

Third State Finance Commission

CHAPTER – XV

Summary of Recommendations

The Third State Finance Commission has carefully analysed the Terms of Reference and based on it, the Commission has prepared the report. The correlation statement placed below will give a bird's eye view on the issues covered as per the Terms of Reference. Beneath the statement, a summary of the Recommendations of our Commission is given below chapter wise.

Sl. No.	Para Number and clause in Terms of Reference	Coverage in the Report
2	The Commission shall review the financial position of the Rural and Urban Local Bodies	Chapter VI
a)	i) Distribution of devolution, ii) Assigned Revenue, and iii) Grants to Local Bodies.	Chapter XIV Chapter V
b)	Measures needed to improve the financial position of the local bodies.	Chapter VI Chapter VIII
c)	i) Measures needed to bring about greater efficiency in the functioning of local bodies	Chapter VII
	ii) Demarcation of functions	Chapter XI
d)	i) Drawing monitorable fiscal reforms aimed at reduction of revenue deficit.	Chapter VII
	ii) Incentive Fund	Chapter XIV
	iii) Utilisation of State and Central grants	Chapter III and Chapter IV
e)	Possible new avenues for tapping resources in rural and urban local bodies keeping in mind the local body tax structure.	Chapter V
f)	Present System of Accountability	Chapter IX
g)	Reclassification of Local Bodies.	Chapter X
3)	Reviewing the financial position of the local bodies.	Chapter VI
4)	Resources of the State Government and its commitments.	Chapter XIII
5)	i) Existing level of devolution ii) Requirement of local bodies for meeting the expenditure. iii) Revenue resources of local bodies for 2007-12	Chapter VI Chapter XIV
	iv) Status of Implementation of Eleventh Finance Commission recommendations and Second State Finance Commission.	Chapter III
	v) The scope for better Fiscal Management consistent with efficiency and economy in recurring and non-recurring expenditure.	Chapter VII
	vi) Classification of Rural and Urban Local Bodies as per the Government of India guidelines.	Chapter X
6)	Review the functions of Grama Sabha	Chapter IX
7)	Other issues have a bearing on Terms of Reference.	Chapter XII

Chapter-III

Status of implementation of Eleventh Central Finance Commission's recommendations

1) The State's Finance Department shall take up with Ministry of Finance of the Union Government for release of the withheld amount of Rs.2595.60 lakhs towards maintenance of accounts in respect of Rural Local Bodies and Rs.59.35 lakhs towards creation of database in respect of Urban Local Bodies as explained in para 13 of the Chapter.

2) The local bodies should update the accounts format and data base format periodically so as to provide support to the future Commission in the form of continuity of data and the Heads of Departments should also evolve robust monitoring mechanism in place for achieving specific milestone in the data base management.

Chapter-IV

Twelfth Central Finance Commission's recommendations

3) The sectoral allocation suggested for Panchayat Raj Institutions for each core civic service for utilisation of Central grants outlined in para 4 (a) of the Chapter shall be followed for the award period of 2005-10.

4) The funds set apart for data base shall be utilised for providing computer hardwares and connectivity for obtaining data on various levels of services.

5) In respect of Urban Local Bodies, 50% of funds set apart for Solid Waste Management shall be allotted to Municipalities with 1,00,000 population for composting and energy programmes as suggested by Central Finance Commission on priority basis and thereafter to other Municipalities of lesser population.

6) The balance 50% of funds available shall be distributed on the basis of population and on the basis of sectoral allocation suggested in para 4 (b) of the Chapter. From out of the allocation, those who need funds for data base and other connectivity programmes, the Heads of Departments may be empowered to set apart within the allocation to such needy Town Panchayats / Municipalities. The distribution formula devised by High Level Committee for distribution of grants at 75% on population and 25% on fiscal collection basis shall be dispensed with.

Chapter-V

Resource Base

Property Tax Reforms

7) The impediments in Municipalities Act and Corporations Acts which come in the way of Quinquennial revision shall be removed by amending the Act.

