes. The sources of funds for the Panchayat Union are non-tax revenue, Assigned, Pooled Assigned Revenue, SFC devolution and grants released under various Central and State Government schemes. The Block Development Officer (Block Panchayats) is the executive authority of the Panchayat Union. He is assisted by administrative and technical wings.

3.219. The Functions of the Panchayat Unions are implementation of various centrally sponsored and state schemes; Construction, repair and maintenance of classified Panchayat Union roads and bridges, culverts and causeways on such roads; Construction and maintenance of elementary and middle school buildings, and water bodies under the control of Panchayat Unions. They are also responsible for preventive and remedial measures connected to epidemics; for control of fairs and festivals classified by the Panchayat Union council and for opening and maintenance of Panchayat Union public markets.

3.220. There are 21,513 elementary schools and 6518 Middle Schools under the control of Panchayat Unions. Infrastructure facilities such as construction of class rooms, kitchen sheds, water supply, toilet facilities and compound walls are provided under various schemes of the Central and State Governments and from General Funds of Panchayat Unions. Panchayat Unions own and maintain a road length of 29,117 kms in rural areas (details in Table III –51 in Annexure). There are 22,051 minor irrigation tanks and 69,768 ooranies / ponds in rural areas under the control of Panchayat Unions.

Table III-50: Total Staff strength of Panchayat Unions

Sl. No	Category	Total Number of		
		Posts sanctioned	Staff in Position	Posts vacant
1	Panchayat Union employees	6783	4504	2279 (33.6%)
2	Government employees	17105	13364	3741 (21.9%)
Total		23888	17868	6020 (25.2%)

Receipts

3.221. Panchayat Unions maintain six accounts for their transactions – General Fund (Account No. I), Education Fund (Account No. III), Nutritious Noon Meal Programme Fund (Account No. V), State Welfare Schemes (Account No. IX), NABARD (Account No. X) and Central schemes. Detailed classification is available in Table III – 52 in Annexures.

3.222. Across these accounts, Panchayat Unions got ₹ 3,998 Crore per year in the five year period from 2015-16 till 2019-20. On an average a Panchayat Union received ₹ 10.29 crores per year from all accounts. 41% of the overall average receipts comes from Account No.I. Account No IX contributes 31% and Central Schemes formed 20% of the receipts. Tables III – 53 and III – 54 in Annexures contain account wise details.

3.223. Funds from SFC devolution and other grants are a major part of total receipts. From 67% in 2015-16, it has increased to 77% during 2019-20.

Table III-55: Average Own Receipts per Panchayat Union (Untied)

(₹ In Lakh)

Sl. No.	Receipts	2015-16	2016-17	2017-18	2018-19	2019-20
1	Assigned Revenue	22.5	19.8	28.4	24.8	15.4
2	Non Tax Revenue	50.1	36.8	38.9	64.6	41.3
3	Deposits	29.3	22.8	18.0	19.4	20.9
4	Advances	34.2	28.7	20.2	27.7	30.8
Total own revenue		136.1	108.1	105.5	136.5	108.5
1	SFC devolution*	257.6	252.0	225.2	382.1	337.7
2	Other grants	14.2	14.6	8.2	16.4	26.8
Total Grants		271.8	266.6	233.4	398.6	364.5
Total Receipts		407.9	374.7	338.9	535.1	472.9

Note :** Net after impounding shares towards certain schemes

Expenditure

3.224. Panchayat Unions incur various expenditures classified into administrative, capital, maintenance, deposits, loans and advances and other expenditures. The total expenditure incurred by a Panchayat Union from its General Fund is presented below. Per PU average expenditure is provided in Table III – 56 in Annexure.

Table III-57: Total Expenditure PUs under General Fund

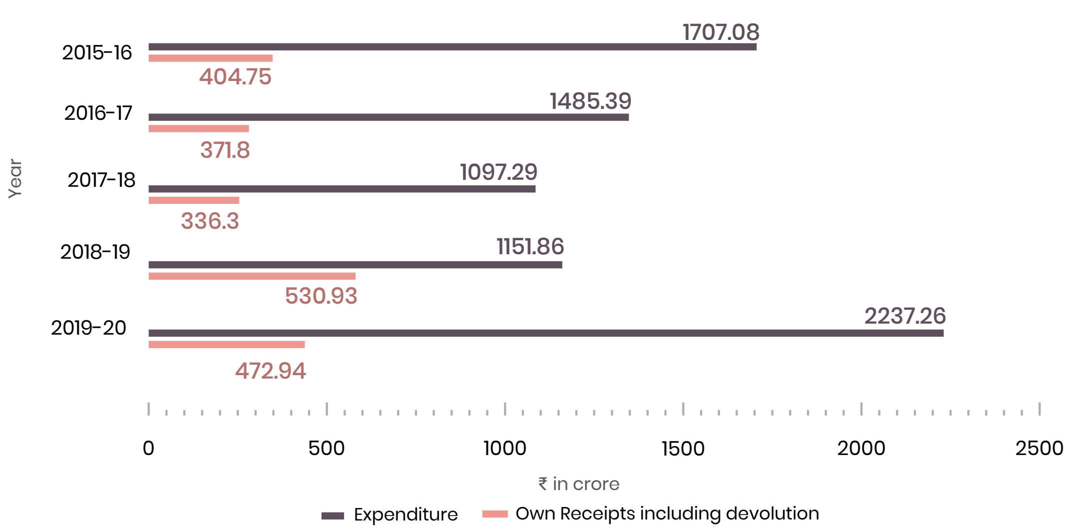
(₹ in Cr.)

Sl. No.	Head	2015-16	2016-17	2017-18	2018-19	2019-20
1	Administrative Expenditure	355	367	360	401	754
	Percentage	20.8%	24.7%	32.8%	34.8%	33.7%
2	Capital Expenditure	890	693	424	398	874
	Percentage	52.1%	46.6%	38.6%	34.5%	39.1%
3	Maintenance Expenditure	230	264	141	169	302
	Percentage	13.5%	17.8%	12.9%	14.7%	13.5%
4	Deposits,Loans & Advances	232	161	172	184	307
	Percentage	13.6%	10.9%	15.7%	16.0%	13.7%
Total		1707	1485	1097	1152	2238

3.225. There has been a steady growth in administrative expenditure (increase from 20.8% to 33.7%), at the cost of capital expenditure (decrease from 52.1% to 39.1%) over the period from 2014-15 to 2019-20. In aggregate, expenditure has consistently outstripped receipts in the general fund account.

3.226. Average administrative expenditure of Panchayat Unions showed upward trend during 2015-16 to 2019-20 from ₹ 92.1 lakhs to ₹ 194.3 lakhs. Of the total Administrative expenditure per panchayat union, major portion of the expenditure occupied by salaries (34%) followed by expenditure on other miscellaneous items (45%), and contingency (10%). Details are available in Table III – 59 of Annexure.

Chart III -58: Receipts and Expenditure of Panchayat Unions (₹ in Crore)



Maintenance Expenditure

3.227. Maintenance expenditure accounted for 13.5% of total General Fund expenditure in 2015-16 decreased to 12.9% in 2017-18 and further increased to 13.5% in 2019-20. The composition of average maintenance expenditure per Panchayat Union is detailed in Table III – 60 of Annexure.

3.228. Average maintenance expenditure per Panchayat Union started with ₹ 59.85 lakhs during 2015-16 increased to ₹ 77.9 akhs in 2019-20.Year wise percentage of maintenance expenditure for all the PUs to Total Expenditure ranges between 13% in 2017-18 to 18% in 2016-17. Roads (30.5%), Buildings (22.6%) and Drinking water (15.5%) are major items.

Capital Expenditure

3.229. Under the total expenditure of the General fund, capital expenditure accounted for a considerable share of 52.1% during 2015-16, which reduced to 39.1 in 2019-20. Of the total capital expenditure, roads share a major portion (29%) along with drinking water (30%). (Annexure Table III-61)

3.230. The Total Expenditure per Panchayat Union is within the Total Receipts during 2017-18 and 2018-19 and in the remaining years expenditure exceeds receipts. Of the total expenditure, apart from expenditure on General Fund (Account No.I and State Welfare Scheme (Account No. IX), major expenditure has been incurred in the Nutritious Noon Meal programme (Account No. V) which accounted for around 6% to 8 %. Total and per PU expenditure by Account are presented in Tables III – 62 and III – 63 of the Annexure.

3.231. The following table shows the total receipts and expenditure and surplus and deficit of Panchayat Union. Details are provided in Table III - 65 in the Annexure.

Table III-64: Expenditure and Receipts of Panchayat Unions

(₹ Crore)

Year	Details	Total
2015-16	Receipts	4156
	Expenditure	4434
	Surplus / Deficit	-278
2016-17	Receipts	3345
	Expenditure	3483
	Surplus / Deficit	-138
2017-18	Receipts	3833
	Expenditure	3757
	Surplus / Deficit	76
2018-19	Receipts	4526
	Expenditure	3601
	Surplus / Deficit	925
2019-20	Receipts	4129
	Expenditure	4389
	Surplus / Deficit	-260

District Panchayats

3.232. District Panchayats are constituted as per Section 24 of the Tamil Nadu Panchayats

Act,1994. In Tamil Nadu, there are 36 District Panchayats. The ward members to the District Panchayat are elected directly, while the Chairperson is elected from among the ward members. An Assistant Director from the Department of Rural Development and Panchayat Raj is appointed as Secretary to District Panchayat and is assisted by a team of supporting staff.

3.233. The functions of the District Panchayats are: Preparation of development plans for the district; compilation of administrative reports of Village Panchayats and Panchayats Union Councils in the District and preparation of Annual Report for the District; Planning and reviewing various sectoral schemes and programmes and Identification of major water supply schemes.

Receipts

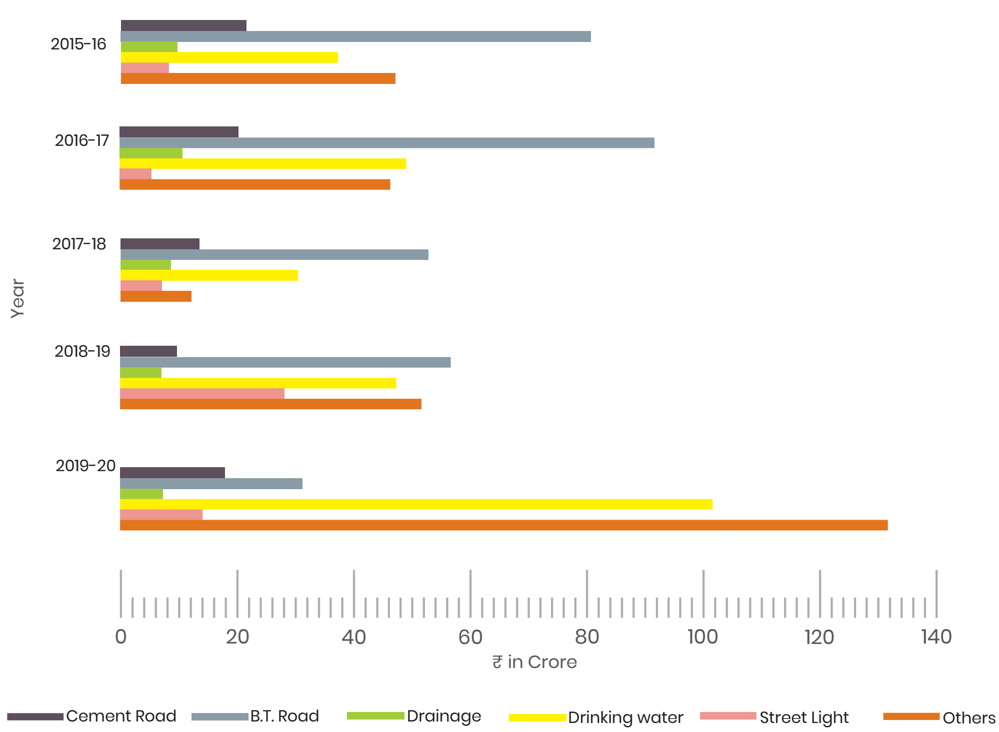
3.234. Devolution is the main source of revenue for District Panchayats as they do not have taxation powers. 8% of RLBs share is devolved to District Panchayats for both administrative and Capital Expenditures. CFC devolution from Government of India started from the year 2019-20 as per the recommendations of 15th CFC. Details are available in Table III – 66 in the Annexure.

Expenditure

3.235. Works account for ~ 95% of the Total Expenditure, with administrative expenditure capturing the rest. Within Works, similar to the pattern seen in Panchayat Unions, roads (38%) and drinking water (25%) are the top areas of expenditure.

3.236. The ceiling on the administrative expenditure of the District Panchayats has been revised as 7.5% of the total SFC devolution or ₹40 lakhs whichever is less since 2021. The administrative expenditure for District Panchayats as a percentage of the SFC devolution has increased from 3% in 2015-16 to 6% in 2019-20. Details are available in the Annexure Table III-68.

Chart III -67 :District Panchayats Workwise Expenditure (in ₹ Crore)



District Planning Committee

3.237. District Planning Committee (DPC) is created as per article 243 ZD of the Constitution of India for planning at the district and below levels. The Committee in each district should consolidate the plans prepared by the Panchayats and the Municipalities in the district and prepare a draft development plan for the district.

3.238. The Constitution of India provides the DPCs two specific responsibilities. In preparing the draft development plan, the DPC shall have regard to matters of common interest between the Panchayats and the Municipalities including spatial planning, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation and the extent and type of available resources, both financial or otherwise. The DPC in this endeavour, is also mandated to consult such institutions and organisations as may be specified. In order that the plans at different levels are prepared, there is need to strengthen the system comprising the machinery of planning and the process of consolidation of plans at the district level.

3.239. In Tamil Nadu the District Planning committee is to be constituted for every district under section 241 of the Tamil Nadu Panchayats Act 1994. District Panchayat Chairman is the Chairperson and District Collector is the Vice Chairperson of the Committee. Members of Parliament, Member of Legislative Assembly Constituencies, and representatives of local bodies are the members.

RESOURCE PROJECTION FOR RURAL LOCAL BODIES

3.240.This section includes an analysis of the projected receipts of Local Bodies from various sources, projected levels of expenditure on various heads and the anticipated requirement of funds of Local Bodies to provide essential infrastructure and services during the award period so as to assess the gap, if any, in the financial resources of the Local Bodies. The revenue and capital receipts of the Local Bodies and the expenditure on various items like administration, operation and maintenance, and capital works have been projected for the period from 2022-23 to 2026-27.

3.241.The Covid-19 pandemic distorted the receipts and expenditure numbers greatly. The data available with the Commission also was for the pre-Covid period as accounts for the later period are yet to be finalized. Hence, the Commission has taken 2019-20 as the base year and given projections from 2019-20 onwards. This would help in arriving at normal receipt and expenditure trends. As the Commission hopes that normalcy would be restored henceforth, this approach is found more reasonable to assess the potential.

3.242.The assumptions are made without considering the impact of the recommendations of this State Finance Commission.

CFC Allocation

3.243.The 15th CFC has recommended significantly enhanced grants for Rural and Urban Local Bodies in Tamil Nadu for its award period 2020-21 to 2025-26. For the first year of award period ₹ 5344 crore has been allotted and for the remaining award period of 2021-22 to 2025-26 the aggregate grants of ₹ 21,246 crores have been allotted as against the aggregate local body grants of ₹ 17,009.74 crores recommended by the 14th CFC.

3.244. Fund flow to Rural Local Bodies would be around 66 % and for Urban Local Bodies it is only 33% .It is to be noted that CFC allocation to RLBs would be almost double of the ULBs allocation during the CFC award period.

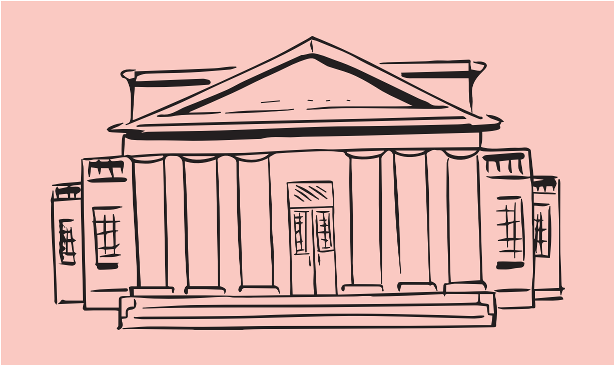
3.245. The ratio of tied and untied grant components is 55:45 for the all the local bodies where as for ULBs it is approximately 50:50 and for RLBs it is 58:42.

3.246. The entry level condition for rural and urban local bodies availing any grants due to them is having both provisional and audited accounts online in the public domain. States will receive grants for those rural and urban local bodies that have their provisional accounts for the previous year and audited accounts for the year before the previous, available online.

3.247. Compared to ULBs the conditions for release of CFC grants to RLBs are much simpler which would ensure the assured fund flow to RLBs.

3.248. The projections of Income and Expenditure for the award period of the Commission make the assumption that the Own Tax Receipts of the Rural Local Bodies would grow at 5%, while expenditure would grow at about 9% to 11% depending on the nature of expenditure and status of Rural Local Bodies. . State's Own Tax Revenue has been estimated to grow at 11% during the award period. Various growth rates have been assumed for General Administration and other items of revenue expenditure. The projections can be seen in Annexure III-A.

District Panchayats

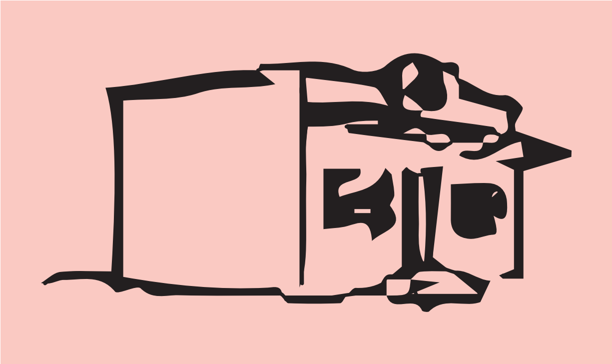


3.249. The net SFC devolution to District Panchayats during the period 2015-16 to 2019-20 is given in tables in Annexure.

3.250. The amount devolved in 2017-18 seemed to be lower than expected but it has been adjusted during the next year. Further, out of the devolution intended for District Panchayats, some deductions have been made towards implementation of specific schemes. Hence, only the net devolution as reported by the District Panchayats has to be been taken into account for projection. Accordingly, the receipts of District Panchayats are expected to grow as indicated in Tables in Annexure. For CFC the actual allocation has been taken.

3.251. The receipts are projected to grow at a CAGR of 8.3% and expenditures at a CAGR of 12.8%. Actual allocation has been taken with regard to CFC. As per the projections throughout the award period the District Panchayats remain in surplus.

Panchayat Unions



3.252. Panchayat Unions also contribute to rural infrastructure schemes. Devolution as reported by the Panchayat Unions has been taken into account for projection. The projections on the receipt and expenditure of Panchayat Unions are enclosed in Tables in the Annexure.

3.253. For Non-Tax revenue, a growth of 5% is adopted. In respect of SFC devolution and 11% growth and for other grants 14% growth was assumed. Actual allocation of CFC is considered for the analysis.

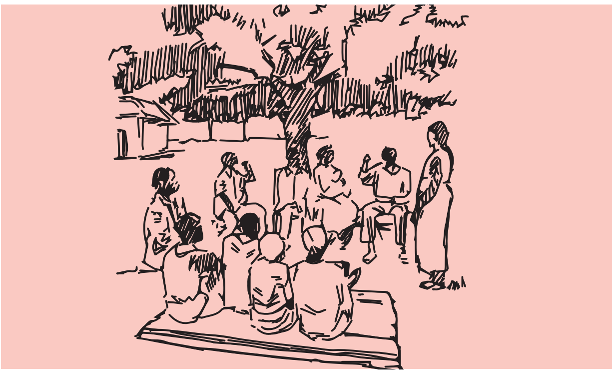
3.254. On the expenditure side, 16% for general administration, 15% for capital expenditure and 10 % growth for maintenance have been assumed.

3.255. Projected net budgetary position of Panchayat Unions showed deficit for all the five years of the unions award period.

3.256. Bulk of the expenditure commitments are due to capital and maintenance expenditures. The gap can be met by surplus transfer from other tiers of RLBs through revised devolution formula and use of CGF and O & M gap filling funds at various levels.

3.257. Similarly, Block Panchayats can use some of their funds to dovetail with Village Panchayats and District Panchayats to take up capital works. Maintenance of Assets can be handed over to Village Panchayats wherever feasible. The Non-tax revenue potential can be tapped to raise their own sources of revenue. Among all tiers of Rural Local Bodies, Block Panchayats are best placed in terms of technical capacity and resource availability to generate revenue and innovate on fund tie-ups for development schemes.

Village Panchayats



3.258. In Village Panchayats, Account No. I is the Village Panchayat General Fund Account into which flow own tax/non-tax revenue, assigned revenue, SFC devolution and deposits and advances. Account No. II is the earmarked Fund into which the CFC grants (till the creation of Account No. IX exclusively for CFC) and minimum lump sum grant of SFC devolution are credited.

3.259. While making projections for Revenue, a CAGR of 5 % is assumed. For projecting expenditure, differential growth rates have been assumed for various sources.

3.260. For projecting General Administration and Maintenance Expenditure CAGR of 10 % and 12% has been assumed and for electricity a growth rate of 10% have been assumed anticipating enhanced rate of electricity charges. Capital expenditure also expected to grow at a higher rate of 15% compared to previous SFC period due to the possibility of increased number of projects at the village level.

3.261. Tax revenue form a very insignificant part of the receipts. The dependence on SFC grants is substantial. As Village Panchayats are the only tier among Rural Local Bodies, that are empowered to levy taxes, this potential needs to be tapped further.

3.262. The significant share of CFC grants also comes out clearly. It is only marginally lower than the SFC grants. This is a major source that has come to Village Panchayats as most of the untied grants of CFC go to these Local Bodies.

3.263. A significant portion of the receipts of Village Panchayats was intercepted during the previous award period due to various schemes formulated at a higher level for the local bodies to be funded by the local bodies. In such cases autonomy of decision making in expenditure is taken away from local bodies whereas they are burdened with unwanted expenditure commitments.

3.264. During the interactions with local bodies the Commission found the widely perceived feeling of lack of adequate resources. From the accounts the local bodies were in a surplus position even during the previous Commission's award period. However, due to interception of even direct devolution grants, the local bodies' resources were strained and their committed liabilities accumulated.

3.265. The Commission is of the opinion that if such interception of funds continues, the local bodies would continue to remain resourceless in spite of being in overall surplus position.

3.266. The largest item in the expenditure list would continue to be electricity charges. Roughly a third of total expenditure of Village Panchayats will be spent on electricity charges. If energy efficient policies are not adopted, the charges paid to the utilities together with interception of funds would compress the remaining amount for maintaining the facilities, service delivery standards and quantity.

3.267. Surplus of funds is very high among Village Panchayats compared to their expenditure requirements based on past revenue and expenditure patterns and even after accounting for the increase in charge for some of the utilities. However, this is mainly due to grants and not from own revenue. Unless own revenue is increased, functional autonomy would not be achieved.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சின்னமனூர் நகராட்சி


AVADI CITY MUNICIPAL CORPORATION
தமிழ் வாழ்க

IV Urban Local Bodies' Finances

தொட்டனைத் தூறும் மணற்கேணி மாந்தர்க்குக்
கற்றனைத் தூறும் அறிவு.

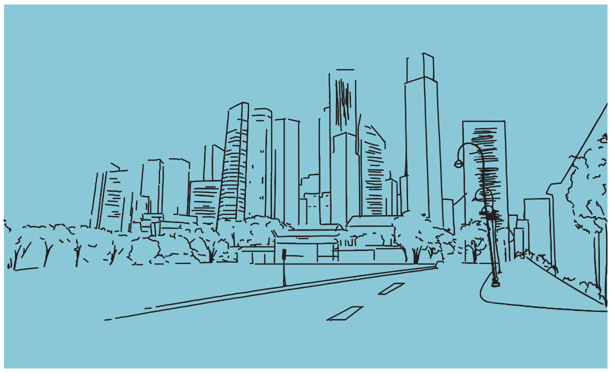
- குறள் 396

In sandy soil, when deep you delve, you reach the springs below;
The more you learn, the freer streams of wisdom flow

INTRODUCTION

4.1. Urbanisation is a key driver of economic growth. Rapid urbanisation poses several challenges to sustainable development but at the same time provides opportunities for reaping greater economic and social benefits for citizens. With increasing prominence of cities in enabling development of nations, it is important that their physical, economic and social infrastructure are effective in providing citizen-centric service delivery.

Urban Situation of India

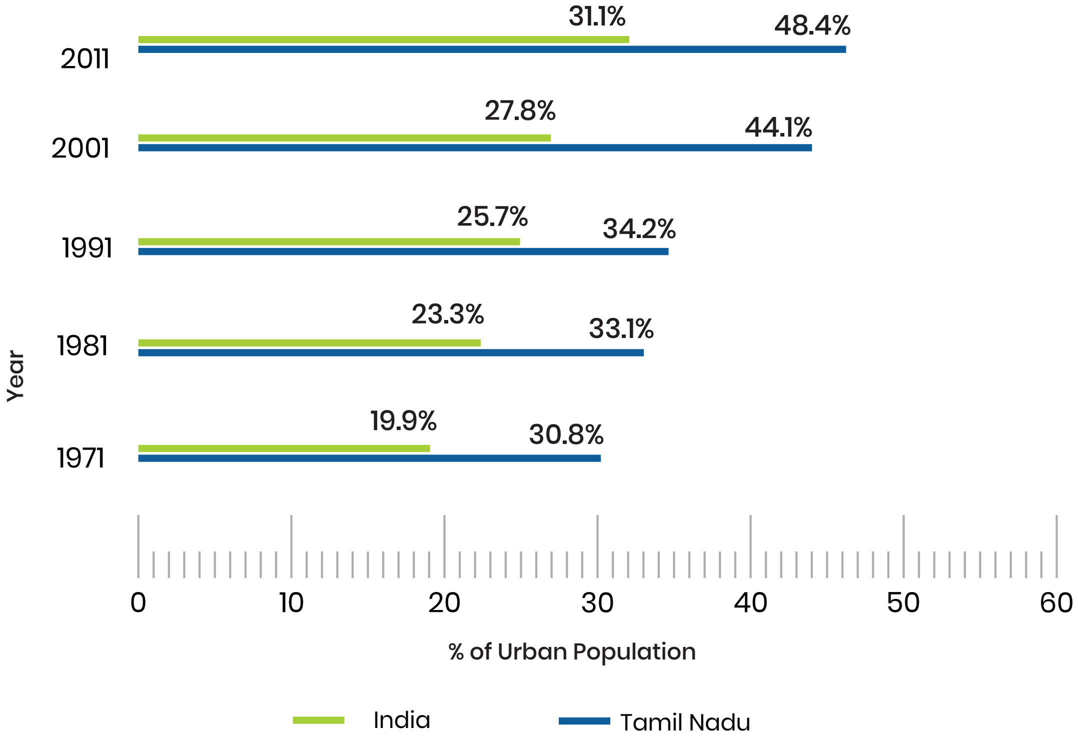


4.2. India's urban system is among the largest in the world – 11% of the world's total population resides in Indian cities. Though India's urbanisation level i.e., 31.1% is low in percentage terms, it is still more than some of the highly urbanised countries such as United States and Japan. It is projected that during 2011-2036, 73% of the increase in total population would be driven by urban growth (M/oHFW, 2019). Estimates by the United Nations (UN) and UN-Habitat indicate that between 2018 and 2050, India will add 416 million urban dwellers and 50% of India will be urban by 2050. Indian cities while occupying just 3% of the country's landmass contribute to more than 60% to India's GDP. Bulk of this growth would be led by states like Tamil Nadu which are already reaching the 50% mark.

Urbanisation In Tamil Nadu

4.3. Even going by the decade old census, with more than 48.4% of its people living in urban areas, Tamil Nadu is India's most urbanised

Chart IV-1 : Trends in the degree of urbanisation of Tamil Nadu and India



State among the large States. It accounts for 9.3% of India's population. The percentage of Tamil Nadu's urban population is much higher than national proportion of 31.16% (Census 2011). Refer to chart IV-2 for details.

4.4. During the decade of 2001-2011, Tamil Nadu's urban population witnessed a decadal growth of 27.2% while the total population witnessed a much lesser growth of 15.6% during the same period. In absolute terms, Tamil Nadu added 7.44 million urban dwellers during this period. In the recent past, liberalisation, a rapidly growing IT sector, availability of educated, industrious and disciplined work force and accelerating economic development has contributed to the growth of Tamil Nadu's urban areas. Consequently, Tamil Nadu's decadal urban growth rate has been consistently higher and Tamil Nadu's urban population share may reach 60% by 2031.

4.5. Tamil Nadu's urban system which is among the largest in the country comprises 664 urban local bodies (ULBs) serving a geographical area of 10,608 sq. km. or ~8.15% of its total land area. Tamil Nadu has the highest number of statutory towns in the country followed by Uttar Pradesh, Madhya Pradesh and Maharashtra. Tamil Nadu is also the second largest contributor to India's economy.

4.6. Rapid urbanisation along with improved standards of living has led to increased citizens' demands from ULBs for improving access and quality of basic services such as 24*7 water supply, solid and liquid waste management, flood prevention and management, roads, street lights, green and open spaces etc. which require city managers to do optimal allocation of its funds and their efficient utilisation. Furthermore, ULBs need to find ways for improving accountability of its staff to the citizens and to continuously improve their cost to serve including rationalisation of establishment costs.

4.7. The composition of urban population among the ULBs has witnessed changes due to expansion of some ULBs, increased migration and natural growth in population. During the period of 5th SFC, Tamil Nadu had 15 Municipal Corporations including the Greater Chennai Corporation (GCC), 121 Municipalities and 528 Town Panchayats (TPs). All Municipal Corporations other than GCC and Municipalities are under the administrative control of the Commissioner of Municipal Administration (CMA). The TPs are under the administrative control of the Directorate of Town Panchayats (DTP).

4.8. At present the total number of Municipal Corporations and Municipalities have increased to 21 (including GCC) and 138, respectively whereas the number of TPs has reduced to 490. Table IV-1 and IV-2 presents the area and urban population of different ULB tiers in the State.

Table IV-1: Urban Local Bodies - Demography (during 5th SFC Period)

Categories	No.*	Area		Urban Population (in lakh)	
		In Sq. km.	*%*	*As per 2011 census*	*%*
Greater Chennai Corporation	1	426.0	4.0	67.3	21.3
Municipal Corporations	14	1464.8	13.8	88.8	28.2
Municipalities	121	2329.6	22.0	78.2	24.8
Town Panchayats	528	6388.2	60.2	80.9	25.7
Total	**664**	**10608.6**	**100.0**	**315.2**	**100.0**

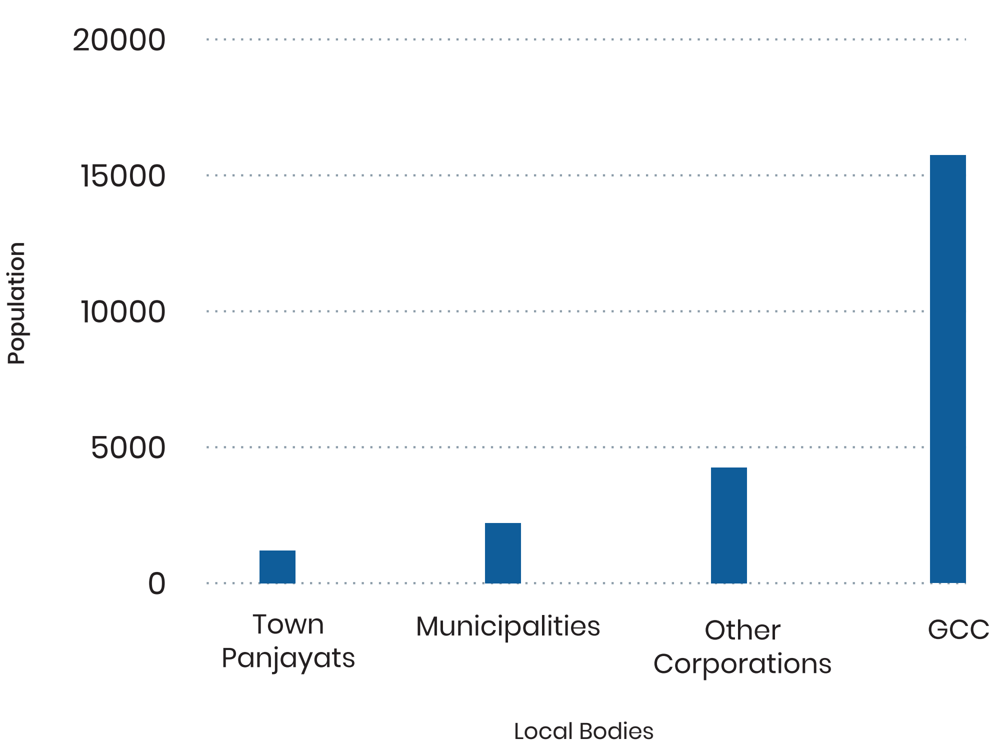
Table IV -2: Urban Local Bodies - Demography (Current)

(₹ in lakh)

Categories	No.**	Area		Projected Urban Population	
		In Sq. km.	*%*	2021 projected population	*%*
Greater Chennai Corporation	1	426.0	4.0	83.0	22.4
Municipal Corporations	20	1501.9	14.2	104.5	28.1
Municipalities	138	2779.5	26.2	100.7	27.1
Town Panchayats	490	5901.2	55.6	83.3	22.4
Total	**664**	**10608.6**	**100.0**	**371.5**	**100.0**

4.9. Greater Chennai is Tamil Nadu's largest urban agglomeration. As per 2011 census, 21.34% of the State's urban population resides within the administrative jurisdiction of GCC which accounts for 4.02% of the total urban area of Tamil Nadu. The GCC has a population density of 15,791 persons per sq. km., which is 2.6 times the population density of other Municipal Corporations in the State. The density of other Municipalities and Town Panchayats is much lower at 3,359 and 1,266 persons per sq. km., respectively. Please refer to the chart below for an overview of the population and geographic area of ULBs in the State.

Chart IV-3 : Population Density in ULBs as per Census 2011



4.10.The Municipalities are classified based on their annual income as detailed in the following table.

Table IV-3: Grade - wise Number of Municipalities in Tamil Nadu

Sl. No.	Category	Annual income (₹ in Crore)	Number of Municipalities
1	Special Grade	Above 15.00	15
2	Selection Grade	9.00 - 15.00	28
3	First Grade	6.00 - 9.00	34
4	Second Grade	Below 6.00	44
Total			**121**

(excluding the recent changes)

4.11.The TPs are also classified into four categories based on their annual income. Please refer to the table below for details.

Table IV-4: Grade - wise Number of TPs in Tamil Nadu

Grade	Annual Income	No. of Town Panchayats
Special Grade	Exceeding ₹ 200 lakh	64
Selection Grade	Exceeding ₹100 lakh & upto ₹ 200 lakh	202
Grade - I	Exceeding ₹50 lakh & upto ₹100 lakh	200
Grade - II	Below ₹50 lakh	62
Total		**528**

(excluding the recent changes)

4.12.ULBs in Tamil Nadu are governed by (i) The Tamil Nadu District Municipalities Act of 1920 which covers Municipalities and TPs, (ii) The Chennai City Municipal Corporation Act of 1919, (iii) The Madurai City Municipal Corporation Act of 1971 and (iv) The Coimbatore City Municipal Corporation Act of 1981.

4.13.The ULBs in Tamil Nadu are discharging most of the functions stipulated by 74th Constitutional Amendment except Census and fire.

OVERALL FINANCIAL POSITIONS OF ULBs IN TAMIL NADU

4.14.Table IV-5 captures the present overall financial position of ULBs in Tamil Nadu. At an aggregate level, the ULBs were in a surplus during the review period i.e., 2015-16 to 2019-20 although the Municipalities suffered revenue deficits during the last three years. During 2017-18, the Surplus of ULBs at an aggregate level dipped by 50.5% bringing it to ₹ 1,106 crore. Revenue Receipts increased by 37.11% whereas Revenue Expenditure increased by ~53% during the review period. Year-on-year growth of Capital Fund (28%) was the highest during the year 2018-19 and Capital Expenditure (~19%) was the highest in 2019-20. The annual growth of Surplus, Capital Fund, Capital Expenditure and Total Receipts was negative in 2019-20.