8) The zonal rates for each Urban Local Body by fixing the minimum and maximum may be approved by the Government after obtaining council resolution.

9) The General revision shall be done once in 5 years and the next revision shall be done by 1.4.2007. The Government may also consider effecting increase on an annual basis on the basis of land appreciation value and inflation rate so that at the time of General revision there may not be any heavy impost on people.

10) The Suspended Urban Local Bodies Act, 1998 or the new Act which is now under preparation may be notified immediately. If for any reason, it is not found feasible, the Act provisions in Tax and Non-tax chapter in the Suspended Urban Local Bodies Act 1998 may be incorporated in the present Act to give freedom to Urban Local Bodies to tap the tax potential.

11) All properties except Central Government properties shall be subjected to tax and exemptions may be given on 'Select basis' based on merit. Even for exempted properties, service charges at 50 to 75% of the tax shall be collected.

12) The State Government shall take up with Ministry of Urban Development, New Delhi for amending Article 285 of the Constitution for empowering the local bodies to levy service charges for the Central Government Buildings in view of the Supreme Court judgement.

13) Other than Central Government properties, all other Central Public Sector Undertakings including BSNL, VSNL, Prachar Bharathi shall be subjected to Property tax as the tax immunity is not available to them as per Article 285 of the Constitution.

14) All the cell towers put up by cell phone companies should be subjected to tax and the rates shall be with reference to the Act provisions. If necessary, separate guidelines for the above taxation may be issued.

15) Since the State Government properties are subjected to tax, all educational institutions including State Government owned and Government aided buildings except Elementary Education Schools (Primary schools) shall be subjected to tax. This should also be made applicable to Municipal schools too, except elementary schools. All fee collecting institutions like Nursery, Matriculation schools, Tutorial colleges, self financed Engineering, Medical/Dental colleges, para-medical institutions, teacher training

institutions, coaching centres etc shall be subjected to Property tax at twice the rates as applicable to commercial buildings. The Act provisions exempting all educational institutions from payment of Property tax shall be removed.

16) There shall be a minimum property tax in Municipal Corporations and Municipalities on the lines of Kerala Act. On the above basis, Town Panchayats shall levy a minimum tax of Rs.25/- per half year, Municipalities at Rs.40/- per half year and the Municipal Corporations at Rs.50/- per half year if the present levy is below the amount fixed above. The above measures shall come into force from the financial year 2007-08.

17) As in Bangalore Municipal Corporation, tax mapping by using GIS may be attempted in Chennai and other Municipal Corporations to bring out the unassessed and under-assessed properties. The software prepared by Infosys company may be studied and the same may be made use of. Since Infosys has supplied the GIS software free of cost to Bangalore Municipal Corporation, similar attempts may be made to get the GIS software as workable to our Municipal Corporations at free of cost.

18) In other Municipalities, Panruti Model of Computer fitted mobile van and cell phones may be used on a regular basis to collect the tax dues. Besides, bigger Municipalities may try to rope in all Nationalised Banks for collection of tax as is done by BSNL. Further, payment by way of credit card / debit card system may be introduced to achieve maximum collection. While attempting the above measures, care should be taken to evolve a mechanism to cross check the remittance at every level so that the reforms do not get into trouble at a later period.

19) The TNUDP III assisted computerisation of e-governance shall be introduced in all Municipal Corporations, Municipalities and Town Panchayats in respect of Tax Administration in a phased manner so that the entire programme may ultimately be citizen friendly.

20) The vast gap between pre-1998 assesseees and post-1998 assesseees in Property Tax may be covered during the next 2 or 3 revisions. At the same time, the present concession for the age of the building may be enhanced so that any reduction in tax may be directly related to the age of the building.

21) The taxation appeal committee for Municipalities and Taxation Appeal Tribunal as available in the suspended Tamil Nadu Urban Local Bodies Act, 1998 may be incorporated in the existing Municipal Corporation and Municipal Acts with provisions for full remittance of the tax dues pending disposal of the appeal. Even on further appeal, the tax shall continue to be paid by the assessee and the excess/short collection may be adjusted in the future payment. This will obviate the difficulty of time barred claims.

22) Self declaration scheme may be introduced in all Urban Local Bodies to make the tax-administrative system simple and transparent. The incorrect and deliberate under assessment shall be dealt with by way of penalty.

23) At present there is a lacuna between the Planning / Building permission wing and the revenue wing resulting in revenue leakage. This must be eliminated by way of linkage through computerisation so that on expiry of the building license period, the tax levy may become automatic.

24) The Tamil Nadu Electricity Board shall provide the details of service connections given to the new buildings on a monthly basis so as to wake up the revenue wing for assessing the property without waiting for the expiry of the building licence period.

25) Outside agencies capable of collection of information may be entrusted with the job of identifying the new constructions taking place in each locality so as to verify whether they have the approval of the Municipality / Municipal Corporation. The role of the agency may be decided by Commissioner of Municipal Administration, Director of Town Panchayats and the Corporation Commissioner after studying the issue in detail.

Profession Tax

26) Taxing of properties in unapproved layouts has been dealt with separately.

27) The income slab rates for salaried class shall be revised and that those in the higher income bracket shall be made to pay higher levy.

The half-yearly income slab shall be

Profession Tax

(In Rupees)

Sl. No.	Average half-yearly income slab	Rate after 35% increase
1.	Rs. upto 21000	Nil
2.	Rs.21001 to 30000	150
3.	Rs.30001 to 45000	275
4.	Rs.45001 to 60000	550
5.	Rs.60001 to 75000	825
6.	Rs.75001 to 150000	900
7.	Rs.150001 to 175000	975
8.	Rs.175001 to 200000	1050
9.	Rs.200001 to 250000	1125
10.	Above Rs.250000	1250

This shall be given effect to from 1.10.2008. After the revision of rates of tax in October 2008, the subsequent revisions may be done once in five years. The ceiling on increase in

the Act may be deleted and that the ceiling of levy shall be with reference to the provisions under Article 276 of the Constitution of India.

28) Orders on levying the maximum rate of Rs.2500/-P.A for industrial establishments and companies as already agreed to by the Government in the year 2002 shall be issued so as to take effect from 1.4.2007.

29) a) For traders and business establishments, the gross turnover shall be taken as the basis instead of income for levying the profession tax. The following table may be adopted.

(In Rupees)		
Sl. No.	Half yearly Turnover	Half yearly Tax
1.	Less than Rs.1 lakh	Nil
2.	Rs.1 lakh or more but less than Rs.2 lakhs	100
3.	Rs.2 lakhs or more but less than Rs.3 lakhs	200
4.	Rs.3 lakhs or more but less than Rs.5 lakhs	350
5.	Rs.5 lakhs or more but less than Rs.7.50 lakhs	500
6.	Rs.7.50 lakhs or more but less than Rs.10 lakhs	650
7.	Rs.10 lakhs or more but less than Rs.15 lakhs	850
8.	Rs.15 lakhs or more but less than Rs.20 lakhs	1050
9.	Rs.20 lakhs or more	1250

b) The Commercial Taxes Department shall be instructed to insist on payment of Profession Tax before the issue of assessment certificate every year so as to bring the traders under the Profession Tax Net. Failure to comply with shall be treated as violation and that deregistration of the traders shall be resorted to.

30) For traders who do not come under the General Sales Tax assessment, the local bodies shall insist on payment of Profession Tax at the time of renewal of annual licence. Failure to comply with shall result in non-issue of licence and closure of shops and further distraint proceedings.

31) In respect of all Professionals and self-employed persons, experience and service oriented taxation as adopted by other States like Kerala and Karnataka shall be adopted for levy and collection of Profession Tax, as suggested below.