Table IV -5: Aggregate Financial Position of All ULBs

Sl. No	Item	*Value (₹ in Crore)*					Growth Rate (over previous year) in %			
		2015-16	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2016-17*	*2017-18*	*2018-19*	*2019-20*
1	Revenue Receipts	8849	9704	9465	12234	12133	9.7	-2.5	29.2	-0.8
2	Revenue Expenditure	6986	7468	8359	10103	10685	6.9	11.9	20.9	5.8
3	Revenue Surplus/ Deficit	1863	2235	1105	2130	1449	20.0	-50.5	92.7	-32.0
4	Capital Receipt	5878	6779	7102	9114	7533	15.3	4.8	28.3	-17.4
5	Capital Expenditure	5811	5613	5939	6076	7223	-3.4	5.8	2.3	18.9
6	Total Receipts	14727	16482	16568	21348	19666	11.9	-0.5	28.9	-7.9
7	**Total Expenditure**	**12797**	**13081**	**14299**	**16179**	**17908**	**2.2**	**9.3**	**13.2**	**10.7**

4.15. A state-wise comparison of the Total Revenue and Total Expenditures of ULBs for 2017-18 indicates that in absolute terms Tamil Nadu ranks 3rd in Total Revenue Receipts behind Maharashtra and Gujarat. Please refer to Table IV-6 available in the Annexure for details. However, it ranks 6th in terms of Total Revenue Receipts as a percentage of GSDP. The balance of Revenue and Expenditure of Tamil Nadu is 0.13% of GSDP and Tamil Nadu is behind states like Gujarat (0.57%) and even from the national average of 0.24.

Tier-wise Financial Position of ULBs

4.16.A tier-wise analysis of the financial position of the ULBs indicates that all Municipal Corporations including GCC and Town Panchayats were in Surplus during the review period. The Municipalities suffered deficit during 2017-18 and 2019-20. On the whole, the impact of the deficit faced by the Municipalities was offset by increase in Surpluses of GCC and TPs in 2018-19. The overall financial position of ULBs shows a comfortable position of surplus throughout the five-year period.Tables IV – 7A to IV -7D provide ULB-tier wise financial details and Chart IV-5 presents ULB-tier wise surplus deficit in the Annexure.

4.17.Among the Municipal Corporations, except in 2018-19 & 2019-20, GCC's Capital Expenditure exceeded all the other 20 Municipal Corporations put together.

Revenue Receipts of ULBs

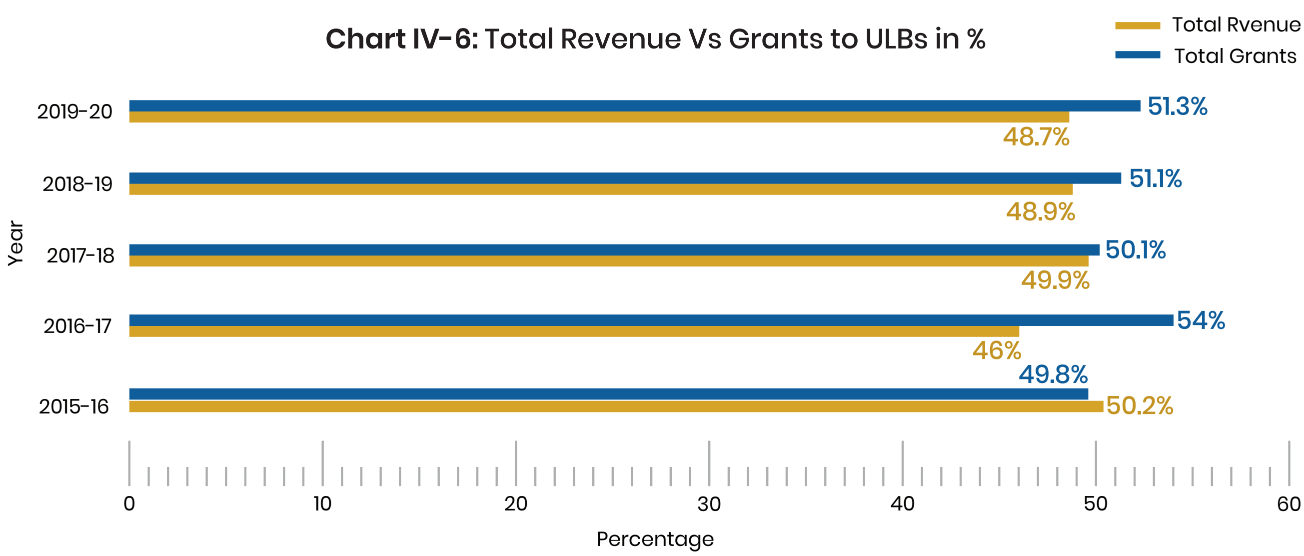
4.18.Revenue Receipts of ULBs are broadly classified into two categories i.e., Own Revenue and Other Revenue. Own Revenue includes tax and non-tax revenue whereas Other Revenue comprises assigned revenue, devolution, other receipts etc. Table IV - 8 shows the aggregate of major heads of Revenue Receipts of ULBs.

Table IV-8: Revenue Receipts of all ULBs

Sl. No	Item	Value (₹ in Crore)					Item Share (%)				
		2015-16	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2015-16*	*2016-17*	*2017-18*	*2018-19*	*2019-20*
1	Total Tax	2050	2309	2469	2965	2944	23.2	23.8	26.1	24.2	24.3
2	Total Non-Tax	1696	1517	1804	2440	2253	19.2	15.6	19.1	19.9	18.6
3	Assigned Revenue	697	635	451	578	714	7.9	6.5	4.8	4.7	5.9
4	**Total Own Revenue**	**4444**	**4461**	**4725**	**5983**	**5912**	**50.2**	**46.0**	**49.9**	**48.9**	**48.7**
5	SFC Devolution	3157	3127	3608	4513	4298	35.7	32.2	38.1	36.9	35.4
6	CFC Grant	864	1301	574	989	1026	9.8	13.4	6.1	8.1	8.5
7	Others	384	814	559	747	896	4.3	8.4	5.9	6.1	7.4
8	**Total Grants**	**4405**	**5242**	**4741**	**6250**	**6221**	**49.8**	**54.0**	**50.1**	**51.1**	**51.3**
9	**Total Revenue Receipts**	**8849**	**9704**	**9466**	**12234**	**12133**	**100**	**100**	**100**	**100**	**100**

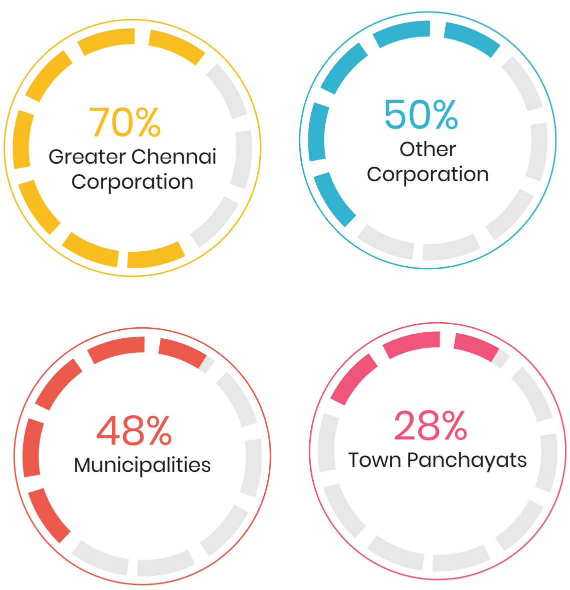
4.19.The aggregate Total Revenue Receipts of ULBs increased by 37% from ₹ 8,849 crore to ₹ 12,133 during the review period. In 2015-16, ULBs' Total Own Revenue and Total Other Revenue / Grants were at similar levels i.e., ₹ 4,444 crore and ₹ 4,405 crore, respectively but Grants increased at a higher rate of 41% compared to Total Own Revenue growing at only 33%. On the whole, in 2019-20, the Total Own Revenue of ULBs 48.7% of the Total Revenue Receipts registering a slight decline from 50.2% at the beginning of the review period. This proportion is the highest for GCC at ~68% in 2019-20 even though it has fallen from 72.3% in 2015-16. For other Municipal Corporations, Municipalities and TPs, it is 50.4%, 51.4% and ~26%, respectively. The dependency of ULBs at an aggregate level on grants decreased marginally by 1.5% primarily due to increase in 'other' revenue during the review period. Grants from Central and State Governments are the major source of revenue for ULBs and contribute between 50 to 54% of their Total Revenue Receipts. Importantly, SFC devolution is the major contributor of ULBs' Revenue Receipts which is in the range of 32% to 38% of the Total Receipts.

Chart IV-6: Total Revenue Vs Grants to ULBs in %



4.20.Among the ULBs, the dependency on grants is the lowest for GCC (30%) and the highest for the TPs (72%). Except for GCC, there is no significant increase in the ratio of Own Tax Revenue to Total Own Revenue for other Municipal Corporations and Municipalities. For the TPs, this proportion has declined from ~12% to ~10% during the review period. The other Municipal Corporations, Municipalities and TPs are in a greater need to improve their own sources of income to meet their overall expenses. Please refer to Tables IV 9A to 9D presented in the Annexure for details of Tier-wise Revenue Receipts. Calculating these numbers gives 69.5% are 50% for other MCs 47% for Municipalities and 28% TPs.

Chart IV-7: Percentage of own Revenue to Total Revenue in ULBs 2015-16 to 2019-20



4.21.The share of Property Tax to Own Revenue as well as Total Own Tax to Own Revenue, increased from ~32% to ~36% and ~46% to ~50%, respectively, during the review period. Total Non-Tax to Own Revenue registered a decline from ~54% to ~50% during this period.

4.22.On the whole, ULBs' Property Tax, Vacant Land Tax (VLT), profession Tax and Other Taxes witnessed a steady increase. In absolute terms, Property Tax increased from ₹ 1,425 crore to ₹ 2,131 crore. However income from Advertisement Tax fluctuated during the years declining from ₹ 11.7 crore in 2015-16 to only ₹ 1.4 crore in 2018-19.

4.23.Non-Tax Revenue of ULBs include D&O License, Building Fee License, Water Supply Charges, Rent & Leases, among others. During the review period, the share of Water Supply and Rent & Leases in Total Non-Tax Revenue increase from 16 to 24% and 15 to 20%, respectively. The proportion of 'Others' to Total Non-Tax Revenue decreased from 58 % to 43% during this period.

Table IV-10: Major Own Source of Revenue of ULBs

₹ in crore

Sl. No.	Item	2015-16	2016-17	2017-18	2018-19	2019-20
	Own Tax					
1	Property tax	1425	1617	1692	2141	2131
2	Vacant Land Tax	106	109	114	127	127
3	Profession Tax	484	540	632	664	643
4	Advertisement Tax	12	12	2.8	1.4	9.7
5	Other Tax	25	30	28	33	34
	Total Tax Revenue	**2050**	**2309**	**2469**	**2965**	**2944**
	Non -Tax Revenue					
6	D&O Licence Fee	38	52	48	49	54
7	Building licence Fee	135	164	173	215	213
8	Bus Stand Fee	20	26	22	24	25
9	Water Supply	266	293	342	417	541
10	Rent & Lease	258	282	342	477	459
11	Others	980	700	878	1258	962
	Total Non-Tax	**1696**	**1517**	**1804**	**2440**	**2254**
	Assigned Revenue					
12	Surcharge on Stamp Duty	572	490	310	412	524
13	Others	125	144	141	167	191
Total Assigned Revenue		**697**	**635**	**451**	**579**	**714**
Total Non-Tax Including Assigned revenue		**2394**	**2152**	**2255**	**3019**	**2968**
Total Own Revenue		**4444**	**4461**	**4725**	**5984**	**5912**

Summary

Item Percentage	2015-16	2016-17	2017-18	2018-19	2019-20
Property Tax to Own Revenue	32.1%	36.2%	35.8%	35.8%	36.0%
Total Own Tax to Own Revenue	46.1%	51.8%	52.3%	49.6%	49.8%
Total Non-Tax to Own Revenue	53.9%	48.2%	47.7%	50.5%	50.2%

Own-tax Revenue of ULBs

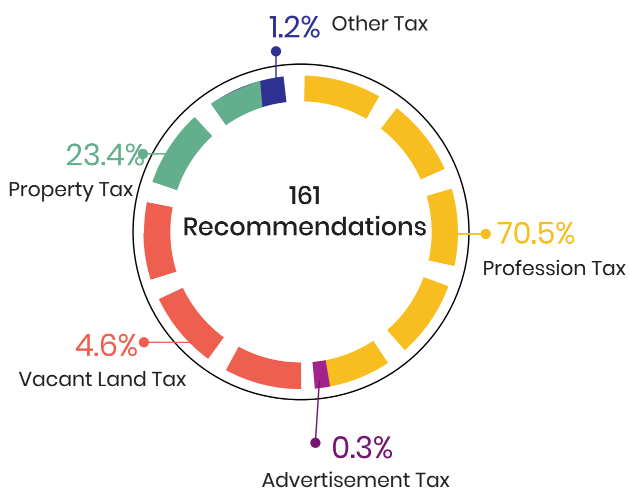
Property Tax

4.24. Property Tax accounts for the majority of ULBs' Own Revenue. In 2019-20, Property Tax constituted ~72% of the Total Tax Revenue of all the ULBs taken together. During the review period, the income from Property Tax grew at a CAGR of 8%. According to the Property Tax Reform Toolkit prepared by M/o HUA, in order to double the country's Property Tax collection from existing ₹ 20,000 crore to ₹ 40,000 crore by 2024, ULBs should aspire to grow their Property Tax collection at a CAGR of 18% (M/o HUA, 2021). Hence, it is critical that ULBs adopt a comprehensive 'Whole of Systems' approach to Property Tax Reforms from enumeration to billing & collections to reporting.

Table IV-11: Composition of Own Revenue and Tax Revenue to Total Revenue*

Ratios	2015-16	2016-17	2017-18	2018-19	2019-20
Property Tax/Total Tax	69.5%	70.0%	68.5%	72.2%	72.4%
Vacant Land Tax/ Total Tax	5.1%	4.7%	4.6%	4.3%	4.3%
Professional Tax/ Total Tax	23.6%	23.4%	25.6%	22.4%	21.8%
Advertisement Tax/Total Tax	0.6%	0.5%	0.1%	0.0%	0.3%
Other Tax/Total Tax	1.2%	1.3%	1.1%	1.1%	1.1%
Water Supply/ Non-Tax	20.1%	24.5%	22.4%	18.4%	26.6%
Sewerage Charges/ Non-Tax	1.8%	2.3%	2.2%	2.5%	3.2%
Other Non-Tax/Non-Tax	78.2%	73.2%	75.4%	79.2%	70.2%
Total Tax/Total Own Revenue	54.7%	60.4%	57.8%	54.9%	56.6%
Non-Tax/Total Own Revenue	45.3%	39.6%	42.2%	45.1%	43.4%

Chart IV-8: ULBs-Average percentage Contribution to Total Tax 2015-16 to 2019-20



4.25.After Property Tax, Profession Tax and VLT are two other important sources of revenue for the ULBs. In 2019-20, Profession Tax and VLT accounted for ~22% and 4.3%, respectively of the Total Tax Revenue of the ULBs at an aggregate level. The dependency of ULBs on other sources of revenue could be reduced significantly if the ULBs can make efforts in improving the collection efficiency including reduction / elimination of arrears of Property Tax and Profession Tax. Chart IV-8 presents tier-wise Property Tax Collection Efficiency of ULBs in the State in the Annexure.

4.26.While the number of assessments has recorded an increase in the case of GCC and Municipalities, it has marginally declined for other Municipal Corporations and TPs. The demand collection balance of Property Tax of ULBs in Tamil Nadu shown in the Table IV - 11 reveals that the collection efficiency is found to be high in Town Panchayats where the collection of current demand ranged between 78% and 91% in the last five years. The current collection has remained consistent in GCC even though the number of assessees has increased, the collection efficiency has not improved in GCC and Municipalities ranging from 55% to 79%. Municipal Corporations other than GCC shows very less collection in the year 2017-18 and 2018-19. This represents that more arrears are left to be collected in Corporations (other than GCC) and Municipalities and there is a greater need to improve the collection of Property Tax.

Table IV-12: Collection Efficiency of Property Tax for ULBs;
Property Tax – Demand, Collection and Balance

Description	**Collection**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Greater Chennai Corporation						
Demand (₹ in Crore)	Current	556	589	604	715	404
	Arrear	548	565	553	598	572
	Total	**1104**	**1154**	**1158**	**1313**	**976**
Collection (₹ in Crore)	Current	364	450	470	486	289
	Arrear	192	246	210	143	165
	Advance	31	0	40	351	474
	Total	**587**	**695**	**720**	**980**	**928**
Balance (₹ in Crore)	Current	192	139	134	229	115
	Arrear	357	320	343	455	406
	Total	**549**	**459**	**477**	**684**	**521**
Collection Efficiency in %	Current	65	76	78	68	72
	Arrear	35	43	38	24	29
No. of Assessments		1168143	1195723	1204247	1232882	1278035
Percentage of Growth			2.36	0.71	2.38	3.66
Municipal Corporations (other than GCC)						
Demand (₹ in Crore)	Current	455	490	564	824	585
	Arrear	340	381	394	470	511
	Total	**795**	**871**	**958**	**1294**	**1095**
Collection Efficiency in %	Current	367	399	423	439	449
	Arrear	72	87	81	109	143
	Total	**439**	**487**	**504**	**548**	**592**
Balance (₹ in Crore)	Current	88	91	141	385	136
	Arrear	268	294	313	361	368
	Total	**356**	**384**	**454**	**745**	**503**
Collection Efficiency in %	Current	81	82	75	53	77
	Arrear	21	23	21	23	28
No. of Assessments		**2088566**	**2142269**	**2188516**	**2224818**	**2269806**
Percentage of Growth			**2.57**	**2.16**	**1.66**	**2.02**
Municipalities						
Demand (₹ in Crore)	Current	297	318	384	635	396
	Arrears	183	202	244	291	320
	Total	**480**	**521**	**628**	**927**	**715**

Collection (₹ in Crore)	Current	230	251	278	349	310
	Arrears	50	57	56	89	118
	Total	**280**	**308**	**334**	**432**	**428**
Balance (₹ in Crore)	Current	67	68	107	286	86
	Arrears	133	145	188	208	201
	Total	**200**	**213**	**294**	**494**	**287**
Collection Efficiency in %	Current	78	79	72	55	78
	Arrears	27	28	23	29	37
No. of Assessments		**2181128**	**2255925**	**2362999**	**2385311**	**2491968**
% of Growth			**3.43**	**4.75**	**0.94**	**4.47**
Town Panchayats						
Demand (₹ in Crore)	Current	120	143	135	214	173
	Arrear	51	54	77	57	92
	Total	**171**	**197**	**211**	**272**	**265**
Collection (₹ in Crore)	Current	107	114	122	168	146
	Arrear	**12**	13	12	12	37
	Total	**119**	**127**	**134**	**180**	**183**
Balance (₹ in Crore)	Current	14	30	13	47	27
	Arrear	39	41	64	45	58
	Total	**53**	**70**	**77**	**92**	**85**
Collection Efficiency in %	Current	89	79	91	78	84
	Arrear	23	24	16	21	41
No. of Assessments		**2545001**	**2602074**	**2656228**	**2713615**	**2742716**
Percentage of Growth			**2.24**	**2.08**	**2.16**	**1.07**

4.27. Per capita Property Tax demand has increased during the five-year period of 2015-16 to 2019-20 in all the tiers of ULBs except GCC which showed a 2% percent decrease in per capita property tax demand whereas all other tiers witnessed an increase with the highest being 9% in the case of Town Panchayats. The decrease in GCC might be due to the roll back of property tax rate revision. Though the current and arrear collection showed negative growths in GCC, the total tax collection growth rate showed positive trend since the amount collected in 2018-19 as property tax is treated as advance for the year 2019-20 and added to the total tax amount collected due to the rollback of property tax revision.

4.28. Growth of per capita property tax both in current as well as arrear demand also showed a negative growth in GCC. But the collection growth rate from the year 2015-16 to 2019-20 remained positive at 8%. In all other ULBs, the demand increased. Town Panchayats demand is faring well when compared with other ULBs, which showed a 7% growth during the five-year period. It is evident that full potential of tax revenue, especially property tax revenue which is a major contributor of own tax revenue of ULBs is not exploited. Enhancement of property tax rate is vital to augment ULBs tax revenue.

Inter-state Comparison of Tax Revenue

4.29. The percentage of Property Tax to GSDP of Tamil Nadu in 2017-18 is ~0.13 whereas the All India figure is 0.149 to GDP in the same year.

Please Refer to Table IV-14 in the Annexure. When compared to the year 2014-15, except percentage of Total Revenue to GSDP all others viz., percentage of Own Revenue to GSDP, percentage of Tax Revenue to GSDP, percentage of Property Tax to GSDP have decreased in the year 2017-18. Almost all the indicators are less than national figures except for the percentage of Total Revenue to GSDP in 2017-18. Further, among the reference states during 2017-18, Gujarat's property tax as a percentage to GSDP was the highest at 0.40 followed by Maharashtra at 0.33 which exceed the national figure of 0.15. Revenue from Property Tax was below 0.6 percentage of GSDP for all the reference states. Tamil Nadu is below the national figure of 0.149 and also lower than the States like Telangana, Karnataka.

4.30.In the year 2017-18, for Gujarat, Telangana and Karnataka, the proportion of Property Tax to the Revenue Expenditure are 77.8%, 67.7%, 55.7%, respectively which are significantly high whereas in Tamil Nadu it is 23.3% only. Please refer to Table IV-13 in the Annexure. Percentage contribution of Property Tax to own revenue is the highest in Karnataka followed by Gujarat and Telangana sharing the second spot and West Bengal at the third place with 48.8% of their own revenue coming from Property Tax.

4.31.During 2017-18 per capita Property Tax collection is highest in Gujarat at ₹ 1,912 per person followed by Maharashtra at ₹ 1,512 per person and Karnataka at ₹ 949 per person. Tamil Nadu ranks 10th with ₹ 487 per capita which is well below the national figure of ₹ 688 per person.

4.32.Revenue from Property Tax has increased for all the ULBs as a whole during the period 2011-12 – 2017-18 with Municipal Corporations registering an average increase of 12.5%. Municipalities and TPs' Property Tax grew by 9.3% and 7.6%, respectively during the same period. However, the Property Tax as a percentage of GSDP declined from 0.129% to 0.125% between 2011-12 and 2017-18 which is lower than the national average of 0.149% and further lower compared to OECD countries such as UK (3.11%) and Canada (3.05%). Please refer to Table IV-10 for an overview of tier-wise Property Tax Revenue for ULBs in Tamil Nadu and Chart IV-12 for details of Property Tax revenue as % of GDP for OECD countries in the Annexure.

Improving Collection Efficiency

4.33.ULB's in Tamil Nadu are not able to collect 100% of their current Tax Demand and arrears. Collection efficiency of current demand ranges from 55% to 91% with highest collection efficiency reported by TPs although their assessment base is much lower compared to other ULB tiers. ULBs face greater challenges in collecting arrears wherein only 21-43% is collected.

4.34.To help the ULBs to improve their Property Tax collection efficiency, the Fifth State Finance Commission had recommended speedy completion of computerization of Property Tax System and implementation of on-line self-assessment of Property Tax with necessary enabling changes to various Municipal Acts of the State. Accordingly, ULBs under the CMA have made the facility of self-assessment available online. In TPs, this facility is being implemented in a pilot mode. The Greater Chennai Corporation sent a letter to the Government with some suggestions which are to be considered before the implementation. It is to be noted that this recommendation has not been implemented in full. Further, in respect of amendments to the Acts of the ULBs, a proposal has been sent to the Government and it is under process.

4.35.The Fifth SFC had also recommended imposing penalty on late payment of Property Tax and publishing list of Property Tax defaulters by ULBs after close of the financial year. GCC adhered to this recommendation after amendment of the CCMC Act of 2019 and published the list of 'high value tax defaulters' on its website. As per the data available, 5.38 lakh defaulters were identified and ₹ 2.08 crore penalty imposed on the defaulters.The Madurai City Municipal Corporation has published the major defaulters list on its website based on the directions from the Madurai Bench of Hon'ble High Court of Madras and this has enabled the Corporation to collect the certain arrears from the defaulters. The CMA has sent a proposal to the GoTN for implementing this initiative in other ULBs and for making required legislative changes to municipal acts. It is important that other ULBs implement this recommendation on a priority basis to ensure timely collection of Property Tax and minimisation of arrears.

Property Tax – Incentives And Interest

4.36.The Government has amended the CCMC Act, 1919 towards Incentive for prompt payment and penal interest for belated payments and it has been implemented in GCC with effect from 2020-21 with retrospective effect from 2019-20. (G.O.No.119, Municipal Administration and Water Supply (Election) Department, Dated 13.09.2019). As per the Amendment, a 5% incentive for payment within the first fifteen days of half-yearly assessment is provided to assessees whereas a 2% simple interest is levied on annual basis for payment after 15 days of each half-year.

4.37.Though Tamil Nadu's SoTR is performing well, there is a need to realise the potential of Property Tax collection. This is particularly critical given the introduction of GST and limited scope of additional resource mobilization by the State. Therefore, to meet an increased portion of the huge expenditure required to provide quality urban infrastructure and services to the public, property tax is a focus area for raising additional revenue.

4.38.Among other things, Property Tax System requires a 'whole of systems' approach that comprises the following:

I. Enumeration: Complete, accurate and timely listing of properties for taxation

ii. Valuation: Appropriate valuation of all properties

iii. Assessment: Adequate verification of all self-assessment and timely capture of all re-assessments

iv. Billing and Collections: 100% billing / self-assessment and 100% collection

v. Reporting: Accurate reporting and systematic review of MIS reports for informed decision making

Reasons for Untapped Potential

4.39. A Study undertaken by this Commission to assess the potential of Property Tax in ULBs especially Town Panchayats suggest that ULBs in Tamil Nadu are unable to realise Property Tax potential due to the following reasons:

No Revision of Property Tax Rates for a long Time

4.40.In 2007 and 2008, the State Government had issued guidelines to ULBs for general revisions of Property Tax with effect from 01.04.2008. Orders were issued again by the State Government in 2018 to revise Property Tax

Table IV-17: Number of Property Tax Assessment (2015-16 to 2019-20)

Year	Chennai Corporation		Other Corporations		Municipalities		Town Panchayats	
	No. of Assessments	*GR (%)*	*No. of Assessments*	*GR (%)*	*No. of Assessments*	*GR (%)*	*No. of Assessments*	*GR (%)*
2015-16	1168143	-	2088566	-	2181128	-	2545001	-
2016-17	1195723	2.36%	2145569	2.73%	2255925	3.43%	2602074	2.24%
2017-18	1204247	0.71%	2188516	2.00%	2362999	4.75%	2656228	2.08%
2018-19	1232882	2.38%	2224818	1.66%	2385311	0.94%	2713615	2.16%
2019-20	1278035	3.66%	2269806	2.02%	2491968	4.47%	2742716	1.07%

rates by not more than 50% for Residential Buildings and not more than 100% for Rented Residential Buildings and Non-Residential Buildings. However, this order was amended based on the recommendations of the CMA and DTP to tax all residential buildings including the rental providing a revision not more than 50%.Orders were also issued for re-measurement of properties in the year 2017-18 to identify under assessed buildings and buildings with change in usages and revised Property Tax taking into account of the actual measurement of the buildings and period of construction with imposition of penal action and taxes. Based on representations from citizens, traders & commercial associations and political parties to reduce Property Tax rates, the Government set up a Committee chaired by Principal Secretary to Government, Finance Dept (Expenditure) to examine the issues related to revision of Property Tax rates.As on date, the committee's report is awaited, and the revision has not been given any effect so far.

Inadequate and Ineffective Property Tax Collection Mechanism

4.41.According to rule 8(1) of Schedule IV of the Tamil Nadu District Municipalities Act 1920, the assessment books shall be updated by the executive authority once in 5 years. This involves (i) creation of Property Registers and (ii) Maintenance of Property Tax Register and linking it with relevant departments. However, the Master Registers have not been periodically updated. A study by MSE undertaken for this Commission reported that records are not maintained by ULBs in the State with missing details of many properties. Lack of accurate Property Tax database is a major challenge for ULBs in raising and collecting Property Tax. The study recommended for computerized registration of properties and their integration with master database at State / district level.

4.42.The Table below presents the total number of assessments and total demand by type of properties as on March 2020. During the period of review, the number of properties under assessment increased by only 7.99 lakhs for all the ULBs together translating into an annual average growth rate of merely 2%. The growth rate of Property Tax assessments is lower in the case of Municipal Corporations (~2.1%) compared to Municipalities (3%). The increase in number of assessments is not sizeable and this shows the need for the regular updation of Property Registers.

4.43.A review of the properties by their classifications indicate stark differences in the number of properties and corresponding tax demand across different ULB tiers. Please refer to the annexure for details.

Table IV-18: Number of Assessments and Total Demand by Type of Property

Category	Number of Assessments (As on March 2020)				Annual Tax Demand (₹ in Crore)			
	GCC	*Other Corporations*	*Municipalities*	*TPs*	*GCC*	*Other Corporations*	*Municipalities*	*TPs*
Residential	1073554 *(84%)*	2172998 *(90%)*	2125300 *(87%)*	2500567 *(91%)*	229.46 *(30%)*	3542.77 *(58%)*	264.66 *(59%)*	155.84 *(90%)*
Commercial	89155 *(7%)*	205418 *(9%)*	282149 *(12%)*	231008 *(8%)*	305.00 (40%)	1164.76 (19%)	132.46 (29%)	13.85 (8%)
Industrial	109355 (9%)	28371 (1%)	15998 (1%)	10820 (1%)	63.90 (8%)	1412.29 (23%)	32.42 (7%)	2.60 (1%)
Others *	5971 (0%)	1704 (0%)	4223 (0%)	321 (0%)	156.39 (21%)	9.04 (0%)	21.63 (5%)	0.87 (1%)
Total	**1278035 (100%)**	**2408491 (100%)**	**2427670 (100%)**	**2804857 (100%)**	**754.74 (100%)**	**6128.86 (100%)**	**451.17 (100%)**	**173.16 (100%)**

4.44.The number of residential properties is the highest among all tiers but the share of tax demand for residential properties is highest in all tiers except GCC. While the share of Commercial properties in GCC and other Municipal Corporations is 7% and 9%, respectively, the corresponding tax demand is 40.4% and 19%, respectively. Further, though the number of properties classified under 'Others' is ~05.%, the corresponding tax demand is much greater than the tax demand for Industrial properties. Hence, there is room for reclassification of properties and leveraging GIS based technologies for enumeration and periodic updation of Property Tax databases can help in improving the accuracy and count of properties.

- In this regard, the Fifth SFC has recommended carrying our GIS mapping of properties for all ULBs including TPs to bring unassessed properties under the purview of Property Tax System. ULBs have undertaken the following measures to adhere to this recommendation.

- GIS survey being conducted for all ULBs under CMA by utilising the funds earmarked for this purpose under TNSUDP; GIS survey completed in 17 ULBs using satellite imagery. It is now proposed to (i) use drone technology to capture high resolution and accurate spatial data (ii) develop a common mobile application to capture property details in the field (iii) integration of Property Tax database with the building plan approval process.

- Proposal for engaging manpower for each ULB for maintenance of GIS-based Property database is under the consideration of the Government.

- GCC is preparing a base map of properties through GIS mapping and door-to-door survey under TNSUDP; Door-to-door survey completed in 140 out of 200 wards and ground verification completed in 114 wards and integration of MIS with GIS database completed for 113 wards.

- For introduction of GIS-based Property Tax system in TPs, a pilot study was carried out in Ponneri Town Panchayat.

- Steps are underway to strengthen updation and linkages of Property Tax databases with other systems to enable better scrutiny and verification. These include: (a) Incorporation of detailed guidelines for maintenance of a Register of Building Licences in the Municipal Manual (b) Automated workflow linkage between taxation wing of ULBs with planning authorities i.e., CMDA, DTCP.

- An Online Building Plan Approval system has been functioning since 01.01.2020 along with field inspection of properties that has enabled verification of assessments. Due to this initiative GCC identified 47,092 properties during the review period that were earlier under assessed.

4.45.The Madras School of Economics has recommended a set of five measures to tap into the revenue potential of Property Tax of the Town Panchayats in the State. These include:

- Revenue mobilisation through Rate Revision;
- Additional Revenues through improved collection efficiency;
- Additional revenues from exempted properties;
- Raising revenues based on Recommendation of Fifth State Finance Commission and
- Realising full tax potentials measured using the frontier approach.

Continued Use Of Older Valuation Methods

4.46.One of the most difficult problems in taxing property is determining a reasonable basis of assessment. As per the Property Tax Reform Toolkit (M/o HUA 2019), Property Tax valuation methodology should be buoyant and equitable, should minimize the administrative cost of implementation, avoid discretionary application and should be easy to comply with. The three principal approaches to the contemporary assessment of property viz., Annual Rental Value (ARV), Capital Value (CV), and Unit Area Value (UAV) are used by States in India. All the three methods have their pros and cons but Capital Value method with direct linkage to guidance value and minimum multiplicative values is recommended by the Property Tax Reform Toolkit of M/o HUA. Table IV-19 in the Annexure list the method of property assessment by select states.

4.47.Prior to 1993, ARV and CV methods were used in the State and from 01.10.1998, the State Government introduced ARV as the common valuation method for all ULBs in the State. Under ARV method, properties are charged based on perceived rent which are often ad-hoc and without any linkages to underlying criteria making the system less buoyant. Under this valuation, Property Tax was determined based on zonal values of the concerned ULB after factoring in depreciations and discounts. However, imposition of ceilings limited the potential of tax rate increase during quinquennial revisions.

4.48.The Fifth State Finance Commission felt the need to change the method of assessing property values to an Area Based Mechanism in which the basic land value is linked to the Guideline Value of the land as periodically revised by the Registration Department with appropriate discounts and rebates based on the use, location, quality and age of the building and recommended an Area Based Property Assessment System for adoption in Tamil Nadu. The factors which are to be considered during the calculation of property tax payable are, the value of the property based on the guideline value of the land the value of the building, the built up area, number of floors and usage.

4.49.There is a need to streamline the methodology of property valuation to yield regular and realistic updates of values that are closer to market value. This may help realise greater revenues from property registrations. There are many ways that States can cross-check the wedge between market prices of properties and their fair values. One useful source can be the Residex of the National Housing Bank—an urban housing price index computed for housing properties in 50 cities across India that makes use of valuation data collected from primary lending institutions and data collected through market survey for under-construction properties, apart from registration data collected from official agencies. Another cross-check can be data from private real estate portals present in states with buoyant property transactions. These portals give differentiated price quotations for different kinds of properties different locations.

Tax Rates and Revisions

4.50.In Tamil Nadu, ULBs levy Property Tax at such percentage of the annual value of buildings, or lands which are occupied by, or adjacent and appurtenant to buildings or both, as may be fixed by the council.

4.51.According to Rule 8(1) of Schedule IV of the Tamil Nadu District Municipalities Act 1920, the assessment books shall be updated by the executive authority once in five (5) years. This forms the basis for quinquennial tax revisions, which are the backbone for the fiscal health of ULBs. The Government should ensure the periodical revision of property tax which will improve the financial position of the ULBs. As per the 74th Constitutional Amendment Act, the ULBs may be requested to revise the rate of taxation of property tax taking into account the financial status.

Acts Governing Property Tax Revisions

4.52.As per the provisions laid down in the Municipal Corporation Acts and in the TNDM Act, 1920, the respective Municipal / Corporation Councils have been empowered to fix the rate of taxation for levy of property tax within the minimum and maximum percent on annual value percentage on annual value of the buildings, as fixed in the respective Acts. The Act provisions are furnished below:

Table IV -19: Acts Governing Property Tax Revisions

<table>
<tr><th>Corporation Name</th><th>Relevant Act and Sections / Sub-sections</th><th>Aggregate rate of Property Tax fixed at not less (<) than of the Annual Value</th><th>Aggregate rate of Property Tax fixed at not greater (>) than of the Annual Value</th></tr>
<tr><td>Greater Chennai Corporation</td><td>Chennai City Municipal Corporation Act, 1919; Section-99, Sub-section (2)</td><td>15.5%</td><td>25%</td></tr>
<tr><td>Madurai City Municipal Corporation</td><td>Madurai City Municipal Corporation Act, 1971; Section-120, Sub-section (2)</td><td rowspan="2">15.5%</td><td rowspan="2">35%</td></tr>
<tr><td>Coimbatore City Municipal Corporation and all other newly constituted Municipal Corporations</td><td>Coimbatore City Municipal Corporation Act, 1981; Section-121, Sub-section (2)</td></tr>
</table>

4.53.In respect of Municipalities and Town Panchayats, as per Section-81-A, Sub-section-1 of the Tamil Nadu District Municipalities Act, 1920, the State Government shall notify the rate of tax for property tax with minimum and maximum rate for adoption by the respective Municipal Councils. As per Section-81, Sub-section (2) of the Tamil Nadu District Municipalities Act, 1920, the Municipalities are empowered to levy property tax at such percentage of the Annual Value as fixed by the Municipal Council. It is also specifically mentioned in Section-81-A, Sub-section (3), that the Municipal Council shall not reduce the floor rate of property tax or abolition of such tax without the previous sanction of the Government.

4.54.Under the above provisions, the floor rates can be revised periodically by the respective Municipal / Corporation Councils. Therefore, it is evident from the above that uniform rate of taxation is not being adopted in all the Municipal Corporations and Municipalities.

4.55.As per the recommendations of the Fifth SFC to revise Property Tax rates, the Government in its order dated 26.07.2018 issued orders effective from 01.04.2018 to carry out general revision in Property Tax rates in all ULBs. Based on the revised rates, the total Tax demand for all Municipal Corporations including GCC increased by ₹ 937 crore or 73% from 2017-18 to 2018-19. For GCC, the tax demand increased by a whopping 94% during the same period. Please refer to the table below for an overview.

Table IV -20: Pre and Post Demand of Property Tax & Percentage of Increase

₹ in Crore

ULBs	2017-18 Property Tax Demand Before Revision	2018-19 Property Tax Demand After Revision	Increase in Demand	% of increase
Corporations (except Chennai) and Municipalities	947	1568	621	64
GCC	336	652	316	94
Total	**1283**	**2220**	**937**	**73**

4.56.However, based on representations from the citizens, trade & industry associations and political parties citing financial hardships due to revision in the rates, the Government constituted a Committee via GO dated 19.11.2019 under the Chairpersonship of Principal Secretary to Government, Finance (Expenditure) Department to examine the representations received and make recommendations. Since then the tax revisions have been on hold and report of the Committee is awaited. Due to the on-going Covid-19 pandemic there has been a delay submission of the report by the Committee. The Commission considers this intervention by the Government unnecessary.

4.57.The decision to withhold the Property Tax revision has had an adverse impact on ULB's Property Tax demand. It has been observed that decrease in Property Tax Demand from 2018-19 to 2019-20 in all the ULBs is ₹ 831.16 cr. As per the MA&WS Department's memorandum annual loss per year due to roll back of tax revision is ₹ 1347.58 crore. The table below presents the revisions in Property Tax rates since 1998 in the State.

Table IV -21: Property Tax Rate Revisions in ULBs of Tamil Nadu (in ₹)

Type of Building	As per 1998 GO MS 64, MAWS dt. 24.04.1998 & Roc No.69517/97/R1 dt:1.07.1998		*As per 2008 GO MS no 110 MAWS 23.06.2008 Revision - Not more than (in percent)*	Rates as per the revision		As per 2018 GO MS.No.76 MAWS dt: 26.07.2018 Revision-Not more than *(in percent)*	Rates as per the revision	
	Min.	*Max.*		*Min.*	*Max.*		*Min.*	*Max.*
Residential Building	0.15	2	25	0.19	2.5	50	0.28	3.75
Institutions & Offices	0.25	3	25	0.31	3.75	50	0.47	5.63
Commercial	0.5	5	150	1.25	12.5	100	2.5	25
Industrial	0.4	4	100	0.8	8	100	1.6	16

4.58.It is important to note that due to revision of Property Tax rates which is being withheld, GCC is following the rates fixed in 1998 whereas all other ULBs are following the rates fixed in 2008. The rates have been stagnant and completely delinked from rising expenditure needs.

4.59.The withholding of Property Tax revisions also has a bearing on achieving the target set by the Fifth SFC to make Property Tax collections at 0.25% of the GSDP. This ratio reached its highest level of 0.147 in 2018-19 when the Property Tax rate revisions were in effect before falling drastically to 0.084% in 2019-20. Please refer to Table No. IV-22 in the Annexure that captures Property Tax as % of GSDP.

4.60.While the recent revision in Property Tax rates increases the tax demand substantially it is not up to the desired levels as the year-on-year gap between the actual Property Tax collection and the required collection at the rate of 0.25% of the GSDP records an increase from ₹ 1513 crore in 2015-16 to ₹ 3,057 crore in 2019-20. Please refer to the table below for details.

Table IV -23: Property Tax Target @ 0.25% of GSDP & Actual Collection

Year	Total	Expected PT @0.25 % of GSDP	Difference (Expected – Total)
2015-16	1428.45	2941.25	1512.80
2016-17	1540.61	3256.60	1715.99
2017-18	1687.11	3662.63	1975.52
2018-19	2388.37	4075.52	1687.15
2019-20	1557.21	4614.63	3057.42

4.61.In GCC, the basic rate being followed was fixed during the year 1998. As per the Cost Inflation Index by Central Board of Direct Taxes (CBDT), the value of rupee has increased by 3.85 times in 2021-22 when comparing with 1998-99. The base rate revision should be in line with the rate of inflation. The following table compares the property tax base rates fixed during 2018 and rolled back with the rates which should have been fixed if the base rates were to be in line with the inflation rate.

4.62.The base rates fixed for Industrial Buildings is in line with the inflation whereas the rates fixed for commercial buildings are closer to the inflation rate. Please refer to the table below. These rates may be continued while revising the rates also. But with regard to residential and institutional buildings the rates are much lower.

4.63.At present properties are assessed based on the instruction and guidelines issued by the Government in Go No.64, MA&WS Dept., dated. 24.04.1998. The properties are assessed based on the annual rental value arrived through the Zonal Basic Value method. For this, the respective Municipal Councils divide the entire area of the local body into 3 to 4 zones taking into account the average annual rent value in that zone. There is a basis for arriving the new zonal basic value during every general revision of property tax taking into account the prevailing rental value for newly constructed RCC buildings having 1000 sq. ft. and arriving annual rental value both for existing assessments as well as for new assessment.

4.64.Section 81(A) of the District Municipalities Act 1920, empowers the State Government to publish a notification directing any Municipal Council to levy property tax or any other taxes. Section (A) (2) makes it obligatory on Municipal Councils to give effect to the tax at the rate indicated in the Government notification. Sub-section (3) prevents the Municipal Councils from reducing the rate of tax to below what has been notified by Government. Section 81(A) was inserted by a specific amendment in 1944. The purpose appears to have been to force the Municipalities to either levy or enhance the rate of tax. Now a notification under this section has come to be seen as a requirement for ULBs to revise taxes in their jurisdiction. This is an incorrect interpretation and has led to prolonged periods of non-revision of taxes. Section 81(A) should be seen as only a safeguard for revenue, whereby the local body is restrained from either doing away with a tax or reducing the rate.

Property Tax Board

4.65.The Government established a Property Tax Board under the Chairpersonship of Principal Secretary to the Government, MA&WS Department in compliance with the recommendations of the 13th CFC to help to determine valuation of properties. The Government was also requested to take this subject for the consideration of the Tamil Nadu State Property Tax Board for suggesting modalities for periodical revision of property tax. But effective functioning of the board is yet to happen.

Table IV -24: Property Tax Rates from 1998 (In ₹)

Usage of Building	As per 1998 GO MS 64, MAWS dt. 24.04.1998 & Roc No.69517/97/R1 dt:1.07.1998		As per 2008 GO MS no 110 MAWS 23.06.2008		Revision -Not more than (in %)	As per 2018 GO MS.No.76 MAWS dt:26.07.2018		Revision – Not more than (in %)	Value in line with the cost of inflation in 2021-22	
	Min.	*Max.*	*Min.*	*Max.*		*Min.*	*Max.*		*Min.*	*Max.*
Residential Building	0.15	2.00	0.19	2.50	25	0.28	3.75	50	0.60	8.00
Institutions & offices	0.25	3.00	0.31	3.75	25	0.47	5.63	50	1.00	12.00
Commercial	0.50	5.00	1.25	12.50	150	2.50	25.00	100	2.00	20.00
Industrial	0.40	4.00	0.80	8.00	100	1.60	16.00	100	1.60	16.00

Implementation and Enforcement

4.66.ULBs are unable to collect their current demand and arrears due to lack of efficient systems and processes to ensure completeness and timeliness of billing and follow-up mechanisms with the assessees. Availability and capacity of billing staff also contributes to low Property Tax collection efficiency of ULBs.

Exempted Properties

4.67.There are several properties that are exempted from Property Tax payment that result in loss of Property Tax revenue to ULBs in the State. Article 285 of the Constitution exempts Central Government properties from the levy of property tax. Although this issue has been partially addressed through levy of Service Charges now being permitted, this exemption, which treats Central and State Government properties differently is obsolete and neds to be re-examined.

4.68. The Fifth SFC recommended that a mechanism should be initiated by the CMA to ensure that department wise and ULB wise demand for Property Tax are consolidated and adequate budgetary provisions sought from the Finance Department under the relevant heads of account to prevent accumulation of arrears on State Government buildings. But even then Property Tax arrears for ULBs except Town Panchayats from State Government Departments as on 31.03.2020 was ₹ 64.21 Cr.

4.69.In this regard, a consolidated list of State Government Departments from whom the Property Taxes are due to the ULBs is yet to be prepared and based on the same a proposal is yet to be sent to the Finance Department for obtaining necessary budgetary provisions by the CMA.

4.70.The Supreme Court has upheld the levy of Service Charges on buildings belonging to the Central Government Departments. The Ministry of Housing and Urban Affairs (erstwhile Ministry of Urban Development), Government of India has issued certain guidelines to all the State Governments for regulating the payment of Service Charges in respect of Central Government properties in the ratio of 75%, 50% or 33% of Property Tax depending on the utilisation of full or partial or nil services. ULBs must ensure timely collection of the Service Charges and instances of refusal to pay service charges should be taken up with the Government of India. The Fifth SFC recommended to replace the executive instructions on payment of service charges through a suitable legislation but it is yet to be done. As on 31.03.2020 Service charges due to the ULBs from Central Government Department is ₹ 29.69 Cr.

4.71.There are large arrears in Property Tax in ULBs due to litigation. The reasons for pendency of civil cases have to be thoroughly examined and a special drive needs to be launched to expedite the cases and ensure speedy disposal.

4.72.The Fourth SFC had recommended the levy of additional House tax/Property tax on the owners of the buildings having cell phone towers as applicable to commercial buildings. In the Commission's interactions it was found that most cell phone towers have not been brought into the tax net. Suitable guidelines need to be issued to ULBs by the CMA and DTP under the relevant provisions of the Act and Rules to assess property tax on cell phone towers based on the height and capacity.

Recommendations on Property Tax

4.73. 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.

4.74.The proposed end to end software for according planning permission should be completed expeditiously.

4.75.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.

4.76.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. Greater Chennai Corporation should complete the process before March 2023.

4.77.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 Sixth SFC.

4.78.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.

4.79.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.

4.80.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.

4.81.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.

4.82.The ULBs should adopt an Area Based Valuation method for assessing Property Tax instead of the current system of Annual Rental Value based assessment. Guide line Value uploaded by the Registration department and sales statistics may be linked with the Tax Assessment software of the ULBs for purpose of comparison. A street wise uniformity of the rate should be maintained allowing for slabs based on type of property.

4.83.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 assesses. 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.

4.84. 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.

4.85 Despite the provisions contained in the ULBs 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.

4.86. 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.

4.87. 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.

4.88. 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.

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

4.90. 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.

Vacant Land Tax

4.91. Vacant Land Tax (VLT) is an important instrument to discourage idling of valuable land within municipal boundaries and also helps in avoiding open land parcels from becoming illegal waste dumpsites. VLT also contributes to revenue of ULBs.

4.92. Based on the recommendations of the Third SFC, the Tamil Nadu Municipal Laws (Amendment) Act was passed in 2009 which permitted the levy of Property Tax on Vacant Lands. The vacant land tax rates for ULBs in Tamil Nadu (other than GCC) as notified in 2009 are shown in the Table IV – 25 below:

Table IV -25: Vacant Land Details

Vacant Land with reference to its location	A Grade		B Grade		C Grade	
	Min (in Paise)	*Max (in Paise)*	*Min (in Paise)*	*Max (in Paise)*	*Min (in Paise)*	*Max (in Paise)*
Streets in residential area	20	40	15	30	10	20
Main roads and bus route other than those which lead to arterial road	30	50	20	40	15	30
Arterial roads, main roads and bus route roads which lead to arterial road	40	60	30	50	20	40

4.93.The rate of the VLT has to be revised as the ULBs except GCC are levying at the rate prescribed in the year 2009. GCC increased the VLT by ₹ 0.50 per sq. ft. GCC also identified 65 vacant land parcels under its GIS survey for property mapping and fixed ₹ 1.22 lakhs as half-year VLT. The table above presents ULB grade-wise min-max per sq. ft. VLT tax based on land location.

4.94.In 2019-20, VLT constituted 4.3% of ULB's Own Tax Revenue and 2.1% of their Total Own Revenue. On the whole, VLT grew at a CAGR of 3.7% during the review period with Municipalities witnessing the highest growth of 7%. Despite the increase in VLT rates by GCC its revenue from VLT grew only at a CAGR of 1.2% during the same period. Interestingly other Municipal Corporations collect more VLT in revenues compared to GCC.

4.95.For listing out the vacant lands within the ULB limits and assessing the tax promptly, necessary instructions have been issued to all the urban local bodies by the HoDs to contact the concerned Registrars and Sub-Registrar on the first week of every month and to obtain the details without omission for levying VLT. Further, the Government has been requested to instruct the Inspector General of Registration to furnish the above particulars of mutation of properties every month to the urban local bodies. The ULBs are levying VLT while submitting building application and when the applicant seeking D&O license and other services from the local bodies.

Recommendations on Vacant Land Tax

4.96.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.

4.97.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.

4.98.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 department as is done for Stamp duty.

4.99.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 be not less than three times the present rates.

Table IV -26: Vacant Land Tax Revenues

ULBs	2015-16	2016-17	2017-18	2018-19	2019-20	CAGR
Aggregates in ₹ Crore						
Chennai Corporation	24	25	28	28	25	1.21%
Municipal Corporations	31	29	30	37	39	4.43%
Municipalities	24	25	27	32	33	7.00%
Town Panchayats	26	30	28	29	29	1.92%
Total ULBs	**105**	**109**	**114**	**127**	**127**	**3.74%**
Per capita figures in ₹						
Chennai Corporation	35	37	42	42	37	1.21%
Municipal Corporations	35	32	34	42	44	4.43%
Municipalities	30	32	35	41	42	7.00%
Town Panchayats	33	38	34	36	36	1.92%
Total ULBs	**33**	**35**	**36**	**40**	**40**	**3.74%**

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

Value Capture Financing (VCF)

4.101.VCF as practiced widely in the world is based on the principle that private land and buildings benefit from public investments in infrastructure and policy decisions of governments (e.g., change of land use or FSI). Appropriate VCF tools can be deployed to capture a part of the increment in value of land and buildings. In turn, these can be used to fund projects being set up for the public by the Central/State Governments and ULBs. This generates a virtuous cycle in which value is created, realised and captured, and used again for project investment.

4.102.As the additional value is generated by actions other than landowner's direct investment, VCF is planned and backed up by the Government either through an executive authorization or through risk sharing.

4.103.In Tamil Nadu, there are already certain mechanisms in operation for Land Value Capture, on behalf of ULBs, regional development agencies and the State Government, including Urban Land Tax, area based Development Charges, charging for premium FSI, and Infrastructure and Amenities Charges. There is scope to further enhance these tools to fetch revenue to ULBs, Regional Planning and Development Authorities and Government to fund infrastructure development.

Development Charges

4.104.The ULBs need adequate funds to enhance the social infrastructure capacity of the developing localities. Development Charge is one of the revenue sources of ULBs to provide social infrastructure to the public. At present, the development charge is levied at the time of granting planning permission are designed only to cover the administrative expenses of the development authority, or the local body as the case may be, as also to partially cover the capital cost of providing the development infrastructure. These capital costs relate to the historical cost of providing the infrastructure and are typically inadequate to meet the incremental capital costs.

Betterment Levies

4.105.Betterment Levies are a form of tax that the state collects or a fee levied on land that has gained in value because of public infrastructure investments. They are considered the most direct form of value capture.

4.106.Betterment Tax is available to both Village panchayats and Municipalities as an optional tax as observed by the 14th CFC. Under the Tamil Nadu Highways Act, 2001 any road, way or land to be declared as Highway and acquired by the Government, the land benefited by the said project are levied with Betterment Charges. The provisions for a Betterment Tax are available under Section 34 to 40 of the Tamil Nadu Highways Act, 2001. Section 34 read with Section 36 refer to cases where an increase in the value of specified lands on account of the work undertaken by Highways Department, such increases may be the subject to the levy of betterment charges under the orders of Government. As per Section 40 of the Tamil Nadu Highways Act, 2001 the Betterment Charges shall be payable by the concerned owners within such period as may be prescribed. The Capital Gains Tax Rules allow for any betterment charges paid to local town planning authorities to be deducted while computing net capital gains, treating it as a cost of improvement.

4.107.The Fifth SFC recommended for the implementation of betterment levy. Proposal to the Government is yet to be sent for obtaining necessary orders. As such, betterment levy should be implemented for all urban infrastructure works undertaken by the ULBs.

Recommendation on Betterment Levies

4.108.Betterment levy should be incorporated in the tax regime for all urban infrastructure works undertaken by 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.

Profession Tax

4.109.Profession Tax is a tax levied by State Government on every earning individual based on the income of professions, trades and employment. The Constitution (Sixtieth Amendment) Act of 1988 revised the ceiling of Profession Tax from ₹ 250 per annum to ₹ 2500. In Tamil Nadu, the tax is levied under the Tamil Nadu Municipal Laws (Second

Amendment) Act 59 of 1998, which require that the tax is levied on every company which transacts business and every person, who is engaged actively or otherwise in any profession, trade, calling or employment within the ULB limits and has earnings of more than ₹ 20,000 per half year.Street vendors, being casual workers with erratic and unstable income, do not come under the purview of the Tax. The tax is levied at the slabs indicated in the table below:

4.110.The Profession Tax has been revised with effect from 1.10.2013 with an increase of 25% and 35% and restricting the maximum amount to ₹ 1250 per half-year. The revenues from Profession tax for the ULB tiers are detailed in the table given below. Disaggregated details for each ULB tier is presented in the Annexure IV 30A to IV 30D.

Table IV -27: Slab for Profession Tax

Monthly Salary	Professional Tax Amount Payable in Tamil Nadu
Salary up to ₹ 3500	--
Salary between ₹ 3501 to ₹ 5000	₹ 16.50 per month
Salary between ₹ 5001 to ₹ 7500	₹ 30 per month
Salary between ₹ 7501 to ₹ 10000	₹ 85 per month
Salary between ₹ 10,001 to ₹ 12,500	₹ 126.50 per month
For salary above ₹ 12,500	₹ 182.50 per month

Table IV -28: Details of Revenue from Profession Tax

Aggregates in ₹ Crore						
ULBs	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**CAGR**
Chennai Corporation	238	291	338	381	349	7.97%
Other Corporations	93	97	133	105	112	3.77%
Municipalities	102	99	108	116	125	4.05%
Town Panchayats	51	52	53	61	57	2.37%
Total	**484**	**540**	**632**	**663**	**643**	**18%**

Table IV -29: ULB Tier wise Per Capita Profession Tax Revenue

Per capita figures in ₹ Crore						
Chennai Corporation	353	433	503	566	518	7.97%
Other Corporations	104	109	150	119	126	3.77%
Municipalities	131	127	138	148	160	4.05%
Town Panchayats	63	65	65	75	70	2.37%
Total	**153**	**171**	**200**	**210**	**204**	**5.84%**

4.111. On the whole, Profession Tax constituted ~22% of ULBs Own Tax Revenue and nearly 11% of their Total Own Revenue. Profession Tax revenue grew at a CAGR of ~5.8% for all ULB tiers with the highest growth reported by GCC (~8%) while the TPs witnessing a mere ~2.4% growth. Collection efficiency of current Profession Tax demand has declined for all ULB tiers except TPs for which it is maintained at 92% during the review period. In terms of collecting Profession Tax arrears, Municipal Corporations including GCC have marginally improved their efficiency. The TPs have managed a nearly 2.5 times increase in their Tax collection arrears between 2015-16 and 2019-20.

4.112.. Based on the instructions of the CMA, all the Corporations other than GCC and Municipalities are verifying details of employees of private companies, self-employed Professions with reference to the data available with the other Departments and to update the Profession Tax assessee list periodically for collection of Profession Tax. Similarly, based on an executive instruction from the DTP, all the TPs are verifying the details of employees of private companies, and self-employed Professions with other Departments such as Income Tax Department, Labour Department and Profession bodies like Bar Council, Medical Council etc. and updating their tax assessee list.

4.113. In terms of number of assessment, on the whole a total of 99,387 new professionals were brought under the tax net during the review period. Of this, Municipalities' share accounts for 46% followed by GCC at 32%; TPs accounted for only 8% share in the total increase. This indicates that even though the action of verifying and updating the list of assessee list from State and Central Government Departments / agencies has been kick- started, it is not at the anticipated level.

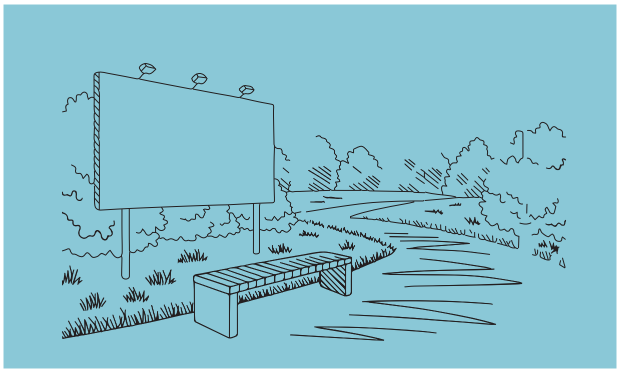
4.114. Though the recommendation of 14th CFC to enhance the ceiling on Profession Tax has been accepted by the Union Government, the Constitution amendment bill is yet to be introduced. The 15th CFC also recommended the same. The State Government has been requesting the GOI to enhance the ceiling and to issue amendment to the Constitution of India. The State Government must act and take appropriate measures for amending the Constitution to enable both the enhancement of the limit and enablement of future increases by the Parliament.

Recommendations on Profession Tax

4.115. 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 future as recommended by the 14th and 15th CFC.

4.116. 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.

Advertisement Tax



4.117.The Advertisement Tax is levied on the person who displays, erects, exhibits, fixes or retains upon or over any land, building, wall, hoarding or structure any advertisement to public view in any manner whatsoever, in any place whether public or private for public view. The rate of Advertisement Tax takes into account the location, width of the road in respect of public lands, and where the advertisement is on private land, subject to consent of the land owners, size, reach and nature of the advertisement.

4.118.As per sections 285B, 285C, 285 CC of the Tamil Nadu District Municipal Act, 1920 and similar provisions in other Municipal Corporations Acts, District Collectors have been vested with the powers to permit the hoardings, banners, etc., and to levy Advertisement Tax. Since the Act provides for tax and fee components, that are required to be classified and reported under separate accounting heads, some misclassification is possible.

4.119.At less than 0.5% of ULB's Own Tax Revenue, Advertisement Tax accounts for a negligible share in ULB's tax revenue income. During the review period, income from Advertisement Tax has reduced from ₹ 11.67 crore in 2015-16 to ₹ 9.70 crore in 2019-20 for all the ULBs taken together.Refer to the table below. At the tier-level, only Municipal Corporations including GCC have reported increase in Advertisement Tax collection. The TPs's income from this tax reduced by 63% to a mere 7 lakhs during the review period indicating a fall in Advertisement Tax income potential. In per capita terms, other Municipal Corporations (₹ 10 / capita) fare better than other ULB tiers in 2019-20.

4.120.The profusion of banners and hoardings across most urban areas in Tamil Nadu indicates that the ULBs are not deriving the due benefit from Advertisement Tax either because the tax collected by the District Collector and remitted into Government Account is not transferred to the ULBs regularly or because many advertisements escape tax because of poor enforcement of the legal provisions.

4.121.The CMA and DTP informed that as per the Fifth SFC recommendation, the Government passed Hoarding Policy vide G.O. (4D) No.2, MA&WS Department dated 05.06.2018 to regulate the advertisement and collection of

Table IV – 31: Advertisement Tax Collection in ULBs

Description	2015-16	2016-17	2017-18	2018-19	2019-20	CAGR
Aggregates in ₹ Crore						
Chennai Corporation	0.11	1.34	1.85	0.50	0.62	41.32%
Other Corporations	1.23	0.35	0.24	0.60	8.90	48.56%
Municipalities	0.15	0.12	0.52	0.19	0.11	-6.01%
Town Panchayats	10.18	10.42	0.15	0.10	0.07	-63.06%
Total ULBs	**11.67**	**12.23**	**2.76**	**1.39**	**9.70**	**-3.63%**
Per capita figures in ₹						
Chennai Corporation	0.16	1.99	2.75	0.74	0.92	41.32%
Other Corporations	1.38	0.39	0.27	0.68	10.02	48.56%
Municipalities	0.19	0.15	0.66	0.24	0.14	-6.01%
Town Panchayats	12.58	12.88	0.19	0.12	0.09	-63.06%
Total ULBs	**3.70**	**3.88**	**0.88**	**0.44**	**3.08**	**-3.63%**

charges in ULBs. This order was stayed by the Hon'ble Court vide W.P. No. 33819 of 2018. In the Greater Chennai Corporation, enforcement power is delegated to the Zonal Officer concerned vide Circular No.R.D.C.No.G4/1702/2016, dated 31.10.2016.

4.122.An efficient mechanism for collection of Advertisement Tax is yet to materialise even after the recommendations of the previous SFCs. Advertising agencies may apply to the local bodies for permission with the proof of payment of necessary tax and fees directly into the local body account in advance.

Recommendations on Advertisement Taxes

4.123. 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.

4.124. 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.

4.125.As per the existing rules, the license 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.

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

Non-Tax Revenue

4.127.Non-tax sources accounted for 38% of ULBs' Own Revenue in 2019-20. At the ULB tier level, the share of Non-Tax Revenue as a percentage of ULBs' Total Own Revenue increased for all tiers except GCC which witnessed a decline from 29% to 17% during the review period.

4.128.Among the different sources of Non-tax Revenue, income from 'Others' constitute that largest share for all ULBs though its contribution reduced from ~50% in 2015-16 to ~36% in 2019-20. Revenue from Water Supply and Rent & Lease are two other major

Table IV – 32: Break up of Non-Tax Revenue (₹ in Crore)

All ULBs						
Sl. No.	**Description**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
1	D&O Licence Fee	37	52	48	49	54
2	Building licence Fee	135	164	173	215	213
3	Bus Stand Fee	20	25	22	24	24
4	Water Supply	266	293	342	417	541
5	Rent & Lease	258	282	342	476	459
6	Parking Fee / Toll Collection	12	12	13	14	16
7	Development Charges	105	68	54	264	117
8	Fairs and Festivals	3	3	3	2	2
9	OFC Charges	8	10	18	16	18
10	Others	851	606	789	961	808
11	**Total Non-Tax revenue**	**1695**	**1515**	**1804**	**2438**	**2252**

contributors to ULBs' Non-Tax Revenue accounting for 24% and 20%, respectively in 2019-20 registering a marked increase from ~16% and 15%, respectively in 2015-16. Building License Fee contributed ~10% to ULBs' Total Non-Tax Revenue in 2019-20. Please refer to the table for details.

4.129.At the ULB tier level, the contribution of different sources of Non-tax revenue varies significantly. Please refer to Tables IV 32A- IV 32D for ULB tier wise break up of Non-tax Revenues in the Annexure. In 2019-20, 40% of GCC's total Non-tax revenue was earned from Rent and Lease recording a substantial increase from 2015-16 when it was only 8%. Revenue from Other sources and Building License Fee accounted for ~36% and 16% of GCC's Total Non-tax revenue in 2019-20. However, for the other Municipal Corporations, a staggering 60% of their Total Non-tax Revenue came from 'Others' category in 2019 followed by Water Supply (~13%) and Rent & Lease (12.4%). Other Municipal Corporations also registered nearly a four-fold increase in income from 'Development Charges' during the review period. The Other Municipal Corporations, Water Supply and Rent and Lease are major contributors to their Total Non-tax Revenue but their share is proportionately much higher at 42% and 32%, respectively. Municipalities' share of revenue from 'Others' category is also the 2nd lowest at 10.6% among all ULB tiers in 2019-20. For the TPs, income from Water Supply accounts for the highest share in their Total Non-tax revenue at ~46% in 2019-20 followed by Building License Fee and Development Charges at 23% and 16%, respectively.

4.130.The Municipal Corporations and Municipalities have developed remunerative projects by utilising their own funds and also availing financial assistance from funding agencies. For instance, following the recommendations of the Fifth SFC, GCC developed Multi-level Car Parking Projects on PPP mode and Multi-storey Parking Project using Smart City Funds. Parking lots also have been developed by GCC in business and residential localities along the Bus Route Roads (BRR) and selective non-BRR roads under On Street Parking Management System (PMS) project. The GCC collected ₹ 176.72 lakh in revenue from this initiative for the period December 2019 to March 2021. These initiatives have increased accessibility for citizens, provided transparency in parking fee collection and also increased GCC's revenue collection.

4.131.Construction of bus stands with parking lots on PPP mode are in various stages in Tiruvannamalai, Kancheepuram, Tindivanam, Tiruthani, Namakkal and Mayiladuthurai Municipalities. It is informed that due to non-availability of sufficient land in Town Panchayats, multi-level car parking on PPP model is not implemented.

4.132.ULBs should be encouraged to take up more remunerative projects including procurement on PPP mode so that the ULBs properties, land in particular, are effectively utilised to augment their finances.

4.133.The Fifth SFC was also of the view that in several cases, construction of new market complexes, truck terminals, theme parks and other remunerative assets for the ULB cannot be taken up within the ULB due to insufficient space. In such cases similar remunerative projects may be taken up in adjoining rural areas with a profit sharing arrangement with the Village Panchayats concerned that would augment the revenue of the ULBs.

4.134.A committee has been constituted by the Government vide GO (Ms.) No. 14, MA&WS Department dated 27.01.2020 for creating a new mechanism to ensure free and fair tender cum public auction to the shops owned by the ULBs for increasing their revenues. The suggestions and report of the Committee are awaited.

4.135.For establishing Uzhavar Sandhais, ULBs have given their lands to Co-operative Marketing Societies and to the Regulated Market Committees on lease. Rent payable to ULBs are yet to be paid by the Cooperative Marketing Societies/ Regulated Market Committees.

4.136.It is informed that the Commissioner of Agriculture Marketing and Agri Business has requested the Government to fix the lease amount for the land / premises allotted for Uzhavar Sandhais by the ULBs at the rate of ₹ 100 per acre per year. Final orders yet to be issued by the Government on this proposal. Therefore the arrears of rent payable to ULBs for Uzhavar Sandhais could not be collected even after taking persistent follow up action by CMA in this regard.

Recommendations On Non-tax Revenue

4.137. 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.

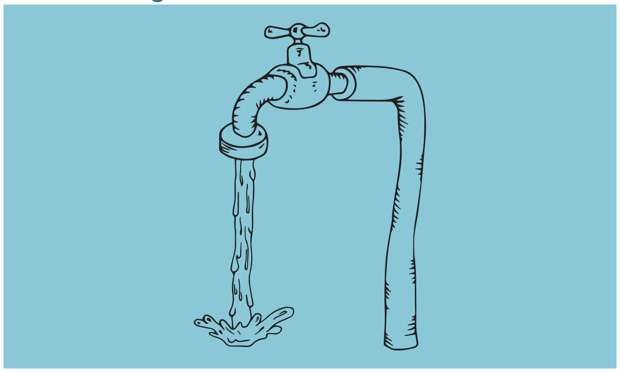
4.138. All shops of ULBs should be rented/ leased out following tender and public auction, as per the Transparency in Tender Act, 2000.

4.139. 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.

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

Service Charges

Water Charges



4.141.The MA&WS Department has a target to provide functional water tap connection to every urban household by the year 2031. It is also formulating strategies to make all cities and towns water resilient. Financial sustainability of ULBs is critical for provision of improved and quality service delivery including water supply services to the public. The income from the water supply includes the water charges collected based on the meter reading, tap rate charges and other income from water supply through tanker lorries. ULBs are under dire need to increase investments towards asset creation and for making provisions for efficient O&M of their assets to meet the growing water demand.

4.142.As per the recommendation of the Fifth SFC, the CMA has informed that 30.3% of the proposed 5.03 lakh House Service Water Supply connections (metered) in 71 ULBs targeted under the UIDSSMT scheme with financial assistance of TUFIDCO have been provided. In Town Panchayats, steps are taken to fix water meters in households in a phased manner.

4.143.In absolute terms, Water Supply charges increased for all the ULBs during the review period totaling ~₹ 600 crore in 2019-20.In percentage terms, ~24% of the ULBs' (excluding GCC) Total Non-tax revenue was

Table IV – 33: Water Supply User Charges (₹ in Crore)

ULB	2015-16	2016-17	2017-18	2018-19	2019-20	CAGR
Aggregates in ₹ Crore						
Chennai Corporation	Not Applicable *					
Other Corporations	163	174	205	194	220	6.16%
Municipalities	114	133	129	144	241	16.14%
Town Panchayats	62	64	70	110	137	17.12%
Total ULBs	**340**	**371**	**404**	**449**	**600**	**12.00%**
Per capita figures in ₹						
Chennai Corporation	Not Applicable *					
Other Corporations	184	196	231	219	248	6.16%
Municipalities	146	171	164	184	309	16.14%
Town Panchayats	77	79	86	136	170	17.12%
Total ULBs	***110***	***120***	***131***	***145***	***194***	***12.00%***

earned from Water Supply charges in 2019-20. During the review period, the collection of Water Supply charges by the TPs registered the highest growth of 17% followed by other Municipal Corporations.

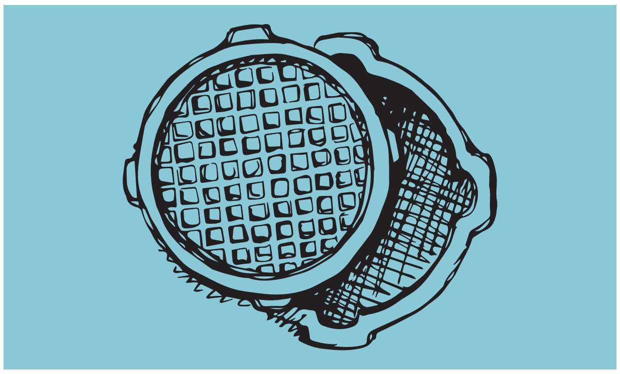
4.144.Comparison of ULBs' revenue from Water Supply charges with the Water Supply expenditure indicates that there are huge deficits. At an aggregate level. ULBs' revenue expenditure on Water Supply was 7 times its income in 2015-16 and has marginally improved to ~6 times in 2019-20. In terms of Water Supply revenue expenditure as a percentage of income, it is the highest for TPs at 433% in 2019 followed by Municipalities and other Municipal Corporations at 145% and 104% during the same year. Please refer to Tables 34A-34C for ULB tier-wise Water Supply Expenditure Status

Recommendations On Water Charges

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

4.146.Water consumption charges should at least be doubled and minimum charge should be ₹ 100 per month per dwelling unit.