(In Rupees)		
Sl. No.	Experience	Half yearly Tax
1	Upto 5 years of experience in the field	Rs.500/- per half year
2	Above 5 years but below 10 years of experience in the field.	Rs.800/- per half year
3	Above 10 years but below 15 years of experience in the field	Rs.1040/- per half year
4	Above 15 years of experience in the field	Rs.1250/- per half year

32) Those who do not come under any of the above computing method, for assessing their income, the Government of Tamil Nadu shall take up with Government of India to furnish the list of non-salaried Income Tax assesseees in their circle so as to enable the local bodies to levy and collect the Profession Tax from them. In the absence of any direction, the local bodies may be empowered to invoke the Right to Information Act for obtaining the details for public cause.

Water Tax / Sewerage Tax

33) No separate Water Tax / Sewerage Tax needs to be collected by Urban Local Bodies except by Chennai Metropolitan Water Supply and Sewerage Board.

Education Tax

34) The Education Tax shall continue to be levied at the rate of 2 ½% of Annual Rental Value or any other rate prescribed instead of as a percentage of Property Tax.

35) The income generated by way of Education Tax shall be utilised for improving the School Infrastructure and also to fund the Retired Municipal Teachers' Pension and other related benefits by Municipalities and Municipal Corporations.

Vacant Land Tax (ULBs)

36) The Vacant Land Tax as prescribed under Rule 114 of Tamil Nadu Urban Local Bodies Rules, 2000 (now kept under suspension) which prescribes the area linked square foot rate as noted below shall be incorporated in the existing Act till such time the Suspended Act / New Act comes into force.

Vacant land with reference to its location		(per square foot)							
		A Grade		B Grade		C Grade		D Grade	
		Min Rs.P	Max Rs.P	Min Rs.P	Max Rs.P	Min Rs.P	Max Rs.P	Min Rs.P	Max Rs.P
a)	Streets in residential area	0.30	0.50	0.20	0.40	0.15	0.30	0.10	0.20
b)	Main roads and Bus route roads other than those which lead to arterial road	0.40	0.75	0.30	0.50	0.20	0.40	0.15	0.30
c)	Arterial roads, main roads, and Bus route roads which lead to arterial roads	0.50	1.50	0.40	0.60	0.30	0.50	0.20	0.40

37) The Municipal Council shall be empowered to fix the rates with reference to the minimum and maximum prescribed by the Government in such a way that it is not too exorbitant for the tax payer.

Pilgrim Tax / Tourist Tax

38) The Government shall identify the places of Holiday resort, temple / tourist towns and towns known for archaeological / historical interests and fix the different rates for different vehicles including Government vehicles / Government owned Transport Corporation vehicles as noted below for collection by Municipal bodies:

<i>Bicycles</i>	-	<i>No Tax</i>
<i>Two wheelers</i>	-	<i>Rs.5/-</i>
<i>Private cars /Tourist cars</i>	-	<i>Rs.10 to Rs.25 per trip</i>
<i>Van, lorries etc</i>	-	<i>Rs.25 to Rs.50 per trip</i>
<i>Tourist buses</i>	-	<i>Rs.50/- to Rs.75/- per trip.</i>

39) The urban local bodies should report to Commissioner of Municipal Administration / Government in respect of defaulting Government agencies for collection and appropriate direction.

40) The Railways should also be requested to collect tax for the above places and pass it on to local bodies as like Rameswaram.

Advertisement Tax (ULBs)

41) The amendment made under Section 285C and 285CC of District Municipalities Act, 1920, amendment made under Section 326C and 326CC of Chennai City Municipal Corporation Act and similar provisions in other Municipal Corporation's Acts by way of Tamil Nadu Act 19/2003 shall be withdrawn. The provision prior to the amendment made in 2003 shall be restored in the District Municipalities Acts and other Municipal Corporations Acts.

42) Section 107A of District Municipalities Act, 1920 and Section 129A of Chennai City Municipal Corporation Act, 1919 and other similar provisions in other Municipal Corporation Acts may be amplified in such a way that advertisements through lamp posts, telephone posts, posters on wall, writing on walls including compound walls and through buses and vehicles are covered.

43) The advertisement through slides in Cinema houses which was levied by Government and discontinued later shall be subjected to tax and that the power to levy Advertisement Tax on the above slides shall be vested on the Urban Local Bodies.