Sewerage Charges



4.147.Sewerage user charges are being levied by ULBs in the urban areas where an underground drainage (UGD) system has been provided. UGD is under construction in most cities in the State.

4.148.In 2019-20, ULBs earned ₹ ~72 crore as User Charges towards Sewerage services with nearly 61% of the earning coming from other Municipal Corporations. On a year-on-year basis, this has grown by 19% during the review period. Sewerage charges cover 1% to 2% of the O&M expenses of the Municipal Corporations and Municipalities and less than 1% except 2018-19 in TPs. Improvisation in the sewerage system is needed for the effective cost recovery.

Table: 1V – 35: Sewerage User Charges

ULB	2015-16	2016-17	2017-18	2018-19	2019-20	CAGR
Aggregates in ₹ Crore						
Other Corporations	21	24	25	36	44	15.96%
Municipalities	8	10	15	23	27	26.13%
Town Panchayats	0.30	0.26	0.36	0.93	0.62	15.78%
Total ULBs	**30**	**35**	**40**	**60**	**72**	**19.23%**
Per capita figures ₹						
Chennai Corporation	23.70	27.37	27.98	40.48	49.70	15.96%
Other Corporations	10.88	13.33	18.95	29.28	34.73	26.13%
Municipalities	0.37	0.32	0.44	1.15	0.76	15.78%
Town Panchayats	9.47	11.10	12.70	18.97	22.82	19.23%
Total ULBs	**23.70**	**27.37**	**27.98**	**40.48**	**49.70**	**15.96%**

Recommendation on Sewage Collection Charges

4.149.The per dwelling charges should be doubled and minimum should be ₹ 100 per month.

Fees

Trade Licenses

4.150.Trade License fee is one of the components of the Non-Tax Revenue of local bodies.Though its share in ULBs' Total Non-tax revenue is only 2.4% at the aggregate level, GCC earns about 5.1% of its Non-tax revenue from this source. Further, revenue from Trade Licenses increased by 43.4% led by Municipal Corporations during the review period.

4.151.The Fourth and Fifth SFC recommended that the Rule provisions in Schedule-V in Tamil Nadu District Municipalities Act, 1920 and the relevant Schedule in respect of other Municipal Corporation Acts be amended to enable the Council to notify the list of trades and to revise the rates once in three years. Although the recommendationwas accepted, so far no amendment has been issued by the Government.

4.152.It is informed by the DMA that the Municipal Councils have the powers to notify the list of trades and to revise the rate once in five years and as per the direction of the Municipal Council, Trade License Fee is revised.

4.153.As recommended by the Fifth SFC to change the nomenclature D&O Trade License Fee be revised as "Trade License fee" as in Chennai Corporation, the City Town Planning have revised the nomenclature as "Trade License fee" whereas the Department of Municipal Administration has not changed the nomenclature. The Commission insists that the Department of Municipal Administration revises the nomenclature D&O Trade License Fee as "Trade License Fee" at the earliest.

Recommendation on Fees / Trade Licenses

4.154.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.

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

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

Building License Fees

4.157.Fee from Building Licenses is an important component of ULBs Total Non-tax revenue with a ~10% share in 2019-20. This is highest in the case of TPs at 23% followed by GCC at 16.3% in the same year. Revenue from Building License Free increased by 57.5% during the review period driven by substantial growth witnessed by Municipalities and Municipal Corporations.

Table IV- 36: Details of Fees Collected through Building Licensing Activities (₹ in Crore)

Sl. No.	ULBs	2015-16	2016-17	2017-18	2018-19	2019-20
1	Chennai Corporation	31	42	52	44	48
2	Other Corporations (14)	30	43	34	62	54
3	Municipalities (121)	23	22	23	36	41
4	Town Panchayats (528)	50	57	63	72	70
5	**Total**	**135**	**164**	**173**	**215**	**214**

4.158.While the trend is positive, there is scope for streamlining the process and checking unauthorized constructions. The Town Planning Officers / Town Planning Inspectors of ULBs monitor the Building License Fee by perusing the plans and drawings with reference to respective bye-laws approved by the Council. The Commissioner of Municipal Administration has informed that necessary instructions have been issued to the local bodies to eliminate the unauthorised construction and similarly GCC has informed that the unauthorised construction of buildings is being significantly curtailed by making obtaining completion certificate from the competent authority compulsory for availing service connections viz., power, water supply & drainage connection except for industrial and residential buildings of three (3) dwelling units or 750 sq. m to 12.0 m in height.

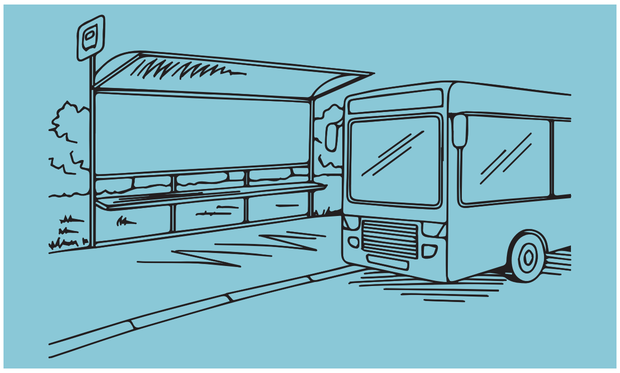
4.159.As per the Fifth SFC recommendation, the Tamil Nadu Combined Development and Building Rules, 2019 has been implemented to maintain uniformity and enhanced clarity in the fee collection through ULBs by the DTCP / CMDA area.In G.O. (Ms) No. 18, Municipal Administration & Water Supply Department dated 04.12.2019, TNCDBR Rule, 2019 has been notified in Gazette.

4160.For the State & Central Government properties, the planning permissions are accorded by the CMDA which is the planning body for Chennai Metropolitan Area. The CMDA issues only planning clearance for the buildings of State & Central Government properties which is used for official purpose. During issuance of planning clearance, the CMDA necessarily do not collect any requisite fees for the buildings. Based on the planning clearance, Greater Chennai Corporation issues building clearance without collecting Building License Fees.

Recommendation on Building License Fees

4.161.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.

Bus Stand Fees



Insert Table IV – 37: Category wise Bus Stand Fee

Sl. No.	Category of Bus Stand	Existing Rate of Fees ₹	Revised Rate of Fees ₹
1	Class A	4.00	15.00
2	Class B	3.00	12.00
3	Class C	2.00	8.00
4	Class D	1.50	5.00

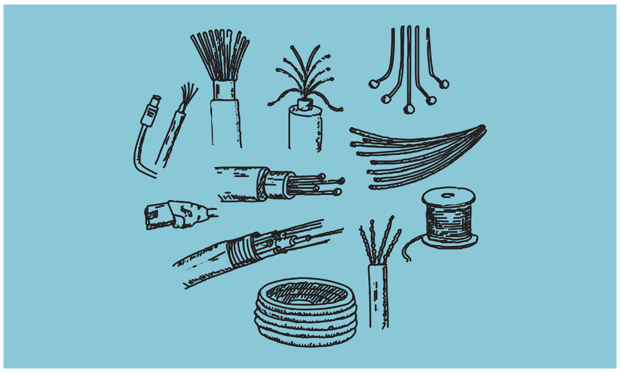
4.162.The level of Bus Stand Fees is not commensurate with the needs and requirement of the capital outlay and for the maintenance and upkeep of concerned assets and for the expansion of bus stand and civic amenities.

4.163.Since the debt of ULBs, has to be serviced, there is an urgent need to revise the Bus Stand Fees. The Fifth SFC recommended 50% increase in the Bus Stand Fees. Although, the recommendation was accepted, no orders were issued effecting the increase. The Commission recommends to implement the increase in the Bus Stand Fees.

Recommendation on Bus Stand Fees.

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

Track Rent Fees on OFC Feeders and Cables



4.165.Since the year 2001, ULBs in Tamil Nadu have been permitted to levy track rent for OFC feeders. In 2019-20, revenue from track rent stood at ₹ 18.6 crore registering a 125% increase since 2015-16. This increase is driven largely by other Municipal Corporations that collected an additional ₹ 8 crore to their 2015-16 levels of ₹ 2.64 crore. The Track Rent fees were revised in 2014 by the MA&WS Department but despite the increase ULBs revenue from this source has been small.

4.166.GCC collects Track rent fees from OFC and Cable TV operators wherever GCCs poles have been used. The GCC has collected ₹ 41.47 crore as Track Rent fees during 2019-20. However, fees for cables laid using the operators own poles are not being collected.

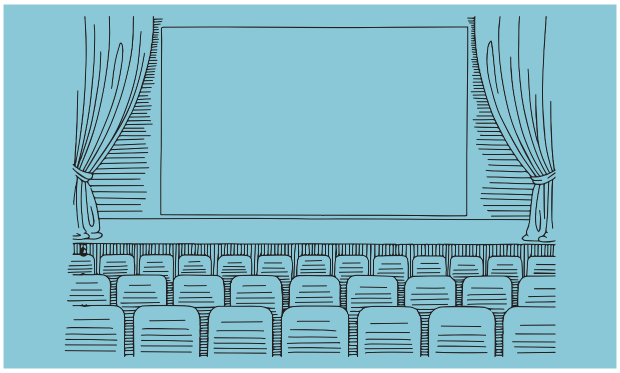
4.167.As per the recommendation of Fifth SFC, Comprehensive Telecom policy has been prepared by the State IT Department to enable the collection of Track Rent by resolving issues, if any which are pending Government approval.

Recommendation on Track Rent Fees on OFC Feeders and Cables

4.168.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.

Pooling of Assigned Revenue

Entertainment Tax



4.169.The Entertainment Tax is collected under the Tamil Nadu Entertainment Tax Act of 1939 by Commercial Tax Department and a major share is given to concerned local authorities. The Tamil Nadu Entertainment Tax Act 1939 classifies the sources of the Entertainment Tax as follows:

Table IV- 38: Sources of Entertainment Tax

Head of Account 0045 00 101 AA 01 Tax paid in Cash		Head of Account 0045 00 101 AB Other Receipts	
Shareable	**Non- Shareable**	**Shareable**	**Non- Shareable**
Section 4(A) (1) Tax on payments for admission to Cinematographic exhibition. (2) Section 4(H) Tax on dubbed film	Section 4(B) (1)Tax on Horse Race.	Section 4(F) (1)Tax on amusements	Section 4(E) (1)Tax on Cable TV. (2)Section 4(G) Tax on Recreation Parlour

4.170.Over the years various changes have been made in the Act which reflect a decrease in the collection of Entertainment Tax. These include:

a) Reduction in gross payment for admissions for new films from 25% to 15% and reduction in gross payment for old films from 20% to 10% in Municipal Corporations and Municipalities amended in 2004

b) Tax exemption for new and old films made in Tamil ordered in 2006

4.171.The loss due to this exemption was compensated by the Government by granting ₹ 30 crore per annum as Entertainment Tax Compensation Fund. The basis for exemption from Entertainment Tax was modified in 2011. The Cable TV operations are run by the Tamil Nadu Arasu Cable TV Corporation.

4.172.As the Entertainment Tax gets subsumed in GST, the Fifth SFC recommended to the Government to take urgent action to legislate and to permit Local Bodies to levy and collect Entertainment Tax, before the new GST provisions come into force.

4.173.As per the Tamil Nadu local Bodies Entertainment Act 2017 (Tamil Nadu Act 20 of 2017) enacted w.e.f 01.07.2017. Under which, the Entertainment Tax is levied and collected by the concerned Local Authorities. Within the limit of the Municipal Corporations, Municipalities, Special Grade and in the theatres, whether permanent or semi-permanent, the Entertainment Tax is calculated i) at the rate of 30% of the gross payment for admission inclusive of the amount of the tax for new film ii) at the rate of 20% of the gross payment for admission inclusive of the amount of the tax for old film. Concerts, dramas, shows, events or any other entertainments conducted in certain halls / schools/ college auditorium, campus/grounds of YMCA and other institutions or in any other places shall be brought under the definition of "Entertainments" in section - 2(8) of the Tamil Nadu Local Authorities Entertainments Tax Act 2017, to augment more revenue. In the areas other than those areas mentioned above, the Entertainment Tax is calculated at the rate of 20% of the gross payment for admission inclusive of the amount of the tax for new or old film.

4.174.During the review period a total of ₹271 crore has been transferred to ULBs as their share of Entertainment Tax. Of this ~77% was transferred to the Municipal Corporations including GCC followed by 21% to Municipalities and ~1% to the TPs. At the aggregate level, the transfer to Entertainment Tax to the ULBs increased four-fold during the review period. Refer to Table IV - 38A in the Annexure for details.

Surcharge On Stamp Duty

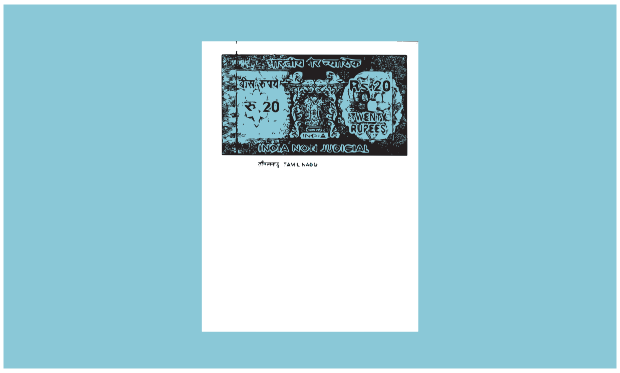


Table IV – 39: Amount collected as Surcharge Adjusted ***(₹ in Crore)***

Year	Greater Chennai Corporation	Municipal Corporation (Other than Chennai)	Municipalities	Town Panchayats	Total
2015-16	293	168	191	51	705
2016-17	271	147	150	78	647
2017-18	322	172	149	52	695
2018-19	331	205	188	77	801
2019-20	366	168	217	73	824
Total	**1584**	**860**	**897**	**331**	**3672**

Table IV – 40: Stamp Duty Surcharge Transferred to ULBs ***(₹ in Crore)***

Year	Municipal Corporation (including GCC)	Municipalities	Town Panchayats	Total
2015-16	462	190	155	807
2016-17	418	150	115	683
2017-18	494	181	123	798
2018-19	536	291	177	1004
2019-20	567	217	154	938
Total	**2476**	**1029**	**725**	**4231**

4.175.Surcharge on Stamp Duty is levied under the Indian Stamp Act, 1899. Surcharge on Stamp Duty is levied at 2% of the value of the transfer of immovable property based on the provisions contained in the respective Local Body Act. Given the large value of many of these transactions, the revenue potential of surcharge onstamp duty is high.

4.176.The Third, Fourth and Fifth SFCs recommended to levy surcharge on (i) Agreement (ii) Power of Attorney (iii) Release of benami right (iv) Release of right in favour of partners and (v) Settlement which requires amendment to the respective Acts. Though the recommendation was accepted by the Government, the require damendments are yet to be made.

4.177.As recommended by the Third, Fourth and Fifth SFCs, MA&WS (Election) department provided a separate detailed heads of Account for Surcharge on Stamp duty collections and appointment to local bodies vide G.O.(Ms.) No. 64.

4.178.The details on change of ownership by registration of properties are transferred automatically to Revenue Department from 12.02.2018 onwards using the web-based software of Registration Department (STAR 2.0) is linked with Tamil Nilam (Rural) software.

4.179.The Fifth SFC recommended that the details of collection of Surcharge on Stamp Duty should be informed to the ULBs concerned and the District Collectors by the Registration Department but is learnt that the details of collection of Surcharge on Stamp Duty particulars from Inspector General of Registration is not sent to the ULBs but the details are sent for all the ULBs to the Commissioner of Municipal Administration for distribution of funds. The Commission of the view that ULBs need to know the share due from Surcharge on Stamp duty and after apportioning this will be very useful for reconciliation purposes.

Recommendations on Surcharge on Stamp Duty

4.180.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 made subjected to Surcharge on Stamp Duty.

4.181.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.

Assigned Revenue

4.182.The increase in assigned revenue indirectly indicates higher growth and development in the respective local bodies, Consequently, the demand for better service delivery also

Table IV – 41: Major Source of ULBs' Revenue in Tamil Nadu (other than Own Revenues)

Sl. No.	Item	2015-16		2016-17		2017-18		2018-19		2019-20	
		₹ in Crore	*%*	*₹ in Crore*	*%*	*₹ in Crore*	*%*	*₹ in Crore*	*%*	*₹ in Crore*	*%*
1	SFC Devolution	2867	65%	2933	56%	3055	64%	3653	58%	3494	56%
2	IGFF	194	4%	116	2%	401	8%	674	11%	596	10%
3	OMGFF	96	2%	78	1%	152	3%	186	3%	209	3%
4	CFC Grants	864	20%	1301	25%	574	12%	989	16%	1026	16%
5	Other Grants	384	9%	814	16%	559	12%	747	12%	896	14%
6	**Total**	**4405**	**100%**	**5242**	**100%**	**4741**	**100%**	**6250**	**100%**	**6221**	**100%**

increases. Assigned revenues can help the ULBs in catering to those service delivery requirements.

4.183.Pooling of assigned revenues, however, deprives the ULBs of this revenue due to them.

4.184.Hence, the Commission recommends that the pooling of assigned revenue and its tie-up with State-level schemes, including road improvement schemes, should be stopped and the entire revenue should be assigned to the Local Bodies concerned without any interception.

SFC / CFC / Scheme Funds of ULBs

4.185.SFC Devolution Funds is the major source of revenue for ULBs in the State. In 2015-16, 65% of the total revenue of ULBs was from SFC devolution which decreased to 56% in 2019-20. However, in absolute terms the SFC devolution increased from ₹ 2,867 crore to ₹ 3,494 crore during the same period.

EXPENDITURE ANALYSIS OF ULBs IN TAMIL NADU

Revenue Expenditure

4.186.Financial sustainability of its O&M operations of water supply, solid and liquid waste management, roads, street lights, open and green spaces etc. is a key challenge for ULBs across tiers in the State. The need for timely payment of staff salaries, terminal benefits etc. and debt servicing add to the pressure for rationalizing expenditure and increasing revenues.

4.187.Across all the ULB tiers, Own Source of Revenue falls short of the total Revenue Expenditure incurred by the municipal bodies. On the whole, Establishment Expenditure as a percentage of Total Revenue Receipts increased from 32% in 2015-16 to 38% in 2019-20. Similarly, for the ULBs together, O&M Expenditure as a percentage of Total Revenue Receipts of ULBs increased marginally from 45% to 48% during the same period. However, O&M Expenditure as a percentage of Total Revenue Expenditure declined from 57% in 2015-16 to 54% in 2019-20.

4.188.Among different Revenue Expenditure heads, Discretionary Services & Others (118%), Sewerage (107%) followed by Library Cess (98.5%), registered the highest increase during the review period. For other Municipal Corporations, roads witnessed a near four-fold jump and General Administration Expenditure increased by 110%. For both GCC and other Municipal Corporations, expenditure on debt servicing increased significantly. For both Municipalities and TPs, expenditure on sewerage increased substantially.

4.189.At the ULB tier level, barring discretionary expenses and Others, GCC recorded highest increase in expenditures under Library Cess, Public Health and School Buildings during the review period. Details of ULB-tier wise Revenue Expenditure is presented in the Annexure in Tables IV – 43A, 43B, 43C and 43D.

Table IV – 42: Aggregate Revenue Expenditure of ULBs *(₹ in Crore)*

Sl. No	Head of Expenditure	2015-16	% of Total (#18)	2016-17	% of Total (#18)	2017-18	% of Total (#18)	2018-19	% of Total (#18)	2019-20	% of Total (#18)
Salary and Terminal Benefits											
1	Salaries	2218	31.75%	2491	33.36%	3098	37.06%	3439	34.04%	3667	34.32%
2	Terminal Benefits	623	8.93%	626	8.38%	724	8.67%	915	9.05%	903	8.46%
3	**Total (Salary and Terminal Benefits)**	**2841**	**40.67%**	**3117**	**41.74%**	**3822**	**45.72%**	**4354**	**43.1%**	**4570**	**42.77%**
Operation and Maintenance											
4	General Administration	1430	20.47%	1370	18.34%	1401	16.76%	1860	18.41%	2045	19.14%
5	Water Supply	708	10.13%	710	9.52%	792	9.48%	1037	10.26%	1054	9.87%
6	Public Health	225	3.23%	231	3.1%	278	3.33%	341	3.38%	401	3.76%
7	Conservancy	565	8.09%	599	8.03%	740	8.85%	785	7.78%	863	8.08%
8	Roads	265	3.8%	404	5.42%	201	2.41%	369	3.66%	325	3.05%
9	Storm Water Drains	76	1.09%	70	0.94%	62	0.75%	60	0.59%	89	0.84%
10	Street Lights	416	5.96%	434	5.81%	423	5.07%	498	4.93%	480	4.5%
11	Sewerage	24	0.35%	17	0.22%	26	0.31%	61	0.61%	50	0.47%
12	Library Cess	83	1.19%	64	0.86%	93	1.11%	126	1.25%	164	1.54%
13	Discretionary Service & others	29	0.42%	30	0.41%	31	0.38%	43	0.43%	64	0.6%
14	School Buildings	62	0.89%	67	0.89%	78	0.93%	78	0.78%	85	0.8%
15	Others	135	1.93%	153	2.05%	169	2.02%	217	2.15%	189	1.77%
16	**Total (Operation and Maintenance)**	**4014**	**57.46%**	**4152**	**55.59%**	**4296**	**51.4%**	**5477**	**54.22%**	**5813**	**54.41%**
17	Debt servicing – Interest	130	1.86%	199	2.67%	240	2.88%	271	2.69%	301	2.82%
18	**Total Revenue Expenditure**	**6986**	**100%**	**7468**	**100%**	**8359**	**100%**	**10103**	**100%**	**10685**	**100%**

Capital Expenditure

4.190.Capital Expenditure consists of creation of assets towards water supply, sewerage, storm water drains, street lights, public health and sanitation, conservancy, roads and bridges and debt repayment. Capital Expenditure significantly exceeds Revenue Expenditure during the review period due the focus of the ULBs in new infrastructure creation including upgradation of basic municipal infrastructure to provide improved quality of service.

4.191.During the review period, on the whole ULBs incurred a Capital Expenditure of ₹ 30,662 crore, of which roads (including upgradation and new construction) accounted for 42.5%. Refer to Table IV -44 below. Apart from 'Others' that accounted for ~16% of the total share, Water Supply constituted 11.6% followed by Storm Water Drains. Debt repayment – Principal accounted for 6.3% of the total Capital Expenditure which also registered the steepest increase of 320% during this period. Further, Sewerage grew by 122% followed by Capital expenditure on Conservancy at ~86%.

Table IV -44: Aggregate Capital Expenditure of ULBs *(₹ in Crore)*

#	Expenditure	2015 -16	% on Total Exp.	2016 -17	% on Total Exp.	2017 -18	% on Total Exp.	2018 -19	% on Total Exp.	2019 -20	% on Total Exp.
1	Water Supply	568.	9.77	713	12.71	704	11.87	777	12.78	805	11.15
2	Sewerage	64	1.10	96	1.71	79	1.33	194	3.19	142	1.97
3	Roads	2974	51.18	2454	43.72	1842	31.02	2407	39.62	3362	46.54
4	Storm Water Drains	418	7.20	431	7.68	945	15.91	558	9.18	270	3.74
5	Street Lights	285	4.91	414	7.38	156	2.63	331	5.45	289	4.00
6	Public Health and Sanitation	244	4.21	210	3.75	195	3.28	278	4.57	307	4.25
7	Conservancy	98	1.70	100	1.78	105	1.78	94	1.55	183	2.54
8	Culverts	243	4.19	168	3.00	103	1.74	108	1.79	126	1.75
9	Debt repayment – Principal	107	1.84	211	3.76	907	15.28	267	4.40	449	6.23
10	Others	807	13.90	814	14.51	901	15.18	1061	17.46	1287	17.83
11	**Total**	**5810**	**100**	**5613**	**100**	**5939**	**100**	**6076**	**100**	**7223**	**100**

4.192. A review of ULB-tier wise Capital Income and Capital Expenditure indicates that grants from the State and Centre have steadily increased for all tiers suggesting limited buoyancy in the future. This is particularly true for GCC whose grants from GoTN and GOI increased from ₹ 854 crore in 2015-16 to ₹ 1,355 crore in 2019-20 but the overall Capital Income decreased from ₹ 1,745 crore to ₹ 1,608 crore during the same period. Further, the ratio of Capital Expenditure to Capital Income has shown improvements for all the tiers except Municipalities for which the ratio deteriorated from 99.4% in 2015-16 to 122% in 2019-20. The Debt to Capital Income ratio is the lowest for TPs followed by other Municipal Corporations. For GCC this ratio is the highest at 31%. Detailed ULB-tier wise Capital Income and Expenditures are presented in the Annexure in tables 45A, 45B, 45C and 45D in the Annexure.

4.193. For meeting the capital needs of the ULBs, looking for other sources like getting loans is inevitable since even with the support of the state and central funding, it is not possible to meet the capital needs.

Table IV – 46 : Loans Obtained by the ULBs under Various Schemes ***(₹ in Crore)***

Sl. No.	Scheme	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1	IUDP	12.13	10.23	18.97	19.07	7.08	0.02
2	JNNURM (UIG)	-	0.02	0.23	0.21	0.18	0.47
3	UIDSSMT	40.08	33.52	18.24	24.87	28.05	15.70
4	GoTN	6.99	509.35	0.98	6.72	1.57	5.26
5	TNUDF	115.88	154.46	152.08	106.24	139.02	152.90
6	JICA	138.79	19.09	10.75	4.22	4.55	4.56
7	KfW	-	14.81	29.37	6.00	9.99	6.41
8	ADB	-	-	-	-	10.00	84.50
9	WB	-	190.00	270.00	200.86	-	110.00
10	TNUIFSL	80.07	101.95	17.15	80.81	46.25	47.25
11	TUFIDCO	329.36	449.08	171.39	68.06	50.15	192.43
12	HUDCO	22.22	16.98	19.57	15.26	14.87	5.02
13	BSUP	-	-	-	-	-	-
14	IHSDP	4.33	0.19	4.67	7.40	5.78	6.89
15	OTHERS	158.26	382.53	887.59	10.49	4.29	83.80
16	**Total**	**908.11**	**1882.21**	**1600.99**	**550.21**	**321.78**	**715.21**

4.194. The table shown above presents the loans obtained by the ULBs under various schemes. During the period under review, loans obtained by ULBs from various sources amounted to ₹ 5,263 crore of which 30% were from external sources such as TNUDF, World Bank and JICA among others while 20% of the loan was extended by TUFIDCO.

4.195. However, not all the ULBs are in a position to mobilise loans and augment resources available to meet capital expenditure, as their revenue raising potential is limited making it difficult to service the debt.

Issuance of Municipal Bonds to Augment Capital Receipts

4.196.The Fifth SFC recommended issuing bonds and other debt instruments for augmenting resources for capital projects in ULBs in line with 14th CFC suggestion of local bodies and States to explore the issuance of municipal bonds as a source of finance with suitable support from the Union Government. Major Corporations namely Coimbatore, Tiruchirappalli, Tirunelveli and Salem have the potential to raise bonds but till now they have not taken any decision in connection with issue of bonds for augmenting resources for capital projects. For issue of bonds, one eligibility criteria is that the concerned corporation / municipality shall have surplus income as per its Income and Expenditure Statement, in any of the immediately preceding three financial years or any other financial criteria as may be specified by the Board from time to time. This condition make many ULBs including Greater Chennai Corporation ineligible to raise bonds. If this condition is relaxed large number of ULBs would be able to issue bonds.

4.197.The large requirement for urban infrastructure necessitates the quest for alternative financial support. Hence, the Government should continue to encourage ULBs to raise debt in a sustainable manner. Apart from increasing the funds available, bonds and debt instruments inculcate financial discipline and enable more effective project implementation.

Recommendations on Issue of Municipal Bonds

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

4.199.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.

4.200.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 recognized. 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.

4.201.Public Private Partnerships have been least explored in the urban sector. The Tamil Nadu Infrastructure Development Board should take up 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.

4.202.In case of high cost infrastructure 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 PPP model should be explored.

4.203.Platform companies and Special Purpose Vehicles should be formed for all revenue generating assets. Opex models of asset maintenance, especially for metered services with resource mobilisation from private sector should be developed across sectors in the urban area.

4.204.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).

HUMAN RESOURCE MANAGEMENT

4.205.Across both rural and urban local bodies, a large workforce is in place for service delivery provision and assurance. Along with an increasing set of functions devolved to local bodies (LB), they are also the frontline agents for delivering key schemes from Central and State Governments. However, the structure and management of human resources has not adapted sufficiently to the new challenges and opportunities. In this context, improving the efficiency of HR management can have a multiplier effect on the significant resources that are spent towards salaries.

4.206.The Centre for Effective Governance in Indian states (CEGIS) in its study observed that there are opportunities for strengthening processes across the HR life cycle, starting from identification of staffing needs, assessment of alternative options of recruitment (e.g. hiring on roll centrally, decentralized hiring, contracting, outsourcing etc.), redefinition of roles and responsibilities, data driven capacity assessment and development, improvement of performance measurement platforms and data driven performance management. Improvements in technology have made data driven capacity assessment and development feasible for rollout at scale.

4.207.Additionally, transition of LBs from one category to another, and mergers of LBs involve complex adjustments to be made on the HR front. However, experience over the past decade shows several cases where such integration has been much delayed, with still pending activities of reallocation, redesignation and integration. ULBs and RLBs will benefit from rule based processes for such situations. In view of these, the Commission recommends the following:

Recommendations

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

(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.

4.209.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.

4.210.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.

4.211.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)

4.212.Post evaluation 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.

4213.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

4.214.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 authorized Agency. More generally, technical support should be provided to local bodies to evaluate HR sourcing alternatives (on-roll recruitment, contracting, outsourcing) for key positions and choose the most cost effective models.

4.215.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 any modifications to the organizational structure and service rules to balance autonomy with accountability at the last mile.

4.216. A centralized 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.)

CANTONMENT BOARDS

4.217.One of the new term of reference given to this Commission was Examining the possibility of providing devolution to Cantonment Boards from out of the Consolidated Fund of the State.

4.218.Cantonment board is a civic administrative body in India under the control of the Ministry of Defence, Government of India. It discharges obligatory and discretionary functions as per the provisions of Cantonment Act, 2006. Section 10 of the Cantonment Act, 2006 defines a cantonment board as:

a. For every cantonment there shall be a Cantonment Board.

b. Every Board shall be deemed to be a municipality under clause (e) of article 243-P of the Constitution for the purpose of

   I. receiving grants and allocations; or

   ii. implementing the Central Government schemes of social welfare, public health, hygiene, safety, water-supply, sanitation, urban renewal and education.

4.219.This unique structure of Cantonment Boards is being maintained keeping in view the fact that the Cantonment areas were and are primarily meant to accommodate the military population and their installations. Cantonments are different from the Military Stations in that the Military Stations are purely meant for the use and accommodation of the armed forces and these are established under an executive order whereas the Cantonments are areas which comprise of both military and civil population.

4.220.Cantonments shall be divided into four categories namely

a. Category I Cantonments, in which the population exceeds fifty thousand;

b. Category II Cantonments, in which the population exceeds ten thousand, but does not exceed fifty thousand;

c. Category III Cantonments, in which the population exceeds two thousand five hundred, but does not exceed ten thousand; and

d. Category IV Cantonments, in which the population does not exceed two thousand five hundred

Cantonments in Tamil Nadu

4.221. In Tamil Nadu, there are two Cantonments namely

I. St.Thomas Mount cum Pallavaram Cantonment situated in Chennai District and

ii. Wellington Cantonment situated in The Nilgiris District.

These two Cantonments fall under the Category II Cantonment.

Administrative Setup of a Cantonment Board

4.222.The Station Commander of the Cantonment is the ex-officio President of the Board and an officer of the IDES or Defence Estates Organisation is the Chief Executive Officer who is also the Member-Secretary of the Board. The Board has equal representation of the elected and nominated/ex-officio members to balance the official representation with the democratic composition. It comprises of 7 elected and 7 nominated members including the representative of the District Collector. The Vice President is to be an elected members. The term of office of the member of a board is five years. DGDE is an Inter Services Organisation of the Ministry of Defence which directly controls the Cantonment Administration.

Powers of Taxes and Fees

4.223.Section 66 of the Cantonment Act, 2006 states, The Board shall, with the previous sanction of the Central Government, impose the following taxes for the purposes of this Act:— (a) property tax; and (b) tax on trades, professions callings and employments,

4.224.As per section 67 of the Cantonment Act, 2006 the Board shall charge the following fees, namely:-

a. licence fee on vehicles and animals;

b. licence fee on advertisements other than advertisements in newspapers;

c. fee relating to maintenance of property records;

d. processing fee on buildings payable along with application for sanction of the building plan;

e. licence fee on entry of vehicles;

f. betterment fee on the increase in land value caused by the execution of any development work;

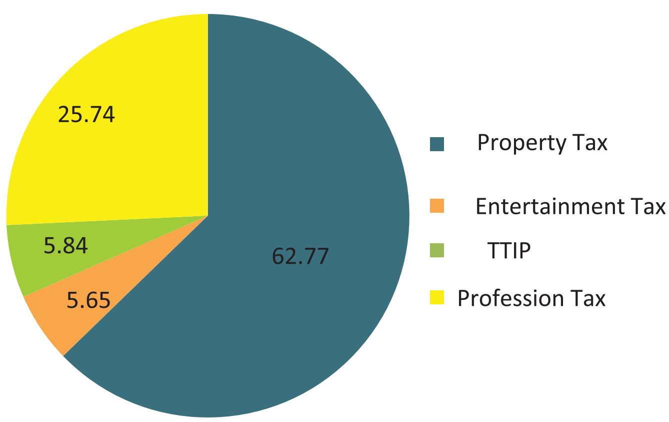
Statutory Provision

4.225.Section 108 of the Cantonment Act, 2006 gives a special provision to the Cantonment Board for taxation that "A Board shall be deemed to be a municipal Committee for the purpose of taxation as per the Municipal Taxation Act,1881".

4.226.Although this clause provides for every Board to be a Municipality for the purposes of the articles of 243 – P(e) of the Constitution of India and a Municipal Committee for the purposes of the Municipal Taxation Act,1881 (11 of 1881), there is no provision in the statutes governing ULBs in Tamil Nadu to be considered as ULB.

4.227.However, considering the fact that the these cantonments are part of the State and the population there are also voters registered in Tamil Nadu, this Commission is of the opinion that a small beginning can be made to assist them serve the civilian population better.

Chart IV-11 : Revenue Generation - Non Taxes



Financial Status of the Cantonment Boards

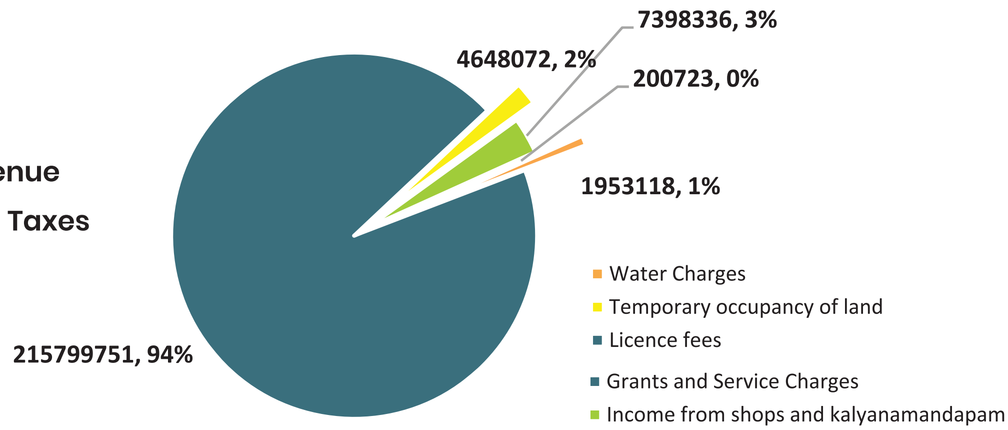
4.228.Sources of revenue augmentation of St.Thomas Mount cum Pallavaram Cantonment board are broadly classified into tax revenue such as entertainment tax, Profession tax, property tax, etc. and non-tax revenue such as water charges, license fees, grants and service charges, income from shops and marriage halls and temporary occupation of land .The major source of tax revenue for this Cantonment board is property tax and for non tax revenue, grants and service charges are major sources. Graphical representation of revenue tax and non-tax revenue collection is given below:

4.229.From the above graphical representation, it is seen that the major portion (62.77%) of the revenue of St. Thomas Mount cum Pallavaram

Cantonment is generated from the property tax followed by profession tax (25.74%). Entertainment tax and TTIP shares around 6% of the revenue generated.

4.230.Of non- Tax revenues, Grants from Central Government and service charges occupy 94% of the Non -tax revenue generated by Pallavaram Cantonment. Income from shops and marriage halls account for 3% and temporary occupany of land and water charges account for 2% and 1%, respectively. Licence fee accounted very less share in the non-tax revenue.

Chart IV-12 : Revenue Generation - Non Taxes



4.231.Wellington Cantonment Board being a hilly area has no major source of revenue and is being funded by the Central Government. There is consistent shortfall in the funds sanctioned and received by the Board.

Table IV – 47 : Grant in Aid to Wellington Cantonment Board (₹ in Crore)

Year	Grant-in-aid	Fund Sanctioned	Fund Received	Shortfall
2018-2019	Ordinary Grant-in-aid	42.56	16.53	26.03
	Special Grant-in-aid	13.73	1.30	12.43
2019-2020	Ordinary Grant-in-aid	44.98	17.50	27.48
	Special Grant-in-aid	6.01	-	6.01
2020-2021	Ordinary Grant-in-aid	164.96	12.90	152.06
	Special Grant-in-aid	111.0	-	111.0
2021-2022	Ordinary Grant-in-aid	83.09	15.07	6.00
	Special Grant-in-aid	46.63	25.09	-

4.232.There is a shortfall in both ordinary and special Grant-in – aid received by Wllington cantonment board from the Central Government.

4.233.Both the Cantonment Boards depend mainly upon Grants in aid received from Central Government to perform their functions. There is no grant given to these boards from the State Government.

Recommendations

4.234. ₹ 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.

4.235.The funds allocated should be spent based on the recommendations of the 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.

GENERAL RECOMMENDATIONS

4.236.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.

4.237.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.

4.238.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.

4.239.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.

4.240.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.

4.241.Infrastructure requirements of poorer localities of ULBs should be identified and given high priority while planing capital investments.

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

4.243.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.

4.244.Comprehensive manuals for maintenance of assets should be created. Local Bodies should prioritize of utilizing their own revenue receipts for maintenance of assets and ensuring uninterrupted service delivery.

4.245.Specialized agencies such as TUIFSL and TUFIDCO should extend support to ULBs and also RLBs for availing of funds from Under explored funding sources like Tamil Nadu Innovation Initiative (TANII).

4.246.Standardized 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.

4.247.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 would also maintain a repository of successful monetization projects and relevant connects for other Local Bodies to reference through the Commissioner of Land Administration.

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

RESOURCE PROJECTION FOR URBAN LOCAL BODIES

4.249.This Chapter includes an analysis of the projected receipts of Local Bodies from various sources, projected levels of expenditure on various heads and the anticipated requirement of funds by Local Bodies to provide essential infrastructure and services during the award period so as to assess the gap, if any, in the financial resources of the Local Bodies. The revenue and capital receipts of the Local Bodies and the expenditure on various items like administration, operation and maintenance, and capital works have been projected for the period from 2022-23 to 2026-27.

4.250.The Covid-19 pandemic distorted the receipts and expenditure numbers greatly. The data available with the Commission also was for the pre-Covid period as accounts for the later period are yet to be finalized. Hence, the Commission has taken 19-20 as the base year and given projections from 19-20 onwards. This would help in arriving at normal receipt and expenditure trends. As the Commission hopes that normalcy would be restored henceforth, this approach is found more reasonable to assess the potential.

4.251.The assumptions are made without considering the impact of the recommendations of this State Finance Commission.

CFC Allocation

4.252.The 15th CFC has recommended significantly enhanced grants for Rural and Urban Local Bodies in Tamil Nadu for its award period 2020-21 to 2025-26. For the first year of award period ₹ 5344 crore has been allotted and for the remaining award period of 2021-22 to 2025-26 the aggregate grants of ₹.21,246 crore have been allotted as against the aggregate local body grants of ₹17,009.74 crore recommended by the 14th CFC.

4.253.Fund flow to Rural Local Bodies would be around 66 % and for Urban Local Bodies it is only 33% . It is to be noted that CFC allocation to RLBs would be almost double of the ULBs allocation during the CFC award period.

4.254.The ratio of tied and untied grant components is 55:45 on an average for the all the local bodies where as for ULBs it is approximately 50:50 and for RLBs it is 58:42 .

4.255.The entry level condition for rural and urban local bodies availing any grants due to them is having both provisional and audited accounts online in the public domain. States will receive grants for those rural and urban local bodies that have their provisional accounts for the previous year and audited accounts for the year before the previous, available online.

4.256.For urban local bodies, apart from the entry level condition of having both provisional and audited accounts online in the public domain, after 2021-22, fixation of minimum floor for property tax rates by the relevant State followed by consistent improvement in the collection of property taxes in tandem

Table IV – 48 : 14th CFC - Local Body Grants (₹ *In Crore*)

		RLBs	ULBs	GRAND TOTAL
2015-16	Due	948	790	1738
	Actual	1101	790	1891
2016-17	Due	1484	1417	2901
	Actual	1484	1417	2901
2017-18	Due	1711	1629	3340
	Actual	758	436	1194
2018-19	Due	1975	1877	3852
	Actual	1635	980	2615
2019-20	Due	2660	2519	5179
	Actual	1787	1719	3506
Total	Due	8777	8232	17010
	Actual	6765	5342	12107

Table IV –49: 15th CFC-Local Body Grants (₹ *In Crore*)

	21-22	22-23	23-24	24-25	25-26	26-27
Rural Local Bodies	**3607**	**2666**	**2761**	**2791**	**2957**	**2884**
Untied Grant	1804	1066	1104	**1116**	1183	**1154**
Tied Grant	1804	1600	1657	**1675**	1774	**1730**
Urban Local Bodies	**1737**	**1313**	**1360**	**1438**	**1523**	**1553**
Untied Grant	1181	893	544	575	609	**621**
Tied Grant	556	420	816	863	914	**923**
GRAND TOTAL	**5344**	**3979**	**4121**	**4229**	**4480**	**4437**

with the growth rate of State's own Gross State Domestic Product (GSDP) will be an additional mandatory pre-condition. Compared to ULBs the conditions for release of CFC grants to RLBs are much simpler which would ensure the assured fund flow to RLBs.

4.257.The Table IV – 48 and Table IV - 49 above show the year wise breakup of the 14th and 15thCFC grants for RLBs and ULBs in Tamil Nadu.

General Trends

4.258.The receipts and expenditure heads are projected in view of the estimated growth rates and expected needs of ULBs during the award period so as to assess the gap in receipts and expenditure.

4.259.The devolution formula adopted by the 15th Central Finance Commission has been a major setback to the Urban Local Bodies. The vastly urbanized demography of Tamil Nadu was not recognized by the Commission. It applied a uniform formula based on the average urban population of the Country as whole.

4.260.The requirements of urban local bodies in this analysis is based on past trends. However, the requirements are enormous and even the fund recommended by this Commission will leave a huge gap.

4.261.The ULBs, unlike RLBs, have to bear salary and pension liabilities of their staff. The infrastructure in ULBs is also financed partly from their own funds. Many of the projects come to the ULBs as loans and burden their finances with interest cost.

4.262.Due to large commitments on these accounts, there are huge vacancies in ULBs and the posts have remained unfilled for many years. This has adversely affected service delivery in ULBs.

4.263.Capital costs are very high in Urban Local Bodies due to work hour constraints, traffic diversion requirements, higher labour charges, higher costs of materials etc. Even the Public Works Departments Schedule of Rates recognizes this fact during the annual revision.

4.264.The occasional surplus observed in some of the projected years is only marginal and is result of constrained expenditures due to paucity of resources.

4.265.The revenue receipts, going by the past trends are growing very slowly. The withdrawal of property tax revision has damaged the Greater Chennai Corporation finances. The Corporation is heavily dependent on SFC grants.

4.266.On the expenditure side also the trends are based on past expenditure. Due to resource constraints recruitment has not happened in many posts, vacancies are high and expenditure on maintenance has also been constrained.

4.267.Similar to RLBs, in case of ULBs also, funds were intercepted on many occasions. As a result, expenditure has remained low. Hence, the projection based on past trends shows lower expenditure and consequent surplus in the award period.

Greater Chennai Corporation

4.268.The projected revenue receipt, revenue expenditure, capital receipt, capital expenditure and budgetary position of Greater Chennai Corporation are provided in table in annexure.

4.269.If the projected trends continue, Greater Chennai Corporation is projected to be in a marginally surplus position during the award period. The restricted levels of revenue expenditure have created marginal surplus, however the Local body would be in deficit on capital account.

Municipal Corporations Other than GCC

4.270.The projected revenue receipt, revenue expenditure, capital receipt, capital expenditure and budgetary position of Municipal Corporations other than Greater Chennai corporation are provided in annexure.

4.271.Municipal Corporations are expected to be in revenue surplus for four years, from 2022-23 to 2025-26 and in revenue deficit during

2026-27. The capital account though, is projected to be in deficit. However, the aggregate account is projected to be in deficit for all the years of the forecast period (2022-23 and 2026-27).

Municipalities

4.272.Municipalities are expected to be in marginal revenue surplus, but into deficit in capital account and overall account across the award period. The additional reason for this is limited amount of receipts from both the State and CFC compared to Corporations.

4.273.The projected revenue receipts, revenue expenditure, capital receipts, capital expenditure and budgetary position of Municipalities are provided in annexure.

Town Panchayats

4.274.Town Panchayats are expected to be in marginal revenue surplus but as deficit in capital account throughout the award period. The gap in the capital account for the ULBs would be met through scheme growth, loans and their borrowings.

4.275.The projected revenue receipt, revenue expenditure, capital receipt, capital expenditure and budgetary position of Town Panchayats are provided in annexure IV A.

V Role of Government Agencies

இதனை இதனால் இவன்முடிக்கும் என்றாய்ந்து
அதனை அவன்கண் விடல்

- குறள் 517

'This man, this work shall thus work out,' let thoughtful king command;
Then leave the matter wholly in his servant's hand.

INTRODUCTION

5.1. One of the terms of reference of the Sixth State Finance Commission is "suggesting ways to avoid mounting unpaid bills of electricity charges to Tamil Nadu Generation and Distribution Corporation (TANGEDCO) and water charges to Tamilnadu Water Supply & Drainage Board (TWAD)/Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) and other bulk water providers and to ensure prompt and timely settlement of charges to these utilities". The Commission is also required to make recommendations on the measures needed to augment the Consolidated Fund of the State and identify the new avenues for resources mobilisation in local bodies.

5.2. Since un-cleared bills affect the financial health of the concerned agencies, which eventually affect the quality and quantity of the services delivered by them, it is essential that the Local Bodies prioritise meeting such commitments in time.

5.3. Further, the Commission recommends that standardised template should be created for ULBs 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 ULBs and parastatal agencies using data from past projects.

TAMIL NADU WATER SUPPLY AND DRAINAGE BOARD (TWAD)

5.4. The Tamil Nadu Water Supply and Drainage Board (TWAD Board) is a statutory body constituted by the Government of Tamil Nadu in 1971 under the TWAD Act, 1970 for providing protected water supply and sewerage facilities for the entire State except to the Chennai Metropolitan Area. TWAD Board presently maintains 558 Combined Water Supply Schemes (CWSS) covering 8 Corporations, 66 Municipalities, 347 Town Panchayats, 48,948 rural habitations and 541 industries/institutions and supplies 1913 MLD of water to 4.26 crore population. The TWAD Board ensures adherence to various norms relating to quantity and quality of urban and rural water supply, underground sewerage water discharge and measurement of water quality. During 2021-22 TWAD Board is executing 72 water supply and UGSS schemes.

5.5. Major activities of the TWAD Board are

i. Planning, Investigation, Design and Execution of water supply and sewerage schemes;.

ii. Operation and Maintenance of CWSS other water supply schemes which are not handed over to Local Bodies.

5.6. Main sources of income of the TWAD Board are Centage and Investigation Charges claimed for the implementation of various schemes for Local Bodies & collection of bulk water charges from Local Bodies and other customers for the Water Supply schemes maintained by TWAD Board.

5.7. The overall Income - Expenditure Statement of TWAD Board for 2019-20 and the Income Expenditure abstract relating to Combined Water Service Schemes (CWSS) maintained by TWAD Board for the years 2015-16 to 2019-20 are depicted in Table V-1 and V-2, respectively in the Annexure.

5.8. Maintenance of CWSSs, Pension Cost and Cost of Personnel are major annual expenditure heads. However, the TWAD Board has been unable to meet these commitments out of its own sources of income. During the year 2019-20, the expenditure of TWAD Board on administration and O&M was ₹ 1,489.4 crore which resulted in a deficit of ₹ 464.5 crore. The carried forward excess of expenditure over income as on 31.03.2020 was ₹ 2310.6 crore, Over the five year period, the deficit increased by ₹ 1,142.4 crore. Out of the total expenditure, the O&M cost on water supply was ₹ 924.7 crore. This mismatch is unsustainable and must be remedied.

5.9. The number of pension beneficiaries as on 31.03.2021 was 9,101 as against 2,583 serving employees. Pensioners are more than three times the serving employees. This commitment has to be met out of the own funds of TWAD Board which remain very low due to various reasons.

5.10. During the Fifth SFC award period, to meet out the deficits of CWSS of TWAD Board, 2% from RLB's share and 1% from ULB's share from SOTR was provided under pooled deficit fund.

5.11. Income from water services has increased from ₹ 263.12 crore in 2015-16 to ₹ 649.52 crore in 2019-20. But it is also seen that O&M expenditure on water supply has also increased from ₹ 602.78 crore to ₹ 924.70 crore in the same period. It is evident that expenditure ranges between 1.42 to 2.33 times of income during that period. Financial issues of the TWAD Board are addressed to some extent through Government grants. However, as resources for revenue of TWAD Board are limited, increasing Centage charges and Bulk Water Supply charges are the only options to augment revenue.

5.12. A major portion of O&M cost of CWSS is on account of electricity charges. As on 22.10.2021 total amount due to TANGEDCO by TWAD Board was ₹ 1745.1 crore, including Belated Payment Surcharge (BPSC) amount. At present TANGEDCO is charging TWAD Board ₹ 6.35/unit under commercial category both for High Tension (HT) and Low Tension (LT) connections. To change this tariff to domestic / special concessional tariff may not be possible, since for domestic users the slab system is being followed based on the units consumed and this system will result in an increased tariff. Additionally, special concessional tariff would compound the financial issues that TANGEDCO is already facing. It is high time that the TWAD Board explores renewable energy options which would reduce the cost of electricity bills to a certain extent. The Fifth SFC recommended the increase of the Centage charges from 5% to 7.5% for ULBs and from 8% to 10% for RLBs. Government accepted the recommendation for ULBs and accepted with modification for RLBs, from 8% to 12%. Even after revision, the revenue from the Centage charges of TWAD Board does not cover the expenditure incurred.

5.13. During the year 2021 the revenue gap in water supply to both rural and urban local bodies combined together amounted to ₹ 380.1 crore, which was met by the TWAD Board. Losses have been accumulating continuously year after year.

5.14. Water is supplied at the rate of ₹ 8.10/kl for RLB and ₹ 10.42/kl for ULB for the year 2021. The breakeven cost i.e., production cost of bulk water in 2021 was ₹ 14.87/Kilo Liters. The gap between break even cost and supply cost is ₹ 6.77/kl and ₹ 4.45/kl for RLBs and ULBs respectively. The current (from 1.4.2021) water tariff including annual increase of 5%, is lower than the production cost.

5.15. Large arrears in payment of water charges are noticed in Municipal Corporations and Village Panchayats with a share of 56.72% and 37.33%, respectively as accumulated dues.

5.16. At present the TWAD Board has proposed to implement two Sea Water Reverse Osmosis (SWRO) plants for setting up of 60 MLD Desalination Plant at Villupuram with the project cost of ₹ 1,502.7 crore and setting up of 60 MLD Desalination Plant at Kuthiraimozhi at a cost of ₹2036.8 crore, An amount of ₹ 2,325.2 crore has been sanctioned and an amount of ₹2,232.6 crore has been utilised by the Board under various schemes for the financial year 2020-21.

Recommendations

5.17. 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.

Table V -1 : Bulk Water Supply Charges

(₹ per Kilo Litre)

Details	2020	2021
For Rural Local Bodies	7.72	8.10
For Urban Local Bodies	9.92	10.42
For Industrial / Commercial Organisations		
I. Who have paid proportionate cost of scheme	45.00	45.00
ii.Who have not paid proportionate cost of scheme		
a.Private Educational institutions / Hospitals	125.00	125.00
b.Hospitals / Orphanages	30.00	30.00
c.Government organizations	80.00	80.00
Break Even Cost (as calculated in 2020)		
For Rural		
For Urban	13.06	14.87
For Private Industries		

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

5.19. The Commission recommends to revise the water charges to at least ₹ 9/kl from ₹ 8.1/kl for RLBs and to ₹ 13/kl from ₹10.4/kl for ULBs with minimum 5% annual increase moving forward.

5.20. 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 subsidize the older schemes to some extent.

5.21. 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.

Chart V -1 : TWAD Board Deficit

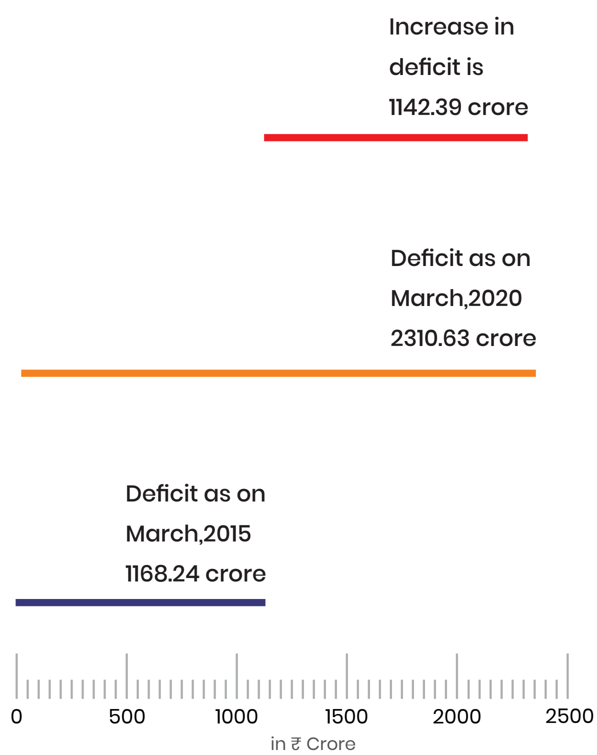


Table V - 2 : Revenue Gap in Water Supply to Rural Local Bodies

Average quantity of water supply for RLB (in KL)	Gap between Break Even Cost and Supply Cost (₹ in crore)	Revenue Gap/Day (₹ in crore)	Revenue Gap/Month (₹ in crore)	Revenue Gap/Annum (₹ in crore)
10,72,000	6.77	0.73	21.77	261.27

Table V - 3 : Revenue Gap in Water Supply to Urban Local Bodies

Average quantity of water supply for ULB (in KL)	Gap between Break Even Cost and Supply Cost (₹ in crore)	Revenue Gap/Day (₹ in crore)	Revenue Gap/Month (₹ in crore)	Revenue Gap/Annum (₹ in crore)
742000	4.45	0.33	9.90	118.86

Table V - 4 : Cost of Maintenance of CWSS per Annum (2019 – 2020)

(₹ in crore)

Power	491.07
Direct costs	
Consumable	9.27
Man power	259.02
Royalty	7.30
Field management	86.00
Over heads	24.00
Maintenance office staff	46.74
Maintenance Office Exp.	1.31
Total	924.71
Cost recovered for the year 2019-20	
Domestic	530.44
Non- Domestic	118.25
Total	648.69
Excess cost due to Maintenance of CWSS	276.02

Table V - 5 : Accumulated pending water charges from Local Bodies as on 31.03.2020

(₹ in crore)

Local body	Number	Amount
Village Panchayats	316	164
Town Panchayats	126	11
Municipalities	49	15
Municipal CorporationsOther than Chennai	8	250
Total	499	440

CHENNAI METROPOLITAN WATER SUPPLY AND SEWERAGE BOARD (CMWSSB)

5.22. Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) was constituted in August 1978 under the CMWSS Board Act of 1978, for exclusively attending to the growing needs of water and sanitation of the citizens in Chennai city and for planned development and regulation of water and sewerage services in Metropolitan Area.

5.23. Though the Board is the parastatal agency, it's mandate is to provide adequate supply of safe, potable water, treatment of sewage and its safe disposal like any other urban local body.

5.24. At the time of formation of CMWSSB in 1978, the service area was only 174 sq.km under 4 area offices for a population of 28.6 lakhs and after expansion of the Chennai city in 2011 the serving area has increased to 426 sq.km for a population of 85 lakhs. The number of area offices has increased to fifteen. CMWSSB also provides services to other Local Bodies in the Chennai Metropolitan area and for Industrial and bulk consumers. Total requirement of water for Chennai City is 1333 million liter per day(MLD). Presently the Board is supplying 914 MLD of water to Chennai city and the gap in water supply is 419 MLD.

5.25. Surface water is the main source of water for CMWSSB. Water is currently drawn from Red Hills (Puzhal), Chembarambakkam, Veeranam, Cholavaram,Poondi, and the Telugu Ganga project. In addition, ground water is drawn from dedicated well fields. Nemmeli and Minjur desalination plants are also supplementing the water distribution. As on 1st June 2021, 7,34,907 un-metered and 21,000 metered water supply connections and 9,01,978 sewerage connections are provided in Chennai City by CMWSSB.

5.26. The extent of coverage of sewerage in Chennai Corporation is 100% in the core city and 35% in the added areas. CMWSSB is providing sewerage services to Chennai city and undertakes wastewater treatment, reuse of treated water and power generation from Sewage Treatment Plants with an installed capacity of 745 MLD. Sewage generated from houses and other buildings is collected through the sewerage system of a length of 4,093 kms. This sewage is taken to 302 sewage pumping stations operated in the city. The collected sewage from pumping stations is conveyed to 13 Sewage Treatment Plants. The sewerage services of the Board have also increased manifold since its inception in 1978.

5.27. The capacity of sewerage treatment is 745 MLD through 13 plants, for which the quantity of sewerage generated is 530 MLD including added areas. As per Public Health and Environmental Engineering Organisation (CPHEEO) norms, the sewerage treatment capacity should be 80% of the water supplied to the city which implies that the sewerage treatment capacity in Chennai is adequate based on the present levels of supply. However, the extensive use of ground water by private residences and businesses which finds its way into the sewerage system strains the existing capacity.

5.28. For CMWSSB, the income sources are through Water Tax, Sewerage Tax, Sale of water, services relating to sewerage, grants and subsidies from the Government and other miscellaneous revenue such as service charges, testing fees etc. Charges for Domestic consumers were revised in May 2018 and for Commercial consumers were revised in October 2019. But, the decision has been withheld since, and further orders are awaited from the Government. As of now, CMWSSB obtains the assessment details from Chennai Corporation and levies 7% (1.5% for water and 5.5% for sewerage services) of the annual rental value of properties fixed by the Chennai Corporation as Water and Sewerage Tax. The demand for the tariff and tax are raised and collected half yearly.

5.29. Water tax collection efficiency was 67.76% and Sewerage Tax collection efficiency was 25.4% for the year 2019-2020. The gap in collection is found to be ₹526.54 crore. From the income and expenditure statement of the CMWSSB, it is clear that income generation is only 52% of the total expenditure and for the remaining expenses other resources have to be sought - such as getting loans, seeking Government support, etc. Revenue deficit was mainly due to the salary and establishment cost (24.1 %), cost of power (22.3%), O&M cost (22.1 %) and purchase of desalinated water (19.1 %).

5.30. The revenues of CMWSSB have not been increasing on par with the rising expenditure. Revenue has to be generated additionally at least to meet out the O&M cost. The outstanding loan liability as on 31.3.2021 was ₹ 1861.8 crore (Govt. Loan worth ₹ 1522.6 crore of which interest amounted to ₹ 551.5 crore. Other financial institutions' loan was ₹339.6 crore) and annual interest burden was around ₹ 86.62 crore. The Board has been finding it difficult to make interest payments and loan repayments since 2016. Further the Board has not been in a position to repay the Government loans since 2006.

5.31. With a view to improve the financial situation of CMWSSB, the Fifth SFC recommended modifying the devolution ratio between GCC and CMWSSB from 90:10 to 85:15 ratio. This has been accepted by the Government and from the 2017 CMWSSB is getting 15% of GCC share of SFC devolution. The above devolution funds are being utilized for capital works under the Board funds.

5.32. Out of 7,34,907 water connections provided by CMWSSB only 21,000 connections including 6000 domestic connections have been metered. CMWSSB informed that Bulk consumers / industrial consumers are already 100 % metered and the water charges are collected based on the meter readings. CMWSSB also has proposed large projects to be taken up in the next five years at ₹7595.2 crore,

5.33. It is learnt that the Board has already tied up with banks with regard to online collection of water charges and has been communicating the demand through SMS. The scheme has seen a good response.

5.34. The 15th CFC earmarked the service level benchmarks on drinking water supply, rainwater harvesting and water recycling, solid waste management and sanitation for two-third allocation of the Challenge Fund. The same service level benchmarks may be adopted to provide better service on drinking water supply, rainwater harvesting and water recycling to the CMWSSB and TWAD Board for the SFC devolution.

5.35. Though the devolution share increased from ₹ 215.1 crore during the Fourth SFC award period to 383.3 crore during Fifth SFC award period, the Board has still been facing hardships to balance income and expenditure.

Recommendations

5.36. 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.

5.37. 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.

5.38. The water charges can be applied in 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.

5.39. The Commission recommends that 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.

5.40. Further, the Commission recommends that the CMWSSB should be given its component of devolution grants directly through a separate Head of Account.

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

Table V - 6 : Growth in Water Supply Operations

Sl. No.	Description	2020
1	Operational area (sq.km)	426
2	Population (in lakh)	85.00
3	Water supply (MLD)	914
4	Length of Water mains(kms)	5,247.1
5	Distribution Stations	102
6	Water Treatment Capacity (MLD)	1,494
7	No. of consumers	7,34,907

Table V - 8 : Growth in Sewerage System

Sl. No.	Description	2020
1	Length of sewer mains (in km)	4,093
2	No. of pumping stations	302
3	Sewage treatment capacity (MLD)	745
4	No. of consumers	9,01,978

Table V - 7 : Funds received as share of SFC devolution

Year	Received Amount ₹ In Crore
2015-16	42.04
2016-17	50.13
2017-18	86.61
2018-19	105.94
2019-20	98.60
Total	383.32

Table V - 9 : Income & Expenditure Statement 2015-16 to 2019-20

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual	Actual	Actual	Actual	RE
A-Income					
Revenue Receipts	285.00	322	304	364	474
Capital Receipts (including loan)	163	166	176	187	192
Other Receipts	55	95	85	56	52
Total	504	584	566	608	719
B-Expenditure					
Revenue Expenditure	144	149	168	234	279
Capital Expenditure (including loan)	181	176	185	237	241
Other Expenditure	185	181	175	196	178
Total	197	201	199	264	282
Excess of Expenditure Over Income (B-A)	9	9	10	11	13

TOWN AND COUNTRY PLANNING DEPARTMENT (T&CP)

5.42. The Government of Tamil Nadu enacted the Town & Country Planning Act (T&CP) 1971 by repealing the Town Planning Act 1920. As per the T&CP Act,1971, the Town and Country Planning Department accords planning permissions for layouts and building permissions for the areas other than the Chennai Metropolitan Area. This department prepares and implements the statutory plans viz., Master Plan, New Town Development Plan and Detailed Development Plan for the planning areas under Tamil Nadu Town and Country Planning Act 1971. In addition to these special plans like heritage town development plans having historical, cultural, archeological and tourist importance and traffic improvement plans have been prepared and implemented through Local Bodies by extending funding assistance as grant from Town and Country Planning Development Fund.

5.43. The Town and Country Planning Department levies various charges like Development Charges, Infrastructure & Amenities Charges and Centage Charges while providing planning permissions and building permissions. Uniform fee structure for the entire State is followed for the Infrastructure & Amenities Charges and Centage Charges and different fee structure is followed for Development Charges by the various planning authorities.

5.44. Infrastructure and Amenities charges and Centage charges collected while according permission for major residential, commercial, industrial and institutional building proposals. These are utilised to provide basic amenities like water supply, link roads, sewerage facilities, high-level bridges etc.

5.45.The main goal of the Town and Country Planning Department is to achieve socio-economic development of the State through systematic development and regulation of growth of urban and rural areas of the State. It also plans and promotes critical infrastructure like new roads, widening of existing roads, identifying the Heritage Town Projects, traffic improvement program, park development programs. To implement the above projects Town and Country Planning Development Funds are being utilised.

5.46.Local Planning Area (LPA) fund which constitutes Development charges and 1% contribution from the own revenue of Local Bodies is being utilised for the establishment of Composite LPAs, and Regional LPAs and also for the execution of various projects such as heritage town development, park and play fields development, traffic and transportation improvement, development of GIS based applications etc. The fees/ charges levied by the Town and Country Planning have been revised a long time ago. The rates should be in line with the inflation.

5.47.There are large payment arrears as 1% contribution from all Local Bodies. Total demand of 1% contribution for the five years period is ₹349.9 crore whereas the payment during the same period was only ₹9.7 crore (2.7%). The payment from Local Bodies has been very low throughout the years from 2015-16 to 2019-20. The Fifth SFC had recommended that the reconciled and audited establishment expenditure of the planning wing of the T&CP authorities should be borne by all the Local Bodies in areas under planning authorities.

5.48. As regards building / layout approvals in VPs the powers vested with the Village Presidents who might be non-technical, and may not be well versed in the existing rules provision to identify if there is any violation in the plans submitted for approval. A comprehensive web portal for planning permission is under preparation by TNEGA. This website integrates the approvals fromLocal Bodies, Municipalities and DTCP.

Recommendations

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

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

5.51. 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.

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

5.53. The Town and Country Planning department should take up Town Planning Schemes for major towns.

Table V - 10 : Funds received from Local Bodies by DTCP

(₹ in crore)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Development Charges	10	9	12	21	16	69
Infrastructure & Amenities fund	322	338	383	427	379	1848
Centage Charges	1.16	0.97	1.36	11.3	10	25
1 % Contribution Demand	66	94	185	3.08	1.43	350
1 % Contribution Collection	2.27	1.16	5.56	0.71	0.02	10
1 % Contribution Arrear	63	93	179	2.37	1.41	340

Table V - 11: Last Revision of Charges

S.No	Name of fee/charges	Year of fee/ charges last revised	Rate
1	Development Charges	1985	₹25/Sq.mtr for land. ₹50/Sq.mtr for building.
2	Infrastructure and Amenities Charges	2012	Multistoried Building for commercial- ₹ 250-500/- Multistoried Residential- ₹ 250/- Otherthan multistoried building ₹ 125-250/- Institutional building ₹ 50-100 Industrial building ₹ 75-150/-
3	Centage Charges	1987	₹ 300/-

CHENNAI METROPOLITAN DEVELOPMENT AUTHORITY (CMDA)

5.54. Chennai Metropolitan Development Authority is a statutory body constituted under the Town and Country Planning Act, 1971. The main function of CMDA is to prepare the Master Plan for the metropolitan area and implement the Plan as provided for in the Act. Within Chennai Metropolitan Area, applications for changes in land use and applications for plan approval as per the Development Rules, subject to the delegation of powers are examined by CMDA. The Chennai Metropolitan Area (CMA) comprises the city of Chennai, Avadi Municipal Corporation, 7 Municipalities, 11 Town Panchayats and 179 Village Panchayats in 10 Panchayat Unions falling within Chennai, Thiruvallur, Chengalpattu and Kancheepuram districts. The extent of CMA is 1189 sq.km.

5.55. CMDA is implementing the Second Master plan in Chennai Metropolitan Area with a focus on development up to the year 2026. The revised Development Regulations are in force with reference to the Second Master Plan including delegation of powers to all Local Bodies in its purview. The CMDA mobilises funds through Development Charges, Infrastructure and Amenities charges, Open Space Reservation (OSR) charges, regularisation charges, 1% contribution of Local Bodies and deposits for adherence of planning permission rules etc. The Infrastructure and Amenities Charges and regularisation charges which are collected while issuing planning permissions are remitted into the Government account and the remaining funds kept in Planning and Development Fund Account. The OSR charges and Development Charges collected by Local Bodies in the CMDA area and remitted to CMDA

5.56. The total receipts for the five year period were ₹236.2 crore out of which ₹20.2 crore has been given as grants to Local Bodies, which is only 8.53%. Further the income and expenditure statement of CMDA for the review period shows that the CMDA is self-sufficient. Considering their revenue potential, the funds allocated to Local Bodies for infrastructure development is very meager. Hence the CMDA should provide more funds for the creation of infrastructural and civic amenities in the Local Bodies in their jurisdiction, especially in newly added areas.

5.57. As per Tamil Nadu Combined Development and Building Rules 2019 (TNCDBR), whenever planning permission is issued for any development, it is insisted that Rain Water Harvesting system be incorporated in the plan. After completion of construction, when the applicants apply for completion certificate, it is ensured that Rain Water Harvesting is provided in the site.

5.58. In respect of Grey water recycling, though provision has been made in TNCDBR, the same has not been made mandatory. In the unsewered areas, where sewage treatment plants are proposed, recycling of greywater is to be adopted and the same is used for gardening purposes.

5.59.In the details of Fee/Charges/Deposit particulars, CMDA has stated that

a) Development Charges, Regularisation Charges and OSR Charges were fixed before 2000.

b) Scrutiny fee was lastly revised during 2008-09.

c) Infrastructure and Amenities Charges was lastly revised during 2011-2012.

5.60. From the above it is seen that the above mentioned charges have been revised many years ago. All the charges should be revised in line with the inflation rate. As these charges are the sources of revenue for

CMDA and a portion of the fund is being utilised for infrastructure projects within the local bodies, charges are to be increased as early as possible.

Recommendations

5.61. Sixth SFC recommends that, 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.

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

Table V - 12 : Amount received by CMDA from Urban Local Bodies (GCC, Municipalities and Town Panchayats)

(₹ in lakh)

Details	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Development Charges	382.83	486.59	241.9	1024.65	833.09	2969.1
Infrastructure & Amenities charges	2381.99	2995.36	1352.12	466.55	9488.7	16685
OSR Charges	4641.8	5280.56	2255.13	3580.37	4436.44	20194
Regularisation Charges	650.49	681.5	422.57	110.48	979.47	2844.5
1%/(0.25%) contribution from local body	27.96	580.08	16.38	133.12	19.94	777.48
Total	8085.07	10024.09	4288.1	5315.17	15757.64	43470

Table V - 13 : Amount received by CMDA from Rural Local Bodies

(₹ in lakh)

Details	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Development Charges	225.64	189.59	66.89	120.64	239.49	842.25
Infrastructure & Amenities charges	160.29	48.82	3.95	185.24	346.26	744.56
OSR Charges	472.52	385.61	815.56	441.42	1022.95	3138.06
Regularisation Charges	89.56	0	153.7	15.86	217.97	477.09
1%/(0.25%) contribution from local body	0.24	0.48	0.24	0.63	0	1.59
Total	948.25	624.5	1040.34	763.79	1826.67	5203.55

Table V - 14 : Receipts And Expenditure for the Period from 2015-16 to 2019-2020 (GCC, Municipalities, Town Panchayats and Rural Local Bodies)

(₹ in lakh)

Year	GCC		Municipalities		Town panchayats		Rural Local Bodies		Total	
	Receipts	Exp.	Receipts	Exp	Receipts	Exp.	Receipts	Exp.	Receipts	Exp.
2015-16	3160.50	4903.19	1436.04	1363.64	428.09	0	0	0	5024.63	6266.83
2016-17	4848.43	1273.64	1082.86	680.94	316.41	0	0	0	6247.70	1954.58
2017-18	1470.71	1500.00	1238.46	195.5	232.24	0	0	0	2941.41	1695.5
2018-19	3929.93	0	610.8	119.19	117.29	0	0	0	4658.02	119.19
2019-20	4707.00	0	44.16	0	0	0	0	0	4751.16	0
Total	18116.57	7676.83	4412.32	2359.27	1094.03	0	0	0	23622.92	10036.1

Table V - 15 : CMDA Grant to Local Bodies for the period 2015-16 to 2019-20

(₹ in lakh)

Year	LAP Assistance	CBED Expenses	Grand Total
2015-16	480.6	177.22	657.82
2016-17	807.66	118.18	925.84
2017-18	121.96	163.52	285.48
2018-19	88.7	28.26	116.96
2019-20	20.15	10.15	30.3
Total	1519.07	497.33	2016.4

LAP: Local Body Assistance Programme

CBED: Community Based Environment Development Programme.