44) The rates for licensing and the tax on advertisement need to be revised during the financial year 2007-08. If necessary, the rates prescribed under Schedule I of Tamil Nadu Urban Local Bodies Act, 1998 (now under suspension) may be the basis for revision.

45) The license fees and Advertisement Tax collected by the District Collectors from June 2003 to 2006 or thereafter too and remitted to Government account should be shared as already ordered by Government in letter No.26510/ Municipal Administration and Water Supply Department (Election) 2003-2, dated 16.03.2004 by opening a refund head under 0075-Miscellaneous Receipts – Apportioning the Advertisement Tax share to Urban Local Bodies.

46) The Urban Local Bodies shall be instructed to maintain an inventory of all the hoardings within their limits with size and type for ensuring uniform levy. Any hoardings put up in no man's land shall be brought to tax by the local body which is nearer to the spot.

Tax on Cable TV

47) The power to levy and collect tax on Cable TV from operators at the rate prescribed in the Amendment Act 23/2003 as mentioned above shall be vested on the local bodies instead of State Government.

48) The tax proceeds realised from Cable TV from 2003-2006 shall be passed on to the respective local bodies in 2007-2008. The entire proceeds (without deducting any amount for collection charges) may be passed on in view of the time delay.

49) As per G.O. Ms. No.9 Rural Development Department dated 18.1.1999, the Village Panchayats may be empowered to collect security deposit of Rs.10,000/- from the Cable TV exhibitor.

Tract Rent on Television Cables (ULBs)

50) The tract rent leviable on Cable TV operators shall be collected by the Urban Local Bodies at the rates mentioned in the Chapter for the current year and for the past period also from the Cable TV operators.

51) The tract rent shall be revised in the financial year 2007-08 since the rates were fixed in April 2000. The powers conferred on Urban Local Bodies for revision of rent shall be exercised once in 3 years as per the G.O. cited above.

Water and Sewerage Charges (ULBs)

52) Water charges for un-metered consumers in Urban Local Bodies shall be increased at the rate of 5 to 10% with the ultimate objective of effecting 25% increase before the end of the award period.

53) For metered connections too, the levy may be raised after taking into account the quantum consumed but not less than the un-metered connections.

54) Chennai Metropolitan Water Supply and Sewerage Board shall increase water charges by 30% from 1.4.2007 and thereafter annually at the percentage mentioned for other Urban Local Bodies.

55) Wherever Municipalities / Town Panchayats are not adopting differential rates of water charges for commercial and industrial units, such of those units shall be subjected to twice/thrice the rates applicable to residential connections to realise more income from this source.

56) By the end of the award period of Third State Finance Commission i.e. 2011-12, 100% recovery of water expenditure including the maintenance charges payable to Tamil Nadu Water Supply and Drainage Board plus the interest component of the loan amount availed shall be achieved by all Municipal Corporations except Chennai and 90% recovery by Municipalities and Town Panchayats. The Chennai Metropolitan Water Supply and Sewerage Board shall fix the water rates in such a way that water rates fixed shall meet not only revenue expenditure plus loan annuities but also to create surplus for investing in capital requirements.

License and Fees

57) The licensing pattern of trades and the rates as mandated in the suspended Urban Local Bodies Act, 1998 / Rules, 2000 shall be incorporated in the existing Municipal Acts and the revision of rates shall be enforced from the financial year 2007-08.

Lease Rentals

58) The terms for lease rent shall be tightened and vigorously enforced for tapping the resource base. The impediment in the renewal of lease period shall be removed with a safety clause for condonation of delay and levy of penalty on the lessee.

59) The properties which remained idle owing to the absence of any bidders for more than 2 years, such properties may be disposed off to make good for the debt repayment.

60) The lease rent for the land / markets taken over by Marketing Committees for launching 100 odd Uzhavar Sandhais in the year 2000 shall be fixed by the Government from the date of take over and the lease proceeds shall be passed on to the concerned local bodies by the respective Marketing Committees.