TAMIL NADU URBAN HABITAT DEVELOPMENT BOARD

5.63.The Tamil Nadu Slum Clearance Board constituted under the Tamil Nadu Slum Areas (Improvement and Clearance) Act 1971, and renamed as Tamil Nadu Urban Habitat Development Board (TNUHDB), is a pioneering organization for urban slum development and to improve the lives of urban poor.

5.64. As per 2011 Census, in Tamil Nadu, 14.6 lakh households are located in urban slums. The Board has been implementing various programmes like in-situ tenemental schemes, in-situ plotted schemes and infrastructure development, Rehabilitation and Resettlement schemes etc. to improve the environs of the slums and the living standards of the urban slum families to achieve Slum Free Cities status.

5.65. The urban local bodies provide the facilities like BT roads, street lights, cement concrete pavements, deep borewells, public fountains, storm water drains etc., in such urban slums to upgrade the areas. The water supply and sewer system between the tenemental blocks are provided to the slum tenements in Chennai by CMWSSB and by TWAD Board in other Districts.

5.66.TNUHDB has been implementing slum free cities programmes by utilising the funding assistance from GOI under the "Housing for All" programme, State Government grants, financial assistance from various institutions and beneficiary contributions. TNUHDB has constructed 2,07,609 slum tenements / individual houses for the period from 2015-16 to 2019-20 under various schemes.

5.67. A recommendation mentioned in the Fifth SFC was that the Shelter fund should be put into operation at the earliest. In accordance with this, TNUHDB has taken action by issuing Government orders to authorize AG to transfer the sum of ₹ 83.95 crore collected during 2019-20 to Tier -1 Shelter fund and proposals have been sent to the Government for further transfers.

5.68. As recommended in the Fifth SFC, TNUHDB has informed that they have approved the "Resilient Urban Design Framework " prepared by the World Bank. RUDF is a critical planning & design manual that the TNUHDB can use as a ready guide to design high quality, sustainable and climate resilient developments. Adopting RUDF, TNUHDB formulates site specific, culturally rooted, visually rich, cost-effective solutions. The existing AHP schemes are also converged to adopt these RUDF guidelines. These projects will be implemented by utilizing the Shelter Fund by TNUHDB.

Recommendations

5.69. The Commission appreciates the initiatives taken by TNUHDB for involving the occupants in the maintenance of the tenements. It should take these efforts forward and build capacity among the associations of residents to manage their localities and make them self sustainable.

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

5.71. 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.

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

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

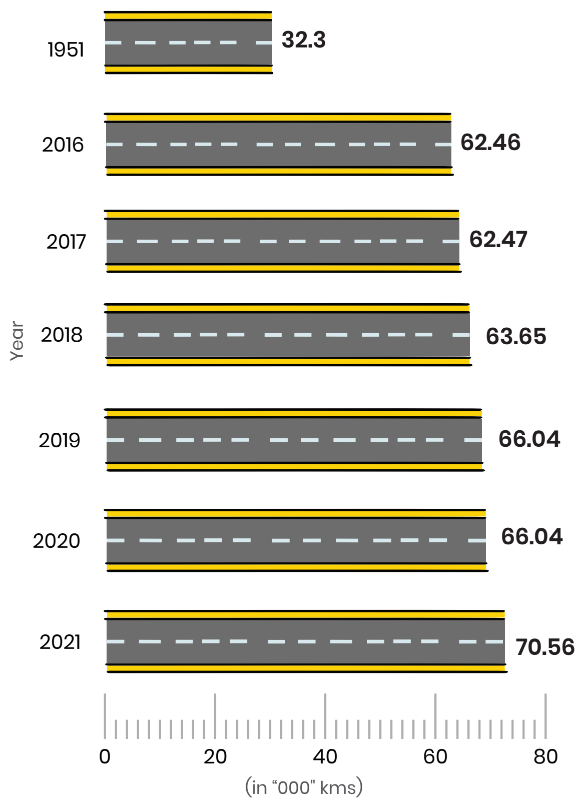
5.74. The poverty reduction and other welfare programmes implemented by various departments, such as the Municipal Administration and Water Supply Department, the Labour Welfare, Employment and Training Department, Social Welfare Department, Rural Development and Panchayat Raj Department, etc should have special focus on the rehabilitated tenements. A separate committee may be formed for monitoring these focus programmes. This would ensure that resources are dovetailed across departments and habitat development becomes a comprehensive exercise.

5.75. While developing new tenements, TNHUDB 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, school, etc. The Apex Committees monitoring schemes should approve comprehensive plans based on these recommendations and should ensure coordination between various departments and implementing agencies.

HIGHWAYS DEPARTMENT

5.76. Highways Department maintains and improves the roads under the control of State Government like State Highways, Major District Roads and other District Roads and provides all weather road connectivity to rural habitations. The department maintains the 62,603 km of roads in Tamil Nadu. The department has taken over 4861.7 km length of roads for up gradation and 49 bridges for construction from rural local bodies during the last five years. In addition to that, 84 bridges located in SH/ MDR/ ODR have been taken up for construction.

Chart V -2 : Growth of Road Network



Recommendations

5.77. 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.

5.78. Road safety is a major concern for the State. The Commission recommends that 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.

5.79. Local body roads connect to highways in numerous locations. Many of such roads

join State and National Highways in acute angle or right angle. 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.

5.80. The local bodies, through their funds for road improvements, should give high priority for road safety.

5.81. District level technical committees should be formed with representatives from 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-up.

TAMIL NADU POLLUTION CONTROL BOARD (TNPCB)

5.82. Tamil Nadu Pollution Control Board (TNPCB) was constituted by the Government of Tamil Nadu as per Section 4 in pursuance of Water (Prevention and Control of Pollution) Act 1974, (Central Act 6 of 1974). It enforces the provision of Water (Prevention and Control of Pollution) Act 1974, the Water (Prevention and Control of Pollution) Cess Act 1977, Air (Prevention and Control of Pollution) Act 1981, and the Rules made under the Environment Protection Act, 1986. The State Pollution Control Board is also responsible for the monitoring and enforcement of the Municipal Solid Waste (Management and Handling) Rules 2016.

5.83. TNPCB is implementing the Pollution Control Legislations and Rules and notifications framed therein. In discharging the duties entrusted to it, the Board investigates, collects and disseminates data relating to water, air and land pollution, lays down standards for sewage/trade effluent and emissions.

5.84. The Board has levied Environmental Compensation on Local Bodies (13 Corporations, 3 Municipalities, 5 Town Panchayats & 3 Village Panchayats) based on the Hon'ble NGT (Principal Bench) orders dated 02.07.2020 in OA No.606 of 2018 with respect to non-compliance of SWM Rules, 2016 and non-commencement of biomining of legacy waste as on 01.04.2020. So far, none of the Local Bodies have remitted the Environmental Compensation.

5.85. In spite of the above, still non-compliance with proper disposal of solid waste management exists among the Local Bodies. Local Bodies shall ensure that untreated sewage and solid waste are not discharged into water bodies.

5.86. The untapped potential of solid waste and plastic waste shall be effectively utilized with proper collection and segregation of the said waste along with provision of requisite capacities of treatment facilities. The said solid waste treatment facilities need to be operated continuously and efficiently so as to incur revenue from the process.

5.87. The role and responsibilities of Local Bodies as specified in Rule 15 of SWM Rules, 2016 need to be followed scrupulously. The Local Bodies shall levy fines on the violators dumping solid waste indiscriminately, and against stakeholders who are not complying with SWM Rules, 2016. Local Bodies who are not able to set up waste processing facilities shall combine with nearby Local Bodies to provide integrated waste management.

5.88. Considering the paramount importance of maintaining ambient air quality, 15th CFC identified 50 “million plus cities” where the population is more than a million and recommended grants to the tune of ₹ 38,196 crore in the form of a Million-Plus cities Challenge Fund (MCF). This amount is linked to the performance of these cities in improving their air quality and meeting the service level benchmarks for urban drinking water supply, sanitation and solid waste management since a large number of Million-Plus cities do not meet the standards for pollutants (particulate matter). This not only affects people's health but also hinders trade, investment and various economic activities in these cities. Greater Chennai Corporation ,Madurai, Coimbatore and Thiruchirappalli are four Municipal Corporations in Tamil Nadu falling under the category of Million Plus Cities and eligible to receive CFC funds under Million-Plus cities Challenge Fund (MCF).

Recommendations

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

5.90. 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.

5.91. 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 constraint. 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.

DEPARTMENT OF PUBLIC LIBRARIES

5.92.Tamil Nadu Government promulgated the Public Library Act 1948 to provide for the establishment of public libraries in the State of Tamil Nadu and the organisation of a comprehensive rural and urban library service therein. Every local library authority shall levy in its area Library Cess in the form of a surcharge on Property Tax or House Tax levied under the relevant local body Acts under Section 12(1) (a) of the Tamil Nadu Public Library Act, 1948. The current rate of library cess levied is 10 paise per rupee. This rate of cess is followed in all the Local Bodies. Library Cess is the primary source of income for the Libraries. The developmental activities of the libraries are being carried out through the library cess collected by the District Local Library Authorities.

5.93.The Library cess remitted by Local Bodies through the five-year period was ₹ 549.2 crore. The Director of Public Libraries has informed the Commission that a sum of ₹383.9 crore is pending up to the year 2019-20.

5.94.A sum of ₹ 139.2 crore was pending up to the year 2015-16. The pending dues escalated to ₹ 383.9 crore at the end of 2019-20. The arrears have reduced in Town Panchayats and Village Panchayats. Major portion of the arrears are due from Municipal Corporations. Out of the ₹383.9 crore pending cess, only ₹88.95 crore has been received till August 2021. ₹294.95 crore is yet to be received from the Local Bodies.

5.95.The Fifth State Finance Commission has recommended that the DRD, DTP, CMA and Commissioner, GCC may be advised to clear pending dues of library cess as per the audited accounts at the earliest as a statutory due.

Recommendation

5.96. **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.**

Table V - 16 : Remittance of Library Cess to the Local Bodies

(₹ in crore)

Local Bodies	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Village Panchayats	9.50	7.29	34.76	13.33	23.72	88.6
Town Panchayats	9.25	13.16	16.32	12.98	19.56	71.27
Municipalities	18.17	23.14	37.89	21.97	30.68	131.85
Municipal Corporations except GCC	41.15	22.51	35.23	33.54	46.56	178.99
Chennai Corporation	-	9.25	14.04	34.87	20.30	78.46
Total	78.13	75.35	138.24	116.69	140.82	549.17

Chart V -3 : Library Cess Remittance by Local Bodies from 2015-16 to 2019-20 (₹ in Crore)

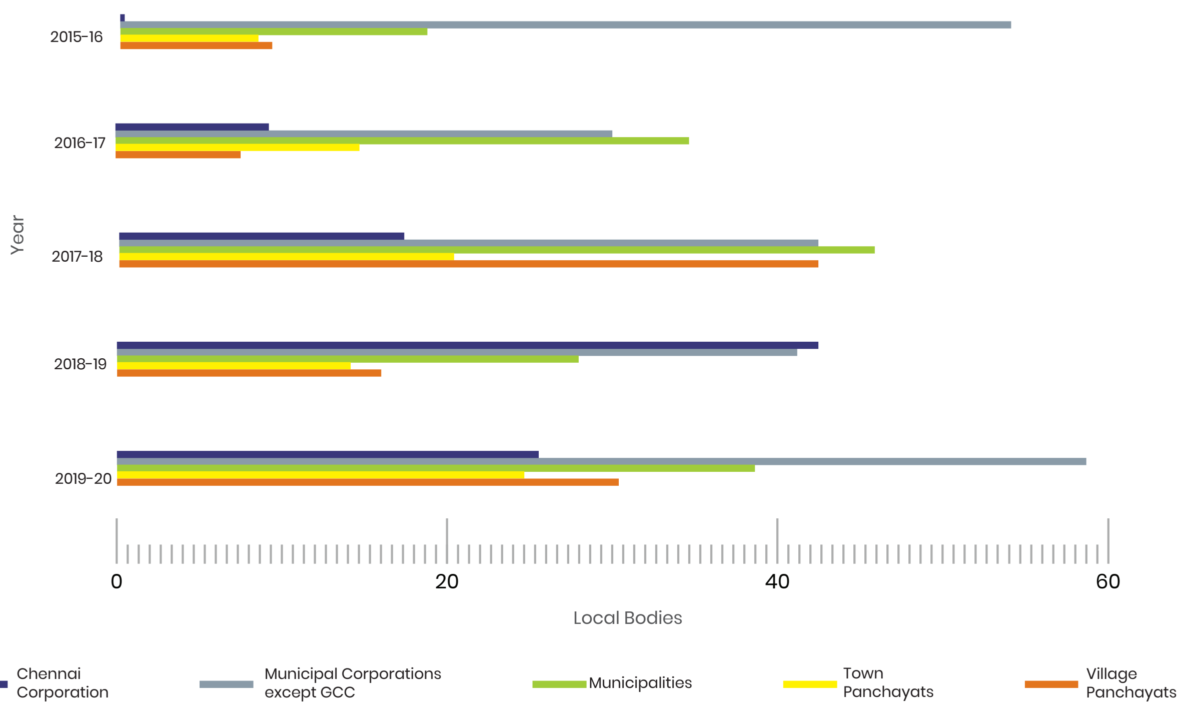


Table V - 17 : Library Cess Arrears from Local Bodies

(₹ in crore)

Sl.No	Local Bodies	Library Cess pending as on 31.03.2015	Library Cess pending as on 31.03.2020
1	Corporations	41.88	312.73
2	Municipalities	41.81	47.87
3	Town Panchayats	29.91	5.96
4	Village Panchayats	25.64	17.38
	Total	139.24	383.94

Chart V -4 Library Cess Arrears from Local Bodies Comparison 2015 and 2020

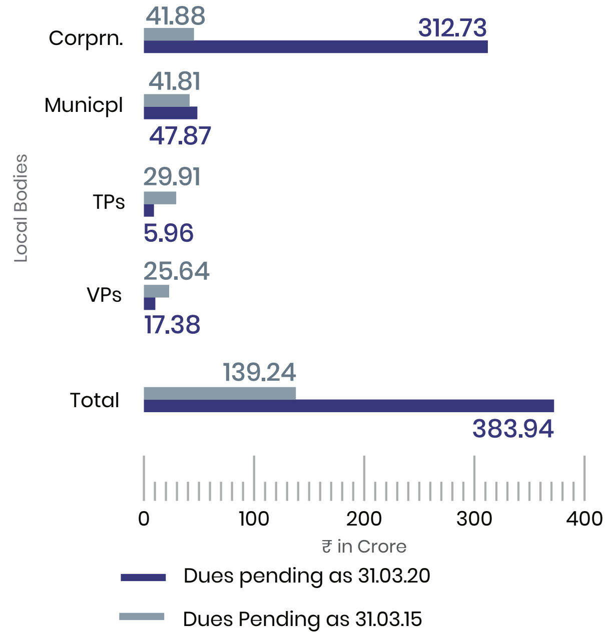


Table V - 18 : Actual Receipts and Expenditure

(₹ in crore)

Financial Year	2015-16	2016-17	2017-18	2018-19	2019-20
Actual Receipts ₹	100.95	91.17	151.67	131.13	160.40
Actual Expenditure *	119.50	112.86	104.37	131.42	179.67

Chart V -5: Actual Receipts and Expenditure of local Library Authorities from 2015-16 to 2019-20

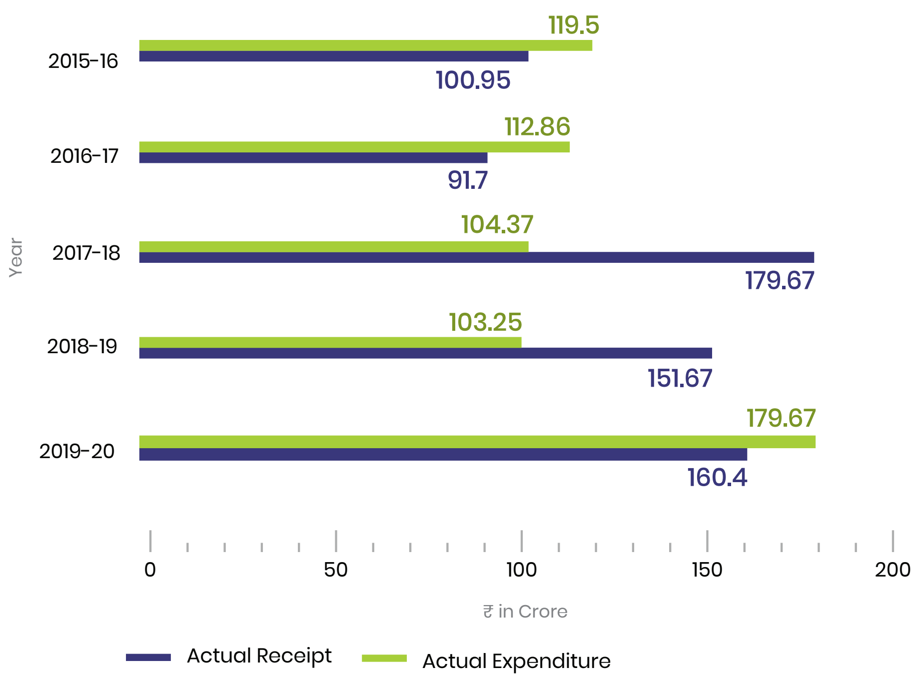


Table V - 19: Staff Salary Expenditure

S.No	Staff Category	No. of Staff	Salary Expenditure (₹ in Crore)
1	Government Staff	1260	122.19
2	Staff working under Local Library Authority (Salary refundable to Govt. from LLA fund)	2065	25.25
3	Staff working under Contingency basis	579	21.85

HINDU RELIGIOUS AND CHARITABLE ENDOWMENT BOARD

5.97.HR&CE Department provides financial assistance to the Local Bodies towards the capital or maintenance works in the temple areas

5.98.Temple cities like Madurai, Rameshwaram, Thanjavur, Thirithani, Thiruvannamalai, Palani, Thiruchendur, Suchindrametc have a large floating population of pilgrims during festive seasons. On such festive occasions, civic facilities in the cities/ towns/ villages where the temples are situated are provided by Local Bodies.

5.99.The large number of visitors during festivals are single day visitors. Such short visits do not add much to the revenue of the Local Bodies. Rather, they face financial burden since income from the festivals are not to the Local Bodies but added to the temples receipts.

Recommendation

5.100. 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.

TAMIL NADU ENERGY DEVELOPMENT AGENCY (TEDA)

5.101. The Government of Tamil Nadu set up a separate Agency for promoting renewable energy, the Tamil Nadu Energy Development Agency (TEDA), as early as 1985.

5.102. The functions of Tamil Nadu Energy Development Agency (TEDA) include electrifying the remote villages, finding renewable energy to combat the increasing demand for electric energy and the challenges in finding alternate renewable energy sources like Solar, Wind Mill, Biomass Plant, Biogas Plant, etc., installation of Solar roof tops in Green Houses and Government buildings, installation of Grid Connected Rooftop Solar Power Plants under Capital Expenditure (CAPEX) and Renewable Energy Service Company (RESCO) modes.

5.103. Charges on electricity consumption for street lighting and drinking water supply are a major component of Local Bodies expenditure. The use of renewable energy has to be promoted for expenditure control in Local Bodies.

Recommendation

5.104. The Commission recommends that 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.

VI Audit and Accounts

**ஓர்ந்துகண் ணோடாது இறைபுரிந்து யார்மாட்டும்
தேர்ந்துசெய் வஃதே முறை**

- குறள் 541

Search out, to no one favour show; with heart that justice loves
Consult, then act; this is the rule that right approves

BACKGROUND

6.1. The Sixth SFC collected data from all the local bodies. However the quality of the data was unsatisfactory. The largest inaccuracies were found to be in the accounts. This was especially so for the RLBs. Even among the ULBs, the Town Panchayat accounts had many shortcomings.

6.2. The accounting is currently being done manually. The transactions are through bank accounts and through cheques. While the local bodies spend money as and when it is required, the accounting after reconciliation of the vouchers or bills happens later and many mistakes creep in. Quality of data is much better among Corporations.

6.3. It is essential that accounting is streamlined to ensure better quality of data and better accountability. Many of these shortcomings have been pointed out by the local fund audit from time to time. However the improvement has been very small and not measurable, despite the Fifth SFC also making several recommendations to improve the quality of accounting.

6.4. While accounting is a key part of financial data management, auditing plays a vital role in maintenance of truth and fairness in financial information. It is a check made to verify the accuracy, accountability and reliability of the financial statements. A well-defined Financial Data Management Program (FDMP) can streamline, develop and maintain good accounting and auditing practices in the State to attain an optimum level of efficiency in financial data management.

6.5. To implement proper financial data management both the Central and the State Governments have taken numerous measures such as launching and adopting accounting and auditing practices online and improving accessibility of financial information of the local bodies to the public domain.

RECOMMENDATIONS OF THE CENTRAL FINANCE COMMISSION

6.6. The 15th CFC has also stressed the importance of good accounting practices and has made the same conditional for release of funds from the year 2022-2023. The 15th CFC has recommended that:

i. In the first and second year of the award period, that is 2021-2022 and 2022-2023, States needs to ensure that at least 25% of the rural local bodies have both their provisional accounts for the previous year and audited accounts for the year before the previous available online in public domain in order to avail the full grants in that year.

ii. Further, for eligibility of grants from 2022–23, States need to ensure online availability of at least 25% of both unaudited rural local body accounts for the previous year and audited accounts for the year before the previous to avail the full grants in that year.

iii. From the third year i.e., 2023–24 onwards, states will receive total grants due to the rural local bodies having both provisional accounts of the previous year and audited accounts for the year before previous and making this available online.

iv. For example, if for a particular state only 35% of rural local bodies have both provisional accounts for the year 2022–23 and audited accounts for the year 2021–22 and these are available online in 2023–24, then in 2023–24, the state will receive total amount due to these 35% of rural local bodies for the year 2023–24.

6.7. Similarly for the ULBs, the 15th CFC has recommended that,

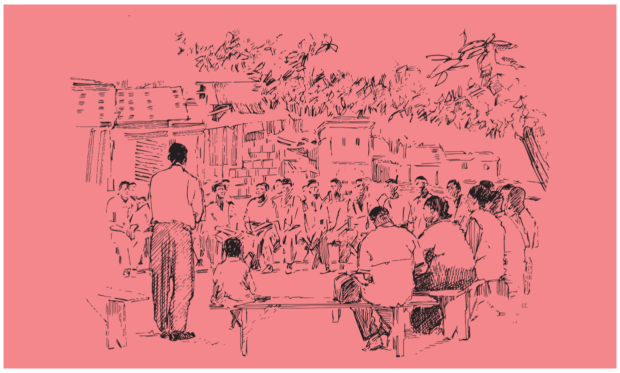
a. In the first year of the award period, that is 2021–22, a state needs to ensure online availability of at least 25% of both unaudited ULB accounts for the previous year and audited accounts for the year before the previous to avail the full grants in that year.

b. Further, for eligibility of grants from 2022–23, a state needs to ensure online availability of at least 25% of both unaudited urban local body accounts for the previous year and audited accounts for the year before the previous avail the full grants in that year.

6.8. Thus, the 15th CFC has rightly emphasised the importance of audited accounts in a timely manner and making them available online for public scrutiny. This Commission finds this approach extremely important to ensure accountability and fiscal discipline among local bodies.

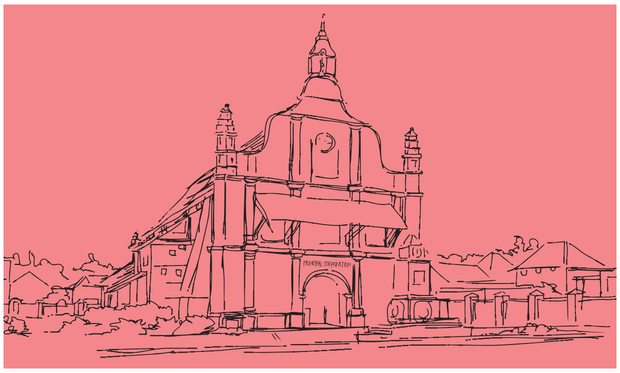
ACCOUNTING PRACTICES

Rural Local Bodies



6.9. The Government of India introduced e-Gram Swaraj, a user friendly web-based portal on April 24, 2020 to strengthen e-governance in Panchayati Raj Institutions in the whole country by making complete digitisation of the villages. It aims to bring in better transparency in decentralised planning, progress reporting and work-based accounting. The accounts of all Village Panchayats, Block Panchayats and District Panchayats are entered and maintained in this web portal. Transactions made from Account No.I to Account No.XI are accounted for and maintained in a prescribed format in e-Gram Swaraj. However, the accuracy of data would still depend upon skills of the personnel handling accounting and data entry.

Urban Local Bodies



6.10. Accrual-based accounting system is followed in all the ULBs. A Municipal Accounting Manual adopting new accounting software created on the basis of new coding structure and on the principles of need base incorporating the principles laid down in National Municipal Accounting Manual to suit the requirement of ULBs in Tamil Nadu is already in place except in Town Panchayats. The Combined Web based Service (CWBS) is the accounting software used to account the financial transactions of the Corporations and Municipalities of Tamil Nadu.

AUDIT PRACTICES

6.11. As per Section 20 of the Tamil Nadu Local Fund Audit Act of 2014, the Director of Local Fund Audit should submit annually a consolidated report of the audited accounts of local bodies to Government, which should cause it to be laid before the Legislative Assembly.

6.12. As per Rule 19 of the Tamil Nadu Local Fund Audit Rules, 2016, the Director of Local Fund Audit should, not later than 30th September of every year, send to the Government, a consolidated report of the accounts of local authorities audited during the previous financial year, containing such particulars, which are to be brought to the notice of the Government as per Section 20 of the Act.

6.13. Audit of Panchayat Raj Institutions is conducted under Section 20 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971, in respect of financial assistance given to Panchayat Raj Institutions. Technical guidance and support is provided by the Comptroller and Auditor General of India to the Director of Local Fund Audit.

6.14. Audit of the ULBs is conducted under Section 14(2) of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971. Technical Guidance and Support is provided by the Comptroller and Auditor General of India to the Director of Local Fund Audit.

6.15. The Commission observes that in the ground reality, due to lack of manpower with the Director of Local Fund Audit, audit of annual financial reports of the Municipalities and Town Panchayats has not been done annually. Audit is done once in two or three years cumulatively, which deviates from the statutory provision.

6.16. The Central Government has engaged external agencies like Chartered Accountants for audit and certification of accounts for the CFC Grants. Some states like Chhattisgarh, Madhya Pradesh, Rajasthan and Sikkim have engaged Chartered Accountants for Auditing of Accounts.

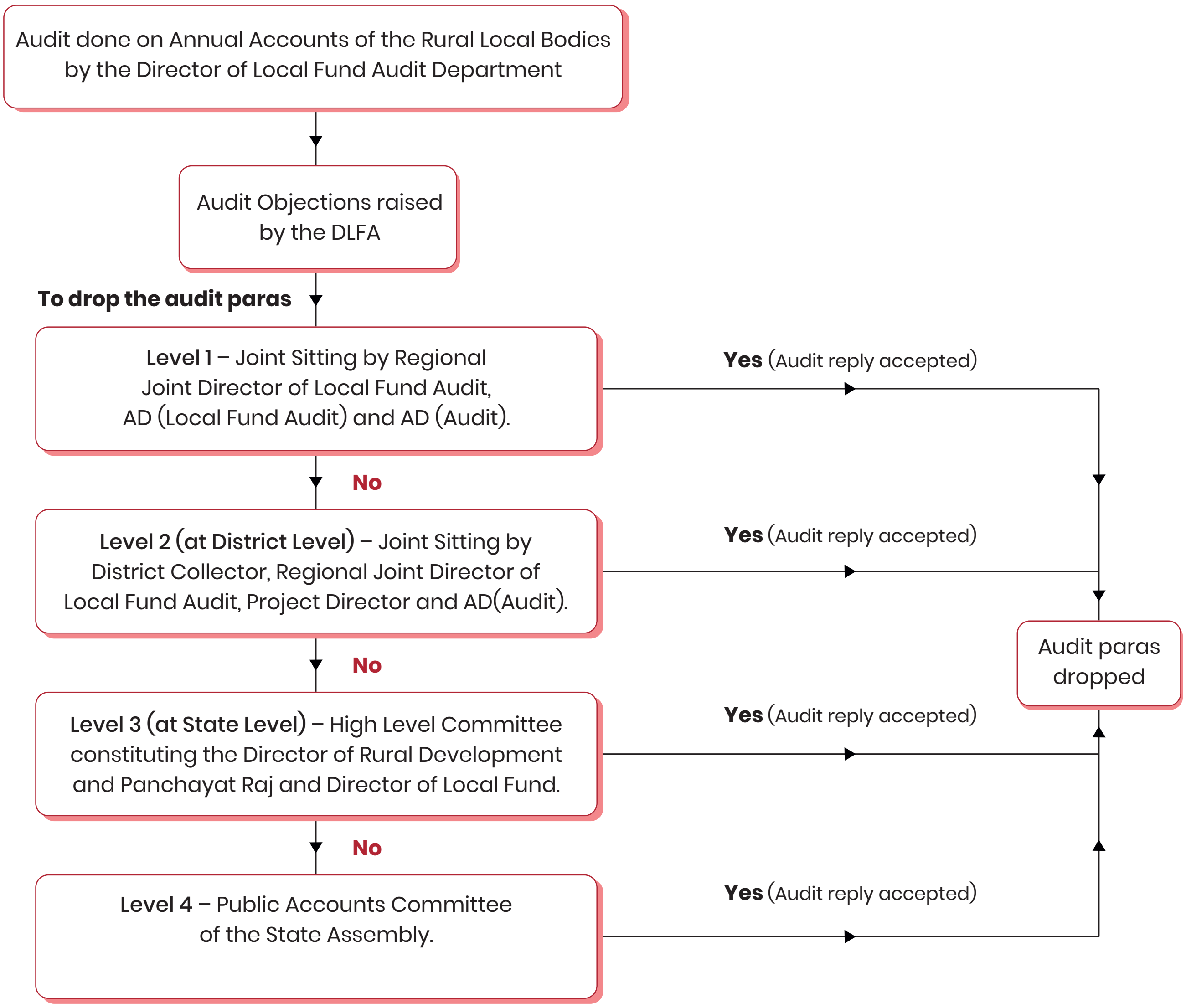
Rural Local Bodies

6.17. Director of Local Fund Audit (DLFA) is the statutory Auditor for Block Panchayats and District Panchayats. The DLFA is conducting only test audits of Village Panchayats' accounts. It takes up audit of only 20% of Village Panchayats' plus 2% of the Village Panchayats selected by the Director of Rural Development and Panchayat Raj every year. For the remaining Village Panchayats', the accounts are audited and certified by the Deputy Block Development Officer concerned.

6.18. The assessment made by this Commission of the audit of Village Panchayats' done by the Deputy Block Development Officer is that a lack of proper and effective mechanism prevails at the root level.

6.19. The flowchart of auditing practices followed in RLBs is presented below:

Chart VI-1: Auditing Process Followed by RLBs

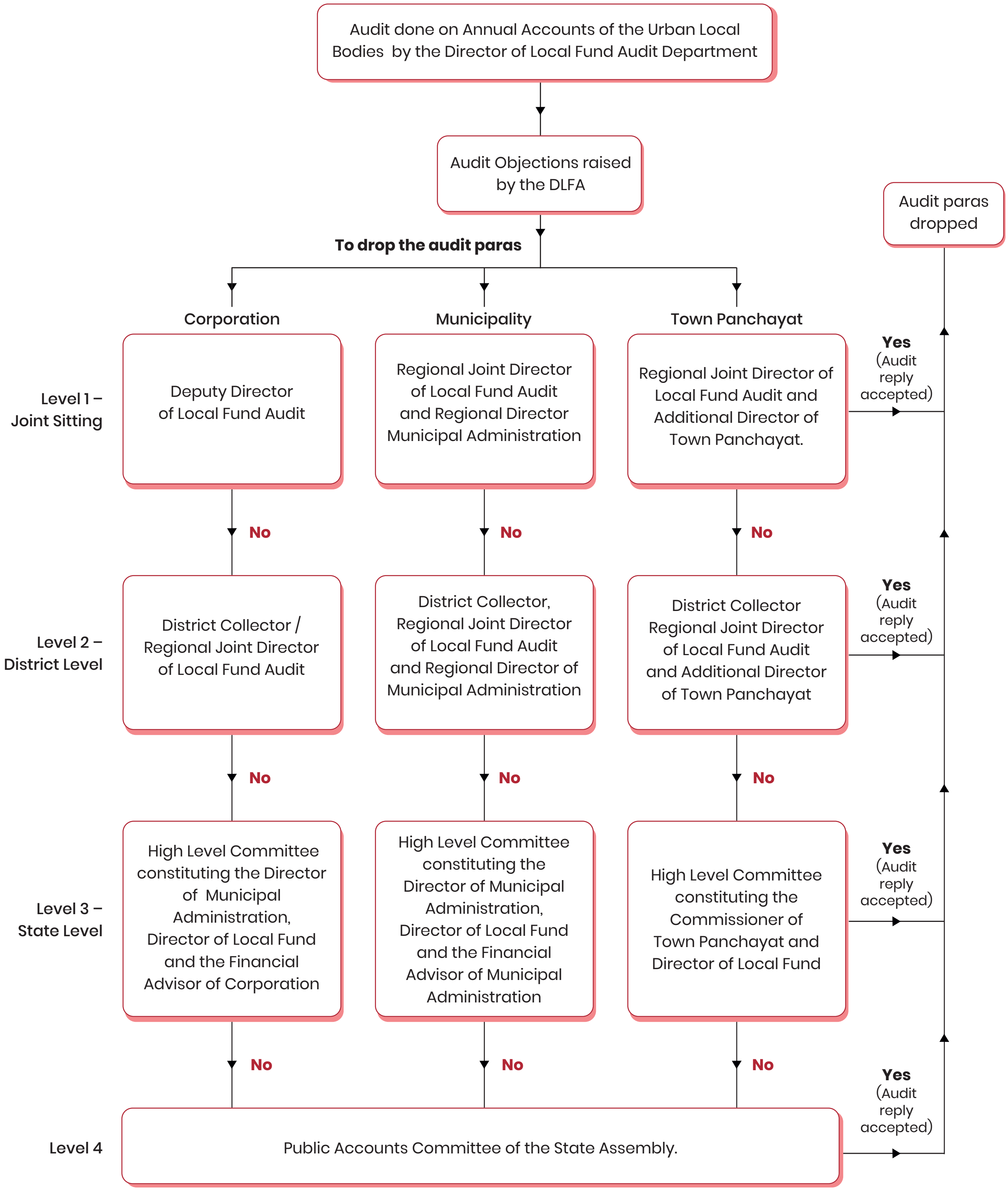


Urban Local Bodies

6.20. Government of Tamil Nadu has entrusted the audit of Urban Local Bodies to the Director of Local Fund Audit (DLFA), who has to certify the correctness of accounts, assess internal control system and report cases of loss, theft and fraud to the audited entities and to the State Government.

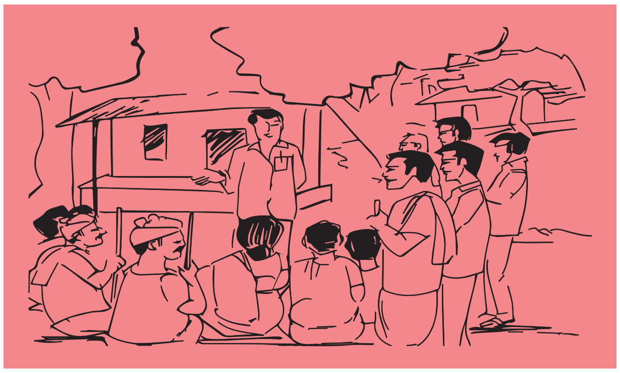
6.21. The flowchart of auditing practices followed in Urban Local Bodies is as follows:

Chart VI-2: Auditing Process Followed by ULBs



INTERNAL AUDIT AND INTERNAL CONTROL SYSTEM

Rural Local Bodies



6.22.The Village Panchayats send a monthly report on the receipt and expenditure to the Block Development Officer (Village Panchayats). The accounts of Village Panchayats are placed at the Gram Sabha. At the State level, the Director of Rural Development and Panchayat Raj collects monthly reports at Block and District levels. The staff of Directorate of Local Fund Audit are posted at each Panchayat Union for concurrent audit of Panchayat Union's accounts.

6.23. DLFA is selecting and conducting audit only in 20% of Village Panchayats every year and thus all the Village Panchayats would be covered in 5 years period. Apart from this, 2% of Village Panchayats selected by DRD in a year also being audited by DLFA. Audit in the remaining 78% of Village panchayats are to be carried out by Deputy BDOs concerned which is lacking in quality. There need to be an alternative mechanism to cover all theVillage panchayats in a year.

Urban Local Bodies

6.24. In ***Greater Chennai Corporation (GCC)***, the Financial Advisor is the overall controller for verification of audit and accounts. Chief Accounts Officers are the internal auditors at the Zonal levels. The staff of Directorate of

Local Fund Audit are posted at GCC for doing concurrent audit.

6.25. For all Municipal Corporations and Special Grade Municipalities, concurrent audit is done by the staff of Directorate of Local Fund Audit. In case of Town Panchayats, the staff of Directorate of Local Fund Audit conduct annual audit and financial loss and irregularity paragraphs are intimated to the concerned Executive Officers and Assistant Directors of Town Panchayats. In case of other municipalities, the audit is done annually.

SOCIAL AUDIT IN RURAL DEVELOPMENT

6.26. As per Section 15(5) (d) of the National Rural Employment Guarantee Act of 2005, Social Audit of all works in the jurisdiction of Village Panchayat is to be carried out by the Gram Sabha and prompt action has to be taken on the objections raised during Social Audit. Section 17 of the MGNREGA has mandated Social Audit of all works executed under the MGNREGA. Social audit examine and assess the social impact of specific programmes and policies. The work of the Auditor is to investigate by cross-verifying facts and details in the records from the workers and cross- verifying works at site. The aim of the Social Audit is to create transparency and accountability.

RECOMMENDATIONS

6.27. To ensure compliance with rules and procedures and to improve the accounting practices in local bodies this Commission makes the following recommendations:

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

6.29. 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.

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

6.31. 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.

6.32. 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 two 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.

6.33. A comprehensive software should be developed integrating accounting and transaction for all the local body funds. All expenditures should be authorized 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 accounting 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.

6.34. 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.

6.35. The present system of sending proposals every month for the release of SFC fund 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 instalments. First ten installments can be released on fixed dates as per the Budget Estimates. The last four instalments can be released once the Revised Estimates have been finalized, following the same mechanism.

6.36. 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 Commission recommends that 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 to ensure efficient fund allocation among various parts of the State in general and among local bodies in particular.

6.37. 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 which should be accessible to every citizen. This practice improves transparency and accountability in financial performance of the local bodies.

6.38. 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. It may be done through Tamil Nadu Institute of Urban Studies (TNIUS) and Regional Institute of Rural Development (RIRD).

6.39. 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.

6.40. 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 . Reports should also be made available in public domain. This may be in the years when Local Fund Audit Department does not conduct audit for panchayats.

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

6.42. 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 to do digital payments like these 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.

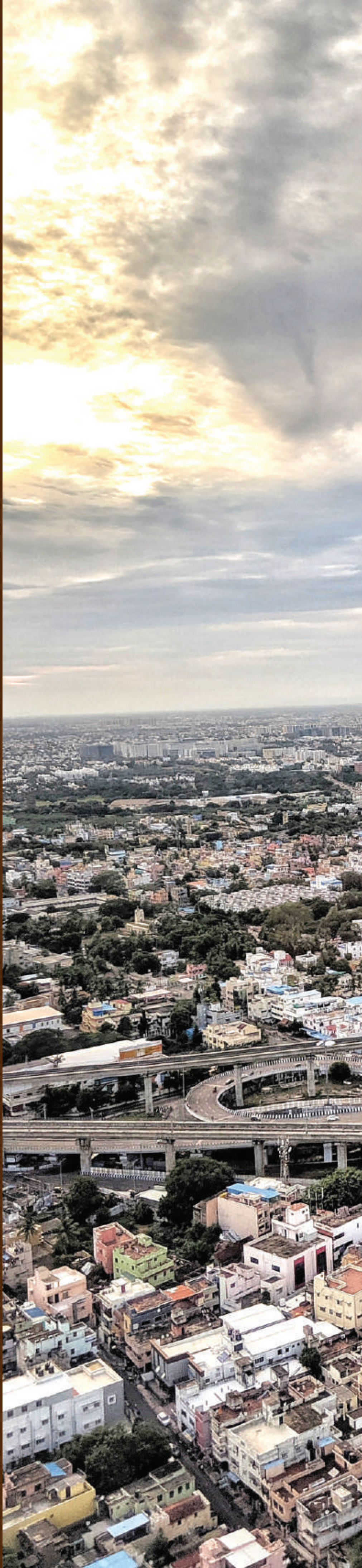
6.43. Accounting system in RLBs should be strengthened by forming a separate wing at the Panchayat Union level

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

6.45. Social Auditing to 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.

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

6.47. The government should take urgent action to fill up vacant positions in the Local Fund Audit Wing.

VII Scheme of Devolution

**பருவத்தோடு ஓட்ட ஒழுகல் திருவினைத்
தீராமை ஆர்க்குங் கயிறு**

- குறள் 482

The bond binds fortune fast is ordered effort made,
Strictly observant still of favouring season's aid

APPROACH

7.1. Among the three tiers of governance, Local Bodies are the closest to the people. While making recommendations for the scheme of devolution of grants, the Commission has taken into consideration the role of Local Bodies in the overall structure of governance in Tamil Nadu, their current financial position, their administrative capacity, resource requirements, functional delegation, and ultimately the quality of service required for the residents of those Local Bodies.

7.2. The Commission has tried to address administrative issues in fund release by making recommendations to streamline the current procedures ensuring predictability and timely release of funds. The Commission has also attempted formulation of a simple and easily understandable mechanism. The scheme of devolution recommended here is in consonance with this overall approach.

MAJOR CHANGES

7.3. While the SOTR has historically grown year-on-year over a period of time, the Covid-19 pandemic brought home the possibility of reduction in SOTR for the first time. It is essential that during such times of crisis, the support extended to Local Bodies is not compromised and at least some special needs of Local Bodies are met through adequate grant allocation, irrespective of SOTR growth rate. Hence, the overall devolution grants would be divided into fixed and variable components.

7.4. The fixed component would be restricted to finance the minimum Lumpsum grants to Block Panchayats, Village Panchayats and Town Panchayats and Special Grants to be administered at State and District level to meet requirements of weaker Local Bodies or to fund special requirements where Local Bodies' resources are found wanting. This component would not vary as per the SOTR trend.

7.5. The Commission has recommended fifteen Special Grants for RLBs divided into four categories. Similarly, for ULBs, the Commission has recommended twelve Special Grants.

7.6. This would also help to address specific issues in a planned manner during the award period by supporting the special grants with appropriate State Government Schemes.

7.7. The variable component would finance the direct Devolution Grants to the various types of Local Bodies. This would ensure that the higher growth in SOTR is transferred fully to the Local Bodies on a year-on-year basis.

7.8. Per capita income distance was used as a criterion for devolution by previous Commissions. This Commission has taken a view that the devolution should address the regional disparity through Special Grants that would address the special requirements of Local Bodies due to specific issues. Hence, this criterion has not been considered for the scheme of devolution.

7.9. Area is a significant criterion for devolution in RLBs. However, in ULBs, the criterion has a different impact on different categories of Local Bodies. Hence, while the Commission has retained the criterion for ULBs, it has recommended varying weightages to the criterion for different types of ULBs.

7.10. The track record of implementation of reform oriented recommendations of successive State Finance Commission has been unsatisfactory. This Commission has made many recommendations to improve the follow up and review mechanism. The Commission also deems it necessary to build in a strong incentive mechanism linked to major reforms in the devolution scheme.

SHARING OF SOTR

7.11. In recent years, Tamil Nadu has seen major setbacks in fiscal space and the State is facing severe fiscal stress due to various factors. The situation has deteriorated further due to the Covid-19 pandemic. While the tax base has remained constant, and growth has been low or stagnant, public expenditure has increased in almost all sectors. As a result, fiscal indicators have deteriorated. The debt burden and repayment commitments have increased substantially. Tamil Nadu recorded a slowdown in economic growth post 2013-14 and faced a stressed fiscal situation due to Covid-19 pandemic during 2020-21, which reflected in further deterioration in the fiscal situation.

7.12. The financial position of local bodies showed fluctuations when compared with major states of India. SFC devolution and CFC grants shared the financial burden on service delivery of the Local Bodies to a great extent.

7.13. The total size of the 15th CFC grant to local bodies in Tamil Nadu is ₹21,246 crore for the period of 2021-26. Both RLBs and ULBs have significant unexploited potential for mobilising their own sources of revenue which have been discussed in detail in Chapters III and IV, respectively.

7.14. Thus, considering the financial position of the State, the prevailing situation of COVID-19 pandemic, the impact of CFC grants to local bodies and the unexploited potential of own sources in local bodies, the Commission concludes that while any increase in devolution grants would dent the State Finances significantly, any decrease would leave local bodies with lower resources, which would affect the quality of service delivery. **Hence, the State Government should continue to devolve 10% of the State's Own Tax Revenue to the local bodies.**

SHARING RATIO BETWEEN RLBS AND ULBS

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

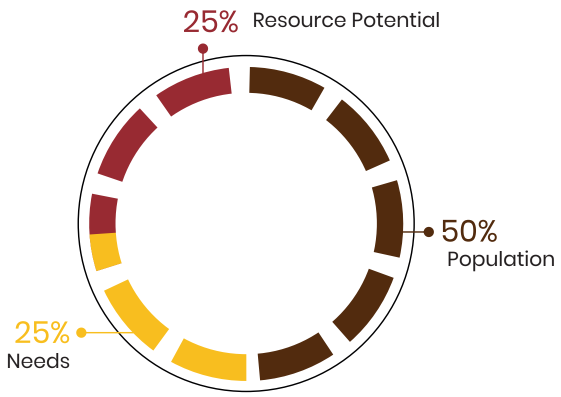
i. Surcharge on Stamp Duty of Local Bodies should be deducted under the Receipt major head. In case it is not done, the same should be provided through separate expenditure heads of account

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

7.16. The Second and Fifth SFC had considered the following criteria with assigned weights to arrive at the sharing ratio for rural and urban local bodies:

Method Adopted by Previous Commissions



I)	Population (1991 & 2011)	50%
ii)	**Needs**	
a)	O & M	10%
b)	Capital	10%
c)	Debt	5%
iii)	**Resource Potential:**	
a)	Inverse per capita	15%
b)	Inverse assigned revenue	10%
	Total	**100%**

7.17. The sharing ratio for Rural: Urban was arrived at 59:41 by the Second SFC. At that time, the 2001 Census population figures were not available. Hence, the Commission took the 1991 population and to adjust for the urbanisation that occurred during the 1991 to 2001 decade, 2% increase in the proportion of urban population was assumed. Since 50% weightage was given for population, the share of urban areas was increased by 1%, thus resulting in the 58:42 ratio. The Commission also recommended to revise the ratio as 59:41 if the reclassification package i.e., downgrading of 178 Town Panchayats and upgrading of 18 Census Towns was implemented by the Government.

7.18. The Third SFC took note of the criteria and weightages worked out by the Second SFC and took into account the population of Census Towns in rural area and worked out the sharing ratio as 58:42 for RLBs and ULBs.

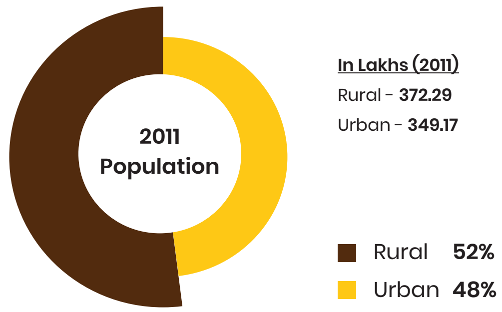
7.19. Commending the criteria and weights adopted by the Second SFC and Third SFC as having adequately captured the field realities, given dependable outputs and produced a robust scheme for sharing, the Fourth SFC decided to adopt the same criteria and weights.

7.20. While noting that ideally fund requirement based on norms should have been obtained, the Fourth SFC adopted the data obtained from local bodies with projections for the operation and maintenance needs, and for capital needs, the anticipated requirements furnished by the local bodies were taken as such without normalization since it was possible to normalise only the ULB's estimates. The capital needs of ULBs were normalised whereas the same could not be achieved for the RLBs. On this basis, the Fourth SFC recommended a sharing ratio of 56:44 between the rural and urban local bodies. This recommendation of the Fourth SFC was modified by the Government which retained the sharing ratio of 58:42. The Fifth Finance Commission recommended ratio of 56:44.

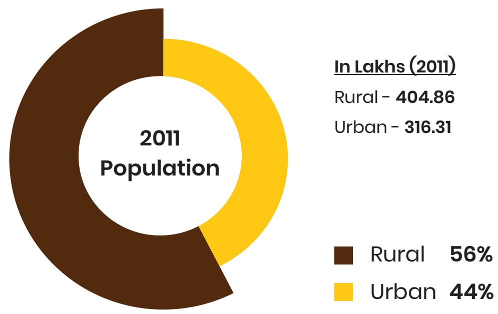
Method Adopted by this Commission

7.21. Population is the main criterion for the distribution of SFC devolution. In the process of deriving vertical and horizontal ratios for SFC devolution, the Fifth SFC took into account the 2011 Census population for rural and urban Local Bodies. The population of the RLBs and ULBs as per the 2011 Census is as follows:

As per Census 2011

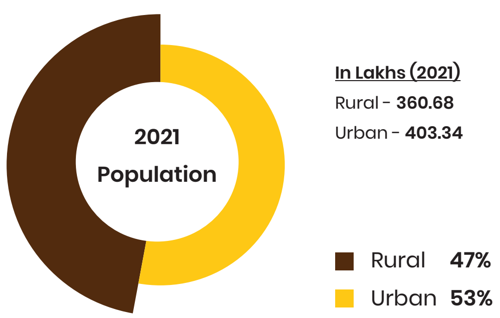


After adjusting for Census towns reclassified as RLBs

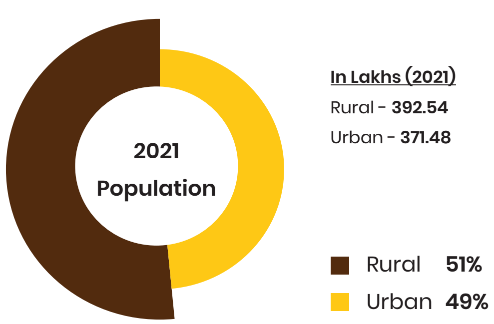


7.22. The Census population accounted for the population of census towns into urban areas whereas the population actually should be included in the rural area. Some ULBs have been upgraded in the last ten years. Taking these into consideration, this Commission has adopted the population distribution as rural and urban are as follows.

Projection for 2021



After adjusting for Census towns reclassified as RLBs and upgradation of ULBs



7.23. The percentage composition of population decreased from 56 to 51% for rural areas and increased from 44 to 49% for urban areas.

7.24. While the CFC devolution has significantly enhanced the grants to Local Bodies, it also has created a huge distortion in resource allocation between rural and urban Local Bodies. The CFC has adopted the national average distribution of rural and urban population in the ratio of 67:33 for devolution across the country without factoring in the regional differences. As a result, roughly 67% of the total CFC grants are going to RLBs while the grants received by ULBs amount to only 33%. This has resulted in RLBs getting roughly double the grant amount than ULBs. In a highly urbanised State like Tamil Nadu, this distribution has grossly distorted resource allocation against the ULBs.

7.25. The total CFC grant to Rural Local Bodies during the award period of 6th SFC is projected as ₹14542 crore, while the same for Urban Local Bodies is projected as ₹7162 crore. As can be seen, the Rural Local Bodies are getting twice the amount than the Urban Local Bodies.

7.26. While this anomaly has created a skewed distribution of funds in favor of RLBs, it has deprived the Urban Local Bodies of an appropriate share in the grants from CFC. Two years of the award period for ULBs are already over and the anomaly would continue for four more years. Although, during the Covid pandemic, the share of Local Bodies was used to meet the expenditure requirements in health sector, in the years to come, this may not be the case.

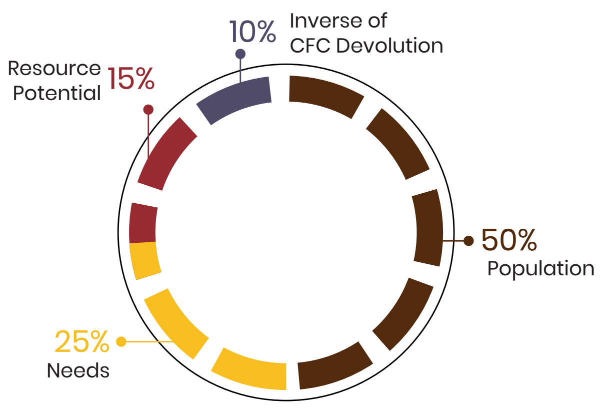
7.27 Hence, while retaining the criterion for distribution adopted by the previous State Finance Commissions, this Commission has added another criteria of 15th CFC grant to Tamil Nadu. The population as per 2011 census has also been replaced by projected population for 2021 by Census of India.

7.28. The population in Urban Areas has grown rapidly. The growth in peri-urban areas has also required expansion of urban Local Bodies. In the coming years, seeking employments opportunities and for upward mobility, young population is expected to move to urban areas. The Commission expects that by the end of the award period i.e., by 2027, the proportion of Urban Population would have substantially increased.

7.29. Although the area of Rural Local Bodies is very high, implementation of infrastructure projects is costlier in ULBs due to higher wage rates, limited working hours, difficulty in getting land or right of ways, scarcity of land and consequent higher land values etc. The Schedule of Rates Adopted by the Public Works Department also recognises these difficulties and adopts a differential rate and timelines for completion of similar works.

7.30. With huge populations rapidly moving in small urban areas, cities need to cope with the infrastructure and service requirements with a rapid pace.

7.31. Thus the assigned weights for various criteria adopted by this Commission are as follows:



I)	**Projected Population 2021**	**50%**
ii)	**Needs**	**25%**
a)	O & M	10%
b)	Capital	10%
c)	Debt	5%
iii)	**Resource Potential**	**15%**
a)	Inverse of Property Tax	10%
b)	Inverse assigned revenue	5%
iv)	**Inverse of CFC devolution**	**10%**
	Total	**100%**

7.32. Based on this criteria, the Commission recommends that **of the total devolution amount, 49% should be devolved to the RLBs and 51% should be devolved to the ULBs.**

7.33. Considering the grants from Central Finance Commission and increase in urban population, the devolution formula has incorporated the fund requirements of Local Bodies based on a fair formula.

7.34. The Commission compared the devolution that both, RLBs and ULBs, would receive if we adopt the existing formula i.e. 56:44 and the proposed formula i.e. 49:51, and take into account the grants received from the

Table VII-1 : Exisiting and Recommended Devolution

Method	Existing Devolution			Recommended Devolution		
Column No.	(A)	(B)	(C)	(A')	(B')	(C')
Component	**SFC**	**CFC**	**Total**	**SFC**	**CFC**	**Total**
RLB: ULB Ratio	56:44	67:33	58:42	49:51	67:33	53:47
RLB	47556	14542	62098	41611	14542	56153
ULB	37365	7162	44527	43310	7162	50472
Total	**84921**	**21704**	**106625**	**84921**	**21704**	**106625**

7.35. Thus, the effective ratio between RLBs and ULBs, if the current anomaly is maintained, would be 58:42 which would skew the allocation in favor of RLBs. After adopting the new sharing pattern, the effective ratio would be 53:47. This indicates that the Rural Local Bodies would be getting 2% higher share than their population share. As can be seen from the table, even after the changed ratio, the Rural Local Bodies receive ₹5681 crore higher than the Urban Local Bodies during the award period.

RURAL LOCAL BODIES

Special Grants

7.36. 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).

7.37. While the VPs exhibit a surplus on an aggregate basis, there are several VPs which have issues in meeting their operating expenses. The O&MDGF is intended to ensure that such outliers have access to resources to support them while they transition to a revenue surplus. Similarly, Local Bodies with weak financial strength are unable to take up infrastructure projects, and the CGF is intended to make capital creation more equitable.

7.38. 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.

State Level Grants (SLG)

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

7.40. The State level grants are to be administered by the State Level Commette. 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.

7.41. 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.

Capital Grant Fund

7.42. Analysis of RLB financial trends shows that the key areas of infrastructure requirement are water supply, sanitation and roads. Additionally, several schools under Local Bodies are in need of infrastructure improvement.

7.43. The Capital Grant Fund would further be divided into four components as indicated below;

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 ₹ 3600 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 year 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 allocation over the next four years with the total allocation of ₹ 840 crore in five years. Priority should be given to creation of additional classrooms in the schools.

e. **The Commission recommends that the schools selection 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. The requirement of obtaining no objection certificate should be done away with.**

Operations, Maintenance and Deficit Grant Fund (OMDGF) at State level

7.44. 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;

a. **₹ 100 crore should be allocated to TWAD Board in the first year with an annual increase of ₹ 10 crore over the previous year allocation for the next four years making the total allocation of ₹ 600crore 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 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 the 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. Huge arrears of library cess have accumulated over the years. Collecting this amount from a large number of local bodies causes administrative issues as well. **Hence this Commission recommends that ₹ 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 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 member/special invitee to the Sanitary Workers Welfare Board.**

g. **As discussed in Chapter III, 687 Village Panchayats are in close proximity of 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 for 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

7.45. The Commission is of the view that funds administered at district level as CGF should be distributed to the Districts based on a formula. As population is the main criteria, for all basic services more weightage is given, next comes the weightage for SC/ST population and the last one is area covered as the cost depends on the spread of the geographical area. The capital grants should be spent on essential services at the village level such as water supply, connectivity, community infrastructure, and infrastructure schemes not covered under any other scheme. Therefore,

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

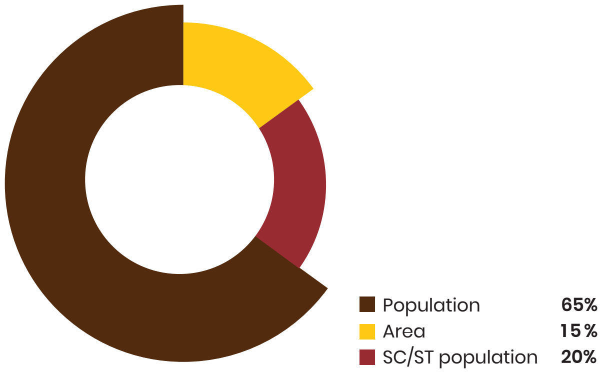
7.47. The allocation to individual local bodies out of the district level grants should be determined by the District Planning Committee. Till the DPC is formed, the allocation can be made by the District Collector as Inspector of Panchayats.

Capital Grant Fund (CGF)

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

7.49. The capital grants should be divided among districts based on the following formula:

7.50. 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.

Operations and Maintenance Gap Funding

7.51. There are 1,894 State Government schools in Tamil Nadu run by various departments. As per Elementary Education Act 1870, local bodies are created and empowered to levy local tax for elementary education. Currently for School Education Department Schools, works done by the Public Works Department are funded from the budgetory allocation under the department. However, for maintenance of the schools which are designated as being under the School Education Department as per the Unified District Information System for Education, funds were provided by the Local Bodies concerned. A study by UNICEF identified the following issues regarding maintenance of schools.

i. Periodical maintenance is not done, only breakdown maintenance is done.

ii. Maintenance is being done by the School Education Department only in Higher and Higher Secondary schools.

iii. As per norms of Central Public Works Department, average allocation per student per annum is ₹ 1,980. But, the allocation in schools located in VPs is only ₹388 per student.

7.52. The study recommended an increase in spending to improve the service levels by upkeep of school infrastructure.

7.53. Hence, the Commission recommends, ₹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.

7.54. The Commission recommends that the schools selection 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.

7.55. The Forest Rights Act (FRA), 2006 recognises the rights of the forest dwelling tribal communities and other traditional forest dwellers to forest resources, on which these communities were dependent for a variety of needs, including livelihood, habitation and other socio-cultural needs. The forest management policies, including the Acts, Rules and Forest Policies of Participatory Forest Management policies in both colonial and post-colonial India, did not, till the enactment of this Act, recognise the symbiotic relationship of the Scheduled Tribes with the forests, reflected in their dependence on the forest as well as in their traditional wisdom regarding conservation of the forests.

7.56. Among other things the Act also provides rights to allocation of forest land for developmental purposes to fulfil basic infrastructural needs of the community. In conjunction with the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Settlement Act, 2013, FRA protects the tribal population from eviction without rehabilitation and settlement.

7.57. The Act further enjoins upon the Gram Sabha and rights holders, the responsibility of conservation and protection of biodiversity, wildlife, forests, adjoining catchment areas, water sources and other ecologically sensitive areas as well as to stop any destructive practices affecting these resources or cultural and natural heritage of the tribals. The Gram Sabha is also a highly empowered body under the Act, enabling the tribal population to have a decisive say in the determination of local policies and schemes impacting them.

7.58. The Act empowers the forest dwellers to access and use the forest resources in the manner that they were traditionally accustomed. Thus implementation of Forest Rights Act (FRA) becomes the top priority to protect, conserve and manage forests, protect forest dwellers from unlawful evictions and also provides for basic development facilities for the community of forest dwellers to access facilities of education, health, nutrition, infrastructure etc. To motivate the implementation of the said act fully in all the tribal villages, the Commission of the view to incentivise the Village Panchayats in which FRA is implemented to certain extent.

7.59. Implementation of the Act in Tamil Nadu has been very slow. It is essential that the individual and community rights are determined on a mission mode.

7.60. Hence the Commission recommends, 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.

Formula Based Direct Devolution Grants

7.61. 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.

7.62. The direct devolution amount should be released directly to the local bodies without any interception or state-level scheme guidelines for spending this amount.

Vertical sharing ratio between tiers of RLBs

7.63. The ratio recommended by the Third SFC for the vertical sharing of devolution resources between the District Panchayats, Panchayat Unions and Village Panchayats was 8:32:60. The Fourth SFC recommended continuation of the same ratio even while they recommended that Pooled Assigned Revenue need not be shared with the District Panchayats.

7.64. Based on the representations received to enhance the ratio of Panchayat Unions as they are multi tasked and under the assumption that Pooled Assigned Revenue would be directly added to the Village Panchayats revenue, The Fifth SFC reduced the sharing ratio for Village Panchayats by 5 points and added to Panchayat Unions ratio and thus Fifth SFC recommended the ratio of 8:37:55

7.65. This Commission has taken note of the following considerations in determining the vertical sharing ratio

i. Financial position of District Panchayats is comfortable when compared with other RLBs, due to the grants received from CFCs.

ii. Fund flow has also started from 15th CFC at 5% & 15% to District Panchayats and Panchayat Unions, respectively.

iii. Practice of pooling Assigned Revenue, specifically Surcharge on Stamp Duty is continuing.

7.66. Hence, based on these considerations, this Commission recommends the vertical sharing ratio among RLBs as 7:37:56, i.e., 7% to District Panchayats, 37% to Panchayat Unions and 56% Village Panchayats.

7.67. 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.

7.68. 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 above.** The multiplying factors have been enclosed in the Appendix to this report.

7.69. **To illustrate,** let's suppose that the 56% direct devolution grant to Village Panchayats after deducting the Minimum Lumpsum Grant would be ₹ 1300 crore (1300,00,00,000) in FY 2023-24. This would be provided through a separate budgetary head of account in the BE 2023-24. The multiplier factor arrived at by the Commission for a Village Panchayat is 0.0000712345. The Panchayat President of the village has to just multiply the formula grant amount with the factor. i.e., 1300,00,00,000 * 0.0000712345 = ₹ 9,26,048.

7.70. The Panchayat would get ₹ 9,26,048 in addition to the Minimum Lumpsum grant of ₹ 7,00,000.

7.71. Thus, the Panchayat would get a total grant of ₹16,26,048.

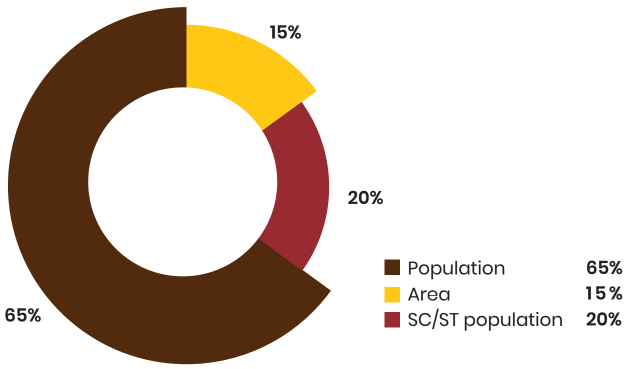
7.72. Similar factors have been arrived at for all District Panchayats Panchayat Unions and Village Panchayats.

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

District Panchayats

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

7.75. 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.

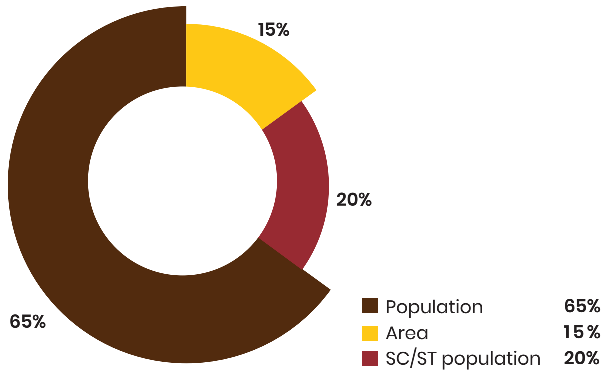


Panchayat Unions

7.76. Of the total direct devolution grants 37% should be devolved to the Panchayat unions.

7.77. For each Panchayat union ₹ 40 lakh should be given as minimum lump sum grant.

7.78. 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:



Village Panchayats

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

Minimum Lump Sum Grants

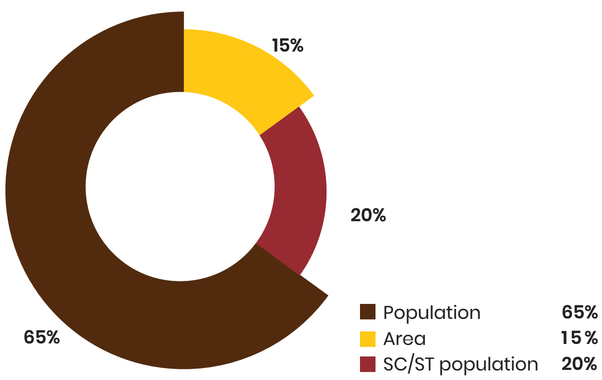
7.80. While the factors of population, area and SC/ST population provide a strong basis for devolution, a minimum level of support is required irrespective of the above in view of various fixed costs. Towards this, the Commission recommends the following:

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

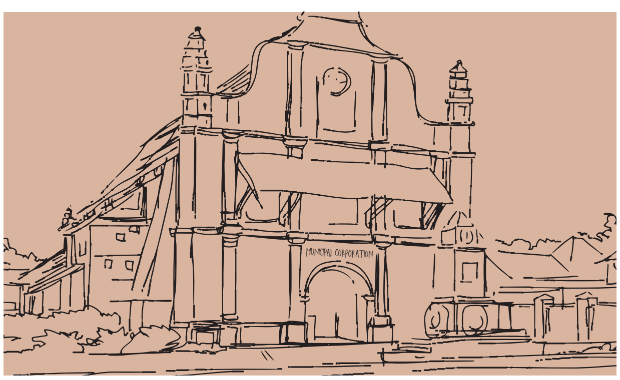
7.82. The basic lump sum grant should be divided between two shares for settling the charges due to the water supply and electricity in the ratio of 30:70. From each account the charges should be settled in the first instance. In case there is excess amount available in the account after settling the 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.

7.83. In case there are no dues pending for water charges or electricity charges in the Panchayat then and then alone the amount should be transferred to the general fund account.

7.84. 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;



URBAN LOCAL BODIES



7.85. Urbanisation in Tamil Nadu is happening at different rates across various categories of Local Bodies. The own source potential also varies to a great extent between the smallest town Panchayat and the biggest Municipal Corporation. Hence, Finance Commissions have traditionally grouped the ULBs in three categories i.e., Municipal Corporations, Municipalities and Town Panchayats. Of the total projected urban population in the State, 21.34% is residing in the Greater Chennai Corporation area. It has the highest revenue potential and largest fund requirements. The institutional capacity of GCC is also highest among all the local bodies. Chennai also has multiple State agencies working within its jurisdiction catering to requirements which in other corporations are handled by local bodies themselves. Consequently, investments by the State Government and administrative focus are also the highest on Chennai. Being the capital city of the State, Chennai also enjoys the advantages of geographical proximity to the State administration.

7.86. The financial situation of different ULB tiers also varies significantly. At the aggregate level, all ULBs except the Municipalities were in surplus during each of the past five years. GCC and Municipal Corporations are putting efforts to augment revenue especially Property Tax and Town Panchayats are performing well in tax collection efficiency. Among the ULB tiers, Municipalities have very high levels of debt obligations as their debt-servicing (interest) recorded an 81.5% increase during the review period which is much higher than other Municipal Corporations.

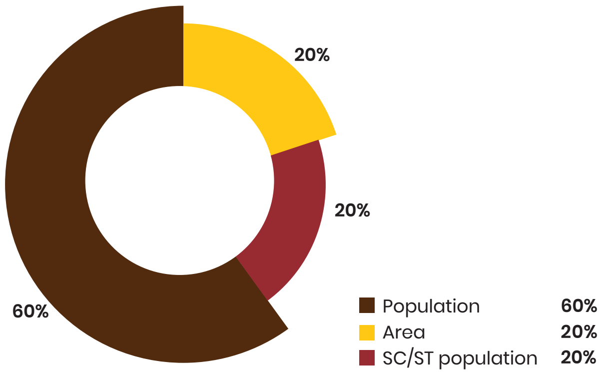
7.87. For these reasons, this Commission is of the view that a separate category of local bodies needs to be introduced to treat Chennai as a special case. **Hence this Commission recommends that A new category of Urban Local Body named 'Metropolitan City' should be introduced for the purpose of devolution grants to accommodate the special nature of Greater Chennai Corporation.**

7.88. The Sixth State Finance Commission also recommends to distinguish non-Metropolitan ULBs from the Metropolitan ULBs for the purpose of SFC devolution and to adopt a different devolution pattern.

7.89. 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.

7.90. The share for all the ULBs has been worked out based the following weightage formula;



7.91. Based on this formula the share of Greater Chennai Corporation works out to 18%. However, given that GCC has highest resource potential and that the maximum share of CFC grants to urban areas will be going to million plus cities of which major share would go to GCC, the Commission considers it apt to reduce this share marginally.