Tract Rent on OFC feeders (ULBs)

61) The BSNL shall be subjected to tract rent as like other OFC feeders since it has become a separate entity and distinct from Central Government as per the Supreme Court ruling in 1999 (AIR 1999 SC 1734).

Parking Fees

62) In all Municipal Corporations, parking area may be identified in the business-prone locality and parking lot developed. Parking fee may be collected from the owners of vehicles on the basis of the fees fixed by the Council.

63) Special levy may be levied on the commercial business houses which have no parking space or inadequate space so as to create funds for creating / developing parking area.

64) Multi-storeyed parking lots may be developed in Chennai Corporation area as already formulated by Chennai Metropolitan Development Authority to realise more revenue from the source and for reducing traffic congestion.

Unapproved Layouts

65) The guidelines issued in G.O. Ms. No.59, Municipal Administration and Water Supply Department, dated 25.07.2006 (Annexure V-4) shall be implemented by all Urban Local Bodies to eliminate the problem of unapproved layouts.

66) The Government may consider levy of super structure tax on poromboke lands of unobjectionable nature up to the validity period of 'B-Memo'.

67) Removing the objectionable structure put up in poromboke lands within a specific period as already ordered by the Madras High Court and retrieving the land for public utility may be taken up earnestly by Urban Local Bodies and the Government Departments concerned.

68) To curb the practice of developing unapproved layouts the following measures are suggested:

- a. Imposing penalty on the developer on unapproved layouts and pulling down of constructions which have come up in the land.
- b. Tamil Nadu Electricity Board may be instructed to insist on local body clearance for new buildings before giving service connections.
- c. Vacant Land Tax may also be levied on the lands in the unapproved layouts.

House Tax

69) The switch over from capital value basis to Annual rental value basis based on plinth areas on the urban pattern shall be effected in phase; in other words the Village Panchayats classified as Census towns which have been suggested for upgradation as Town Panchayats / Municipality shall be forced to move over to Annual Rental Value basis at the first instance. In the second phase, Village Panchayats adjoining urban areas may be forced to move over to Annual Rental Value basis based on plinth area. In the third phase, other Village Panchayats may be forced to move over to the above pattern. The three phased programme should be completed within five year period.

70) Till such time the plinth area based levy is introduced, there should be a mechanism for determining the capital value as the field reports say that they have been arbitrarily fixed by the executive authorities of Village Panchayats i.e Village Panchayat Presidents. The mechanism may be evolved by fixing the capital value for every 10 feet for thatched houses, tiled houses, terraced houses and RCC by the Inspector of Panchayats or by a committee to be constituted by the Inspector of Panchayats and the same should be adopted by the Village Panchayats since the construction cost is same in all areas.

71) As in urban areas, the house tax may be two to three times in respect of commercial buildings, industries, business establishment, cinema, lodges and others of similar nature.

72) The present method of levying surcharge may be done away with by amending the Schedule-I under Section 172 of Tamil Nadu Panchayats Act, 1994.

73) All fee collecting institutions viz Nursery, Matriculation Schools, Tutorial Colleges, Engineering Colleges, Medical/Dental Colleges and Coaching centres shall be subjected to house tax.

74) The unit measurement shall be in square metres instead of square decimetre by amending the Schedule-I of the Tamil Nadu Panchayats Act, 1994 to avoid confusion in calculation of House Tax.

75) All houses constructed under various Government programmes for weaker sections viz JVVT/IAY group houses and houses in Samuthuvapuram shall be subjected to house tax on par with others.

76) The Rule 14 which enable the Inspector of Panchayats to postpone General revision of House Tax shall be deleted by way of amendment to Rule under Tamil Nadu Panchayats Act, 1994.

77) The tax collecting machinery in Village Panchayats shall be strengthened by involving Makkal Nala Paniyalargal and also allocating work among Village Panchayat clerk and Panchayat Assistant, who have been brought under time scale.

Water Charges (RLBs)

78) There should be no ceiling on collecting water charges and that the minimum may be retained at Rs.30/- p.m. for residential supply. The rates have to be revised once in three years to meet the escalation in Operation and Maintenance costs.