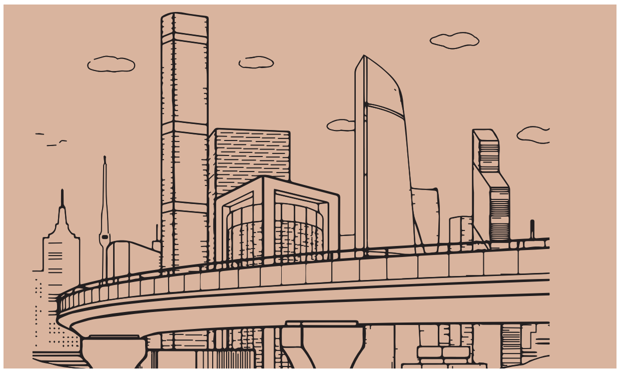
7.92. Further, based on this formula, the share of other Municipal Corporations works out to be 26%.

7.93. Further, since the Municipalities have a higher loan burden than other categories and have large deficits, the share has to be increased marginally although the share worked out as per the formula works out to be 28%.

7.94. For the Town Panchayats, the share as per the formula works out to be 28%. Town Panchayats have a better financial situation due to high tax collection percentage and lower deficits, this Commission finds it apt to retain the same proportion.

7.95. Thus, this Commission recommends that the distribution between Metro and Non-Metro ULBs should be shared in the Ratio of 16:84.

Metropolitan City



7.96. Of the total devolution amount of urban local bodies, 16% should be devolved for the Chennai metropolitan city.

7.97. CMWSSB is providing basic services of providing water supply and sewerage maintenance in the GCC jurisdiction. To meet the revenue deficit, this Commission recommends, 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.

7.98. 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.

7.99. 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.

Non-Metro ULBs

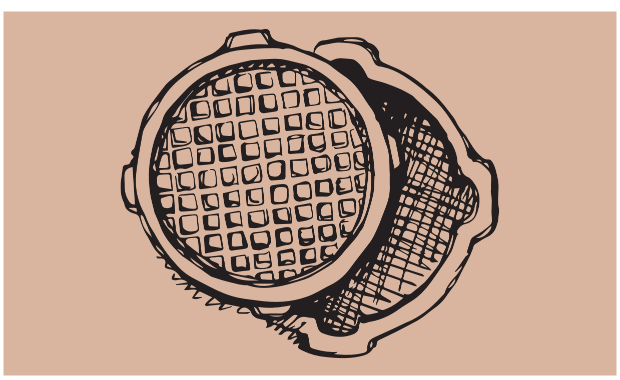
7.100. Municipal Corporations other than GCC, all the Municipalities and all the Town Panchayats are falling under this non-metro ULBs category. This Commission recommends the devolution share for this category as follows:

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

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

Special Grants

Deficit Grant to TWAD Board



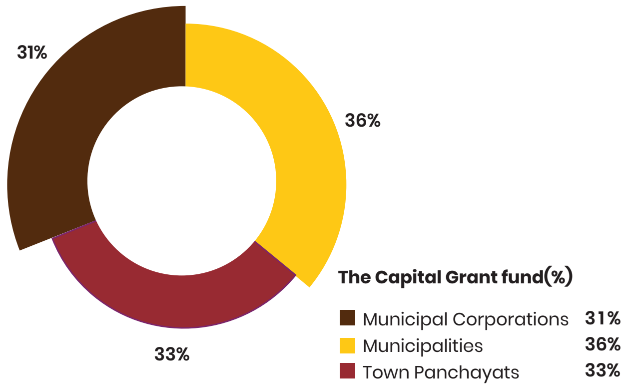
7.103. In order to meet the deficit of TWAD Board due to under recovery of water charges from Local Bodies and inability to meet the O&M charges of maintaining water supply schemes, ₹120 crore should be awarded in the first year. During the award period, ₹12 crore should be increased per annum over the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

Capital Grant Fund

7.104. The Fifth SFC had recommended establishing a Capital Grant Fund replacing the IGFF into which 15% of the aggregate devolution intended for ULBs tier-wise was to be paid. The Fund comprises three parts corresponding to each ULB tier and would be utilised for undertaking capital works linked to basic functions of ULBs and services provided by them. CGF helps the ULBs in taking up innovative projects such as GIS based property mapping. Hence, CGF provides the ULBs with an additional means to address equity and flexibility concerns and to meet important requirements that may not be prioritised by individual ULBs. The ULBs are investing in developing and upgrading open and green spaces but the investment needs to be increased to achieve sustainable urbanisation and manage the impact of climate change. CGF can be utilised to support capital works on the above mentioned areas.

7.105. 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.

7.106. 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.



Urban Road Development Fund

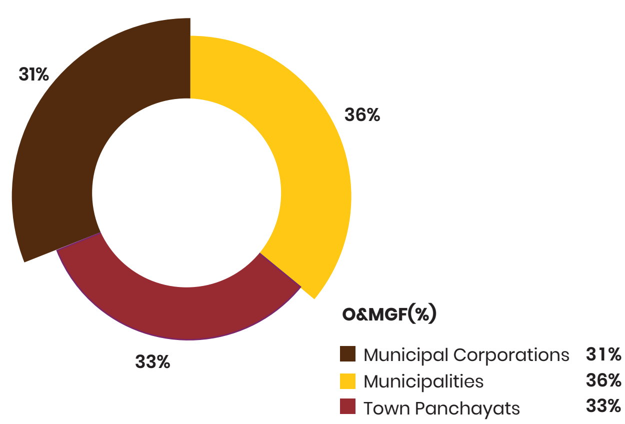
7.107. Roads are a critical component of urban infrastructure development. Provision of roads and their proper maintenance constitutes one of the largest expenditure heads of the ULBs. At an aggregate level, of the ₹ 30,662 crore worth of Capital Expenditure undertaken by ULBs during the review period, 42.5% was spent on roads for upgradation and new construction. Construction of urban roads and their maintenance due to expanding boundaries of ULBs and relaying due to implementation of other schemes related to water, UGSS, UGD etc. and natural calamities such as floods pose a major challenge to ULBs.

7.108. For improving the road connectivity and quality of the riding surface, ₹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 allocation during the award period. Thus, the total grant for this purpose during the award period would be ₹1200 crore.

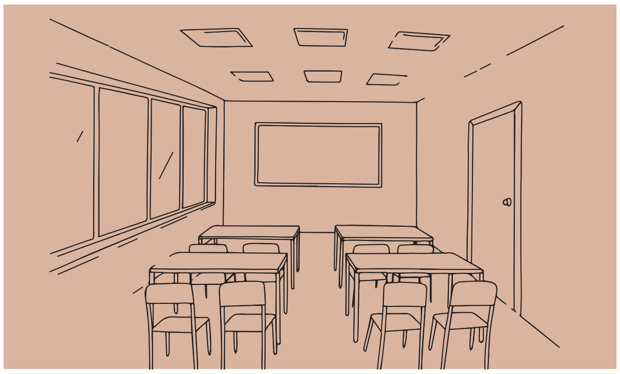
Operations & Maintenance Gap Filling Fund

7.109. Across all the ULB tiers, Own Source of Revenue falls short of the total Revenue Expenditure incurred by the municipal bodies. For the ULBs together, O&M Expenditure as a percentage of Total Revenue Receipts of ULBs increased marginally from 45% to 48% during the review period of this Commission. To support ULBs that are unable to meet the O&M of basic infrastructure services, funds from the O&M Gap Filling Fund (O&MGFF) are made available. During the review period of this Commission a total of ₹ 721 crore was given to ULBs through the O&MGFF that accounted for 1-3% of the ULBs revenue.

7.110. Many deficit urban Local Bodies are unable to meet the operations and maintenance expenditures of existing infrastructure and services. **In order to meet this 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 allocation during the award period. Thus, the total grant for this purpose during the award period would be ₹1200 crore. This amount should be spent in the following proportion among various types of urban Local Bodies.**



Deficit Fund for School Infrastructure



7.111. ₹ 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 years 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.

7.112. The Commission recommends that the school selection 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.

Deficit Fund for Tourist Towns

7.113. The criteria for devolution i.e., population, area and share of SC/ST population does not augur well for towns that have significant floating population - commercial centres and tourist towns. While the former has avenues like Property Taxes to raise additional revenues, tourist towns typically do not have additional resources for service provision for the floating population. In view of this, the Commission recommends the following:

7.114. 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.

Special Grant for Capacity Building

7.115. With evolving functions of ULBs, increased devolution of funds, greater transparency through RTI, globalisation, climate change and other factors, the ULBs are placed in a complex and challenging role with increasing expectations of their performance and their ability to respond effectively and efficiently to the needs of their citizens. ULBs are in a greater need to invest in their human capital to manage rapid urbanisation with available resources in a sustainable manner. Given transformative trends such as role-based/ modular capacity assessment and building, and the availability of digital platforms for both training and assessment, there is need for a corresponding transformation in the structure, capacity and management of the capacity building infrastructure for ULBs

7.116. 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.

Special Grant for Studies and Documentation

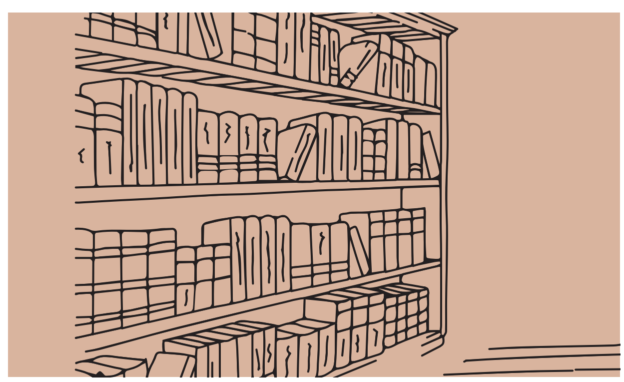
7.117. Discussions with ULBs, especially Municipal Corporations and Municipalities have identified the need for technical support across diverse areas such as project planning (including assessment of alternative technologies/ solutions), profiling of ULB assets and developing monetisation plans, assessment of cost to serve and quality of service etc. In view of this, the Commission recommends the following

7.118. 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.

Special Grants for GIS Mapping

7.119. Several ULBs in the State including the GCC have undertaken GIS-based property mapping to bring unassessed properties under the purview of Property Tax System. Steps are underway to strengthen updation and linkage of Property Tax databases with other systems to enable better scrutiny and verification of assessees. As Property Tax is a major contributor of ULBs' Own Tax Revenue, it is important to complete the GIS survey of all properties across all ULBs in a time bound manner.

7.120. 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.



Advance Payment of Library Cess

7.121. To upgrade the library facilities and proper upkeep it is essential that the Department of Public Libraries (DPL) receives Library Cess from the ULBs on a back-to-back basis. However, ULBs in the State have struggled to remit the Library Cess collected on the Property Tax to DPL on a regular basis affecting their expenditures on books and maintenance of infrastructure facilities.

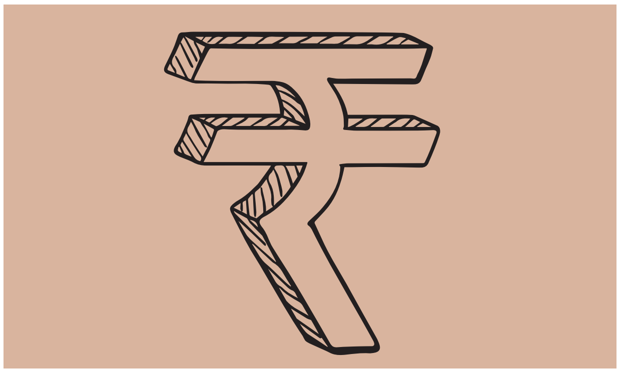
7.122. ₹ 90 crore should be allocated to the Department of Public Libraries in the first year as advance payment of Library Cess collection with an annual increase of ₹ 9 crore over the previous year allocation for the next four years. Having collected the advance Library Cess from the local body devolution, 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.

Grants for Welfare of Sanitary Workers

7.123. For all the ULBs put together, Sanitary Workers constitute 70% of the 43,089 strong ULB workforce and they play a critical role in provision of basic sanitation services and solid waste management. It is important to improve their access to and coverage of social security measures.

7.124. 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.

Special Grant to Newly Added Local Bodies



7.125. Over the past two decades, several Municipalities have been upgraded as Municipal Corporations. Additionally, there have been many rounds of additions of local bodies to Municipal Corporations, expanding their jurisdiction. Such transitions require rule based mechanisms for allocation or resources for upgradation. Provision of funds to ULBs with newly added areas along with a set of rules based processes can help such ULBs manage the transition better.

7.126. 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 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.

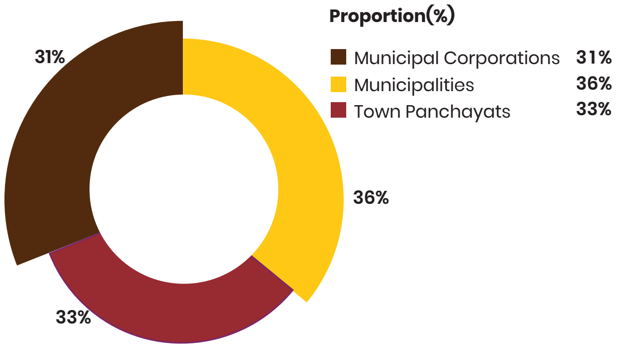
i. **This Commission recommends that ₹ 5 crore should be given each year during the award period to each of the newly created Municipal Corporations in the past five years.**

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.

Formula - Based Direct Devolution Grants

7.127. 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.



7.128. The direct devolution amount should be devolved based on weightage given to population, area and slum population in the ULBs. The importance of area varies among various types of ULBs. Therefore the weightage given to area increases from Municipal Corporations, Municipalities, and Town Panchayats in that order. The corresponding weightage has been reduced from population for the given local body.

7.129. For Town Panchayats alone a minimum lump sum grant has been recommended.

7.130. 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 above.

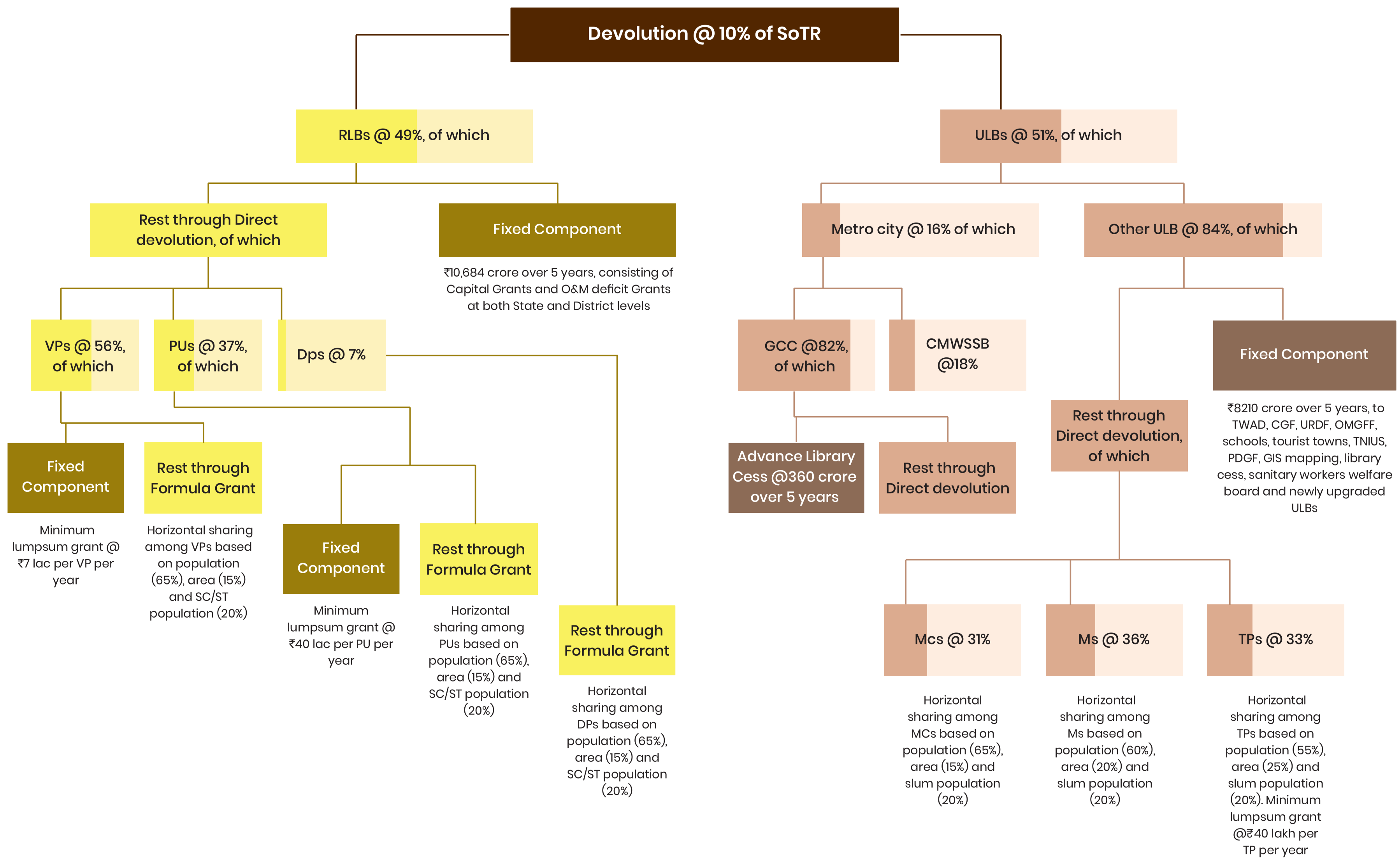
7.131. The multiplying factors have been enclosed in the Appendix to this report.

7.132.To illustrate, let's suppose the 33% direct devolution grant to Town Panchayats after deducting the Minimum Lumpsum Grant would be ₹ 1600 Crore (1600,00,00,000) in FY 2023-24. This would be provided through a separate budgetary head of account in the BE 2023-24. The multiplier factor arrived at by the Commission for a Town Panchayat is 0.0042481742. The Chairman of the Town Panchayat has to just multiply the formula grant amount with the factor. i.e., 1600,00,00,000 X 0.0042481742 = ₹ 6,79,70,787 The Town Panchayat would get ₹ 6,79,70,787 in addition to the Minimum Lumpsum grant of ₹ 40,00,000. Thus, the Town Panchayat would get a total grant of ₹7,19,70,787.

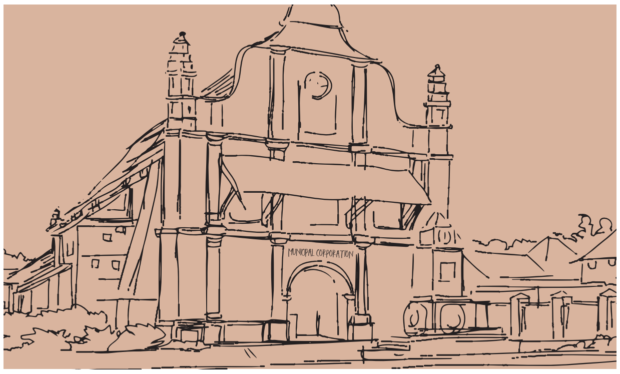
7.133. The Commission recommends that the Government should make these factors available online through its website along with a simple online calculator.

7.134. Un-tied devolution amount 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.

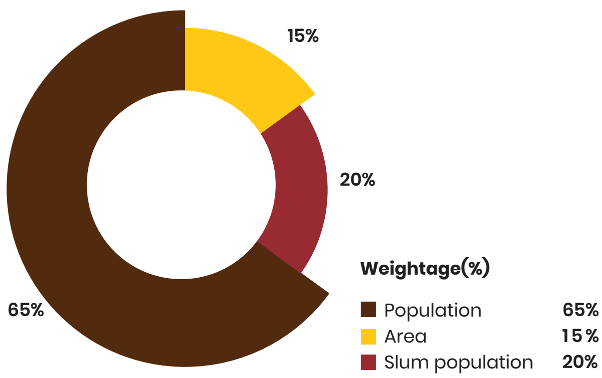
Chart VII-1 : Devolution to ULBs and RLBs



Municipal Corporations

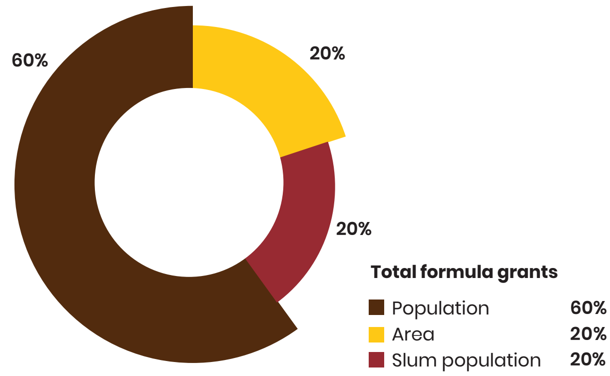


7.135. The total direct devolution amount of 31% devolved to the Municipal Corporations should be devolved adopting the following weightage formula:



Municipalities

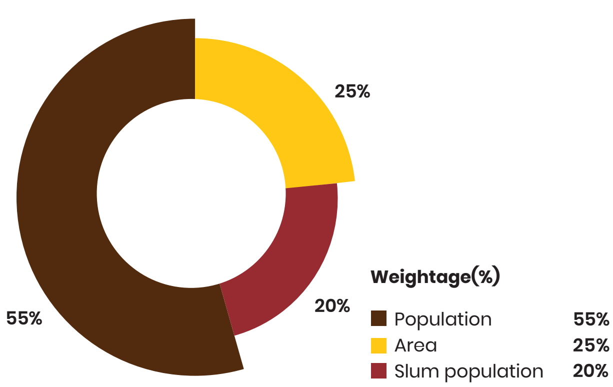
7.136. The total direct devolution amount of 36% should be devolved to the Municipalities adopting the following weightage formula,



Town Panchayats

7.137. 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.

7.138. After deducting the Minimum Lump sum Grant, the remaining amount should be devolved to the Town Panchayats adopting the following weightage formula.



வாரி பெருக்கி வளம்படுத் துற்றவை
ஆராய்வாஞ் செய்க வினை.

- குறள் 512

Who swells the revenues, spreads plenty o'er the land,
Seeks out what hinders progress, his the workman's hand

REFORMS LINKED INCENTIVE

7.139. Many functions related to basic public service delivery have been delegated to the Local Bodies including the freedom to raise taxes. However, the reform agenda for Local Bodies is guided by the respective departments of the State Government.

7.140. Hence, this Commission has identified 14 key reforms to be implemented before June 2024 with the support of the respective departments. The Commission recommends that in case these reforms were 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.

7.141. The Commission further recommends that 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.

7.142. The Commission further recommends that if the reforms are achieved within the timeline prescribed, 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.

7.143. 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.

7.144. House Tax, while being a potentially buoyant source of revenue for RLBs is underutilised because of low rates and lack of an updating mechanism. Similarly, there is potential for revenue streams from advertising, especially for Peri Urban RLBs. Another more general point is on the quality of financial data available with RLBs. Given the large number of RLBs, it is important to have robust systems to provide last mile visibility on financial data (at the minimum) by account and head. Such a system will provide the backbone for multiple functions such as planning, monitoring, evaluation and audit.

7.145. Property Tax is the major source of ULBs' Total Tax revenue. However, the Property Tax collection levels are lower than the national and international levels. While ULBs have made efforts to improve enumeration of properties and efforts are underway for interlinking of Property Tax database with other Government databases to make the Property Tax System effective in scrutinising and verification of taxable properties, more effort is needed to complete these interventions in a time-bound manner. Further, one of the most difficult problems in taxing properties is determination of a reasonable basis of assessment. The valuation method used by ULBs in the State is not linked to market value of properties resulting in significant loss of income. Similarly, there is potential to enhance Own Revenues through value capture of ULB assets. These provide a channel for mobilising resources without burdening citizens. However, there is no standardisation on the process of identifying assets (especially land), and planning for their development and monetisation.

7.146. In view of the above, the key reforms identified for the RLBs are:

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 follows:

- **Huts – min ₹ 100/-**
- **Tiled House – min ₹ 200/-**
- **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.

7.147. The key reforms identified for the ULBs are as follows;

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 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 monetisation 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 current demand of property taxes should be collected.

Scheme of Devolution

Table VII-2 : Scheme of ULB Devolution

Scheme of devolution- Urban			
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 defict 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**

Table VII-3 : ULBs' Abstract of 5 Year Special Grants

₹ in Crore

S.No.	Special Grants for No-Metro ULBs	Total	22-23	23-24	24-25	25-26	26-27
		8210	1380	1507	1634	1781	1908
1.	For funding deficit 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

Scheme of Devolution

Table VII-4: Scheme of Rural Devolution

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	**Panchayat** (Including Minimum Lumpsum Grant)	**56% of Direct Devolution Grant**	**As per SOTR Growth**

Table VII-5 : 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
A	**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

VIII
Conclusion

VIII
Conclusion

எனைத்தானு நல்லவை கேட்க வனைத்தானும்
ஆன்ற பெருமை தரும்

- குறள் 416

Let each man good things learn, for e'en as he
Shall learn, he gains increase of perfect dignity

8.1. 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.

8.2. 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.

8.3. 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.

8.4 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.

8.5. 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.

8.6.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.

8.7. 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.

8.8. 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.

8.9. 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.

8.10. 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.

8.11. 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.

8.12. 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.

8.13. 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.

8.14. 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.

8.15. 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.

SIXTH STATE FINANCE COMMISSION AND TEAM

Endnotes and Chart Sources

Endnotes

Chapter I:

1. Online Power Point Presentation on 06.08.2021by the National Institute of Public Finance & Policy, New Delhi.

2. sub-section (1) of section 198 of the Tamil Nadu Panchayat Raj Act, 1994 (Tamil Nadu Act 21 of 1994) and sub-section (1) of section 162-A of the Chennai City Municipal Corporation Act, 1919 (Tamil Nadu Act IV of 1919), sub-section (1) of section 124-B of the Tamil Nadu District Municipalities Act, 1920 (Tamil Nadu Act V of 1920) sub-section (1) of section 193-A of the Madurai City Municipal Corporation Act, 1971 (Tamil Nadu Act 15 of 1971), sub-section (1) of section 193-A of the Coimbatore City Municipal Corporation Act, 1981(Tamil Nadu Act 25 of 1981), section 8 of Tiruchirappalli City Municipal Corporation Act, 1994 (Tamil Nadu Act 27 of 1994) and Tirunelveli City Municipal Corporation Act, 1981(Tamil Nadu Act 28 of 1994), Salem City Municipal Corporation Act, 1994 (Tamil Nadu Act 29 of 1994), Tiruppur City Municipal Corporation Act, 2008 (Tamil Nadu Act 7 of 2008), Erode City Municipal Corporation Act, 2008 (Tamil Nadu Act 8 of 2008), Vellore City Municipal Corporation Act, 2008 (Tamil Nadu Act 26 of 2008), Thoothukudi City Municipal Corporation Act, 2008 (Tamil Nadu Act 27 of 2008), Thanjavur City Municipal Corporation Act, 2013 (Tamil Nadu Act 24 of 2013), Dindigul City Municipal Corporation Act, 2013 (Tamil Nadu Act 25 of 2013), Hosur City Municipal Corporation Act, 2019 (Tamil Nadu Act 10 of 2019), Nagercoil City Municipal Corporation Act, 2019 (Tamil Nadu Act 11 of 2019) and Avadi City Municipal Corporation Act, 2019 (Tamil Nadu Act 24 of 2019).

3. G.O.Ms.No.50, Finance (SFC-MC) Department, Dated 06.03.2020.

4. Extraordinary Dated 06.03.2020 vide No. II(1)/ FIN/ 7(g)/ 2020 and Extraordinary Dated 14.07.2021 vide No. II(1)/ FIN/17(b)/ 2021 published in Part II – Section 1 of the Gazette.

5. G. O. (Ms.) No. 171, Finance (SFC-MC) Department, Dated 14.07.2021.

6. G.. O. (Ms.) No. 24, Finance (SFC-MC) Department, Dated 27.01.2022.

7. Thiru C. V. Sekar, Ex Member of Legislative Assembly, Pattukkottai Constituency served as Non –Official Member in the Commission from 06.03.2020 to 09.06.2021.AfterTamilnadu Legislative Assembly Election 2021,Thiru Katharbatcha Muthuramalingam, Member of Legislative Assembly, Ramanathapuram Constituency served as Non-official member.

8. Thiru H. Krishnan Unni, I.A.S. served as Member Secretary in the Commission from 12.03.2020 to 07.06.2020 vide G.O.Rt.No.984, Public (Special-A) Department, dated 12.03.2020.

9. Thiru N. Venkatesh, I.A.S. served as Member Secretary in the Commission from 08.06.2020 to 23.06.2021 vide G.O.Rt.No.1595, Public (Special-A) Department, dated 05.06.2020.

10. Thiru Prashant M Wadnere, I.A.S. served as Member Secretary in the Commission from 12.08.2021 to 28.02.2022 vide G.O.Rt.No.3287, Public (Special-A) Department, dated 12.08.2021.

Chapter IV:

1. Only Goa and Mizoram are more urbanised than Tamil Nadu if all the States and UTs are considered.

2. Coimbatore City Municipal Corporation Act was adopted by the ten remaining Corporations as separate Acts with the same provisions.

3. The function of ULBs include the following: (i) Urban planning including town planning, (ii) Regulation of land-use and construction of buildings, (iii) Planning for economic and social development, (iv) Roads and bridges, (v) Water supply for domestic, industrial and commercial purposes, (vi) Public health, sanitation, conservancy and solid waste management, (vii) Urban forestry, protection of the environment and promotion of ecological aspects, (viii) Safeguarding the interests of weaker sections of society, including the differently abled and mentally challenged, (ix) Slum improvement and upgradation (x) Urban poverty alleviation, (xi) Provision of urban amenities and facilities such as parks, gardens, playgrounds, (xii) Promotion of cultural, educational and aesthetic aspects, (xiii) Burials and burial grounds, cremations, cremation grounds and Electric crematoriums, (xiv) Cattle pounds; prevention of cruelty to animals, (xv) Vital statistics including registration of births and deaths (xvi) Public amenities including street lighting, parking lots, bus stops and public conveniences, (xvii) Regulation of slaughter houses and tanneries, (xviii) Ensuring the services rendered by the Government reaches the citizens.

4. Property Tax payment by GCC's assessees should be made within the first fifteen days of the half years i.e., 1st of April to 15th of April for first half-year property tax and 1st of October to 15th of October for the second half-year property tax.

5. The Commission had entrusted a study on "Tracking Property Tax Potential in Urban Local Bodies of Tamil Nadu with Special focus on Town panchayats" to Madras School of Economics. Performance of ULBs in Tamil Nadu has been compared with other Indian States using the data given in Isher et al.,(2019) report "State of Municipal Finances in India: A study prepared for the Fifteenth Central Finance Commission.

6. Guidelines were issued vide GOs (150 & 110) dated 12.11.2007 and 23.06.2008.

7. Other members of the Committee include Commissioner of Municipal Administration, Director of Town Panchayats, and the Commissioner, GCC.

8. The Fifth SFC had made this recommendation and provided guidelines for linking the data between the Planning Wing and Revenue Wing of the Departments.

9. While calculating the Property Tax in the Annual Rental Value method, the monthly rental value of the buildings multiplied by 12 was taken to be the gross value of the property with deduction of 10% in lieu of all allowances for repairs. ARV method takes in to account factors such as (a) Building Area (b) Building Age (c) Building Type - RCC roof / Tiled roof / Thatched roof / AC sheet, (d) Building usage – Residential / Commercial / Industrial / Educational / Special and (e) Building location. In the Capital Value method, 6% of the total cost of the estimated value of the land and buildings had been taken as an annual value of the property. After arriving the annual rateable value, the tax payable on the property is fixed based on the

rate of the taxation. Tamil Nadu is one of the 12 Indian States that use the Annual Rental Value (ARV) for property valuation.

10. Under this System, properties could be grouped into seven categories namely (i) Properties with ground floor only (ii) Properties with ground + 2nd floor, (iii) Properties with ground + 2nd and 3rd floor, (iv) Residential Properties, (v) Apartments, (vi) Industrial Properties and (vii) Special Class Buildings.

11. After enacting the Tamil Nadu State Property Tax Board Act, 2013 and the Tamil Nadu State Property Tax Board Rules, 2014, the Government has constituted the Tamil Nadu State Property Tax Board under the Chairmanship of the Principal Secretary to Government, MA&WS Department vide G.O.Ms.No.7, MA&WS Department, Dated: 25.1.2018 with three ex-officio members.

12. The levy of Property Tax on Vacant Lands was on a plinth area basis with a minimum of Rs. 0.10 and a maximum of Rs. 0.60 per sq. ft. per half year. The rate of property tax levied on such vacant lands subject to minimum and maximum rates per square foot per half year was specified vide the office circular Roc No.41802/2009/R1, dated.07.09.2009.

13. As per the 2009 Rules, ULBs have been grouped into three grades namely Municipal Corporations and Special Grade Municipalities (Grade A), Selection Grade and First Grade Municipalities (Grade B) and Section Grade & Third Grade Municipalities and TPs (Grade C).

14. In GCC as per section 138 (A) of Chennai City Municipal Corporation Act, 1919 Professional Tax is covered for any person who is engaged actively or otherwise in any profession, trade, calling or employment in the State of Tamil Nadu and includes a Hindu Undivided family, firm, company, corporation or other corporate body any society, club, body of persons or association, so engaged, but does not include any person employed on a casual basis.

15. Before the implementation of PMS, an amount of Rs. 36 lakhs was collected per year under the manual collection system. Post implementation of PMS, the collection has been increased to Rs.540 lakh per year for 20 locations. This is expected to further increase to Rs. 1.5 crores per year. From the cost benefit analysis, it is inferred that the App based implementation has led to the increased parking collection. Further as part of a comprehensive integrated parking project, 62 land parcels have been identified for developing MLCP's within GCC boundaries. In the first phase, 36 land parcels have been selected for construction of parking spaces above and below the ground on PPP mode. Draft parking Policy also prepared and yet to be approved.

16. Please refer to MA&WS Vision 2031 document. As per this document, MA&WS would prepare Water Balance Plans for every city / town by source augmentation by providing recharge structure, undertake rejuvenation and restoration of urban water bodies, rain water harvesting and recycle / reuse of at least 20% of treated used water and reducing wastage and water losses to less than 15%.

17. To measure the quantity of water supplied to the Service Reservoir in the habitations, TWAD Board fixed 3,656 number of water meters during the year 2017-18 and 2,845 in 2018-19 at the inlet of the Service Reservoir.

18. Water Supply charges in GCC jurisdiction is collected by CMWSSB.

19. The details of certain trades for issue of Trade Licenses and collection of fees are covered in the Schedule V of the Tamil Nadu District Municipalities Act, 1920.

20. Under Section 321 of the Tamil Nadu District Municipalities Act, 1920, the Council is empowered to frame bye-law for fixing the fee to issue Building Licenses / Planning Permissions.

21. On Recommendations of a Committee formed by Municipal Administration and Water Supply Department in G.O. No.81 MA&WS department dated 21.08.2018, Government approved Tamil Nadu Combined Development and Building Rules 2019, in G.O. (Ms) No.18 MA&WS Department dated 04.02.2019. As per the Rule No. 6(2) of Tamil Nadu Combined Development and Building Rules 2019, the following departments are exempted from applying and obtaining permission from the authorities concerned. The exempted departments are (1) Railways (2) National Highways (3) National Waterways (4) Major Ports (5) Airways and Aero drums (5) Post and Telegrams, Telephone, Wireless Broadcasting & Communications (7) Regional electricity grid, (8) Defense (9) Metro Rail and (10) Minor Ports. Further, as per Rule No.6 (5) of Tamil Nadu Combined Development and Building Rules 2019, the Government Department are exempted from the payment of scrutiny fee or any other fee or charge.

22. Government of Tamil Nadu has ordered the levy of track rent for OFC Feeders vide G.O. (Ms).No.7, Information Technology Department, Dated: 12.02.2001.

23. The Stamp Duty is levied on five instruments relating to transactions in immovable property namely, Gift, Mortgage with possession, Sale, Exchange, and Lease in perpetuity, Surcharge on Stamp Duty and Registration Charges.

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RBI State Finances: A Study of Budgets 2020-21

Chart II-3: Fiscal Deficit of Tamil Nadu as % of GSDP
White Paper on Tamil Nadu Government's Finances

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