79) In respect of shops, business establishment and other industrial related activities, user charges shall be with reference to the quantum of supply made by prescribing rates per kilo litre.

D & O License Fees

80) The Government shall notify the list of trades, business and industry which come under the provisions of Section 159 and 160 (as amended in 1999) for which Village Panchayats are the licensing authority. The minimum and maximum fee for each class of trade and industry shall be fixed initially by the Government by taking the First State Finance Commission's recommendations as the basis.

81) The term D&O licence is a misnomer and it may be changed suitably covering all commercial and trade activities, trade licensing. e.g. Village Level Business Activity Licensing (VBLA) and the like.

82) The licensing fee shall be revised once in five years by the District Collector through District gazette notification.

83) The Rules if any to be framed for Section 159 and 160 shall be undertaken immediately so as to avoid any legal infirmity in the execution of licensing.

84) The Director of Rural Development by way of annual exercise may add any new trade in the list of licensing based on the feed back provided by the District Administration.

85) The Registers to be maintained for collection of licence fee trade-wise shall be communicated by Director of Rural Development for the State as a whole.

86) The Assistant Director (Audit) shall conduct surprise checks to find out whether the listed trades are brought into tax net.

Fishery Rental

87) 100% proceeds of Fishery rental from Village Panchayat ponds should be credited to Village Panchayat Account.

88) 50% of the proceeds of fishery rental in respect of Panchayat Union Tanks should be credited to Village Panchayat Account and the balance 50% should be utilized by Panchayat Unions.

89) In respect of PWD Tanks, at least 25% of the proceeds of Fishery rental may be given to Village Panchayats.

90) The Government have not agreed to the recommendation of Second State Finance Commission. It is therefore imperative that a suitable alternative mechanism to ensure the conduct of auction and to derive maximum benefit is once again reiterated.

2C Patta Trees

91) The Constitution of a committee may be notified by the Inspector of Panchayats for auctioning of wind fallen trees in Village Panchayat area.

92) Powers may be conferred on Village Panchayats for removal and auctioning of dead trees for ensuring quick disposal of the trees and also to realize sizeable revenue to Village Panchayats.

Social Forestry Receipts

93) There should be a separate detailed head for apportioning the Social Forestry Receipts to Local Bodies.

94) There should be budget provision in each year's budget of the Forest Department for apportionment so that the department may adjust the amount within the financial year itself and any dues in the year which are left out shall be adjusted in the next financial year.

95) Social Forestry Receipts from 2000-2006 shall be adjusted in 2007-08 as per the formula recommended by State Finance Commission and ordered by Government in para 53 (b) of the Chapter.

96) For the award period of Third State Finance Commission the sharing of Social Forestry Receipts shall be 50:50 on the basis of gross proceeds as already agreed to by the Government. The Social Forestry Receipts from 2007 onwards shall be adjusted within the financial year itself and for any failure the department has to pay interest for the sharable revenue.

97) As contemplated in the Constitution of India, the functions relating to Social Forestry and Farm Forestry may be transferred to local bodies to involve the elected local representatives in the development of the Social Forestry Scheme.

Assigned / Shared Revenue

Entertainment Tax

98) The Entertainment Tax dues from 1997-2002 and from 2002-2006 should be adjusted to local bodies in 2007-08 by the Government failing which the local bodies are entitled for interest at the maximum for the period of delay.

99) Monthly adjustment of Entertainment Tax shall be made on 15th of the succeeding month instead of quarterly adjustment in view of the computerisation of functions.

100) Collection charge shall be 1% of the tax proceeds and the balance 99% of Entertainment Tax shall be transferred to local bodies with effect 1.4.2007.

101) The shareable components of the tax collected under Entertainment Tax should clearly be exhibited in the Revenue Budget by the departmental authorities so as to cross verify the deduct entry under transfer to local bodies.

102) The local bodies should be consulted whenever any reduction in Entertainment Tax rate is contemplated and the loss in income should be compensated till the end of the award period of the Third State Finance Commission.

Surcharge on Stamp Duty

103) There should be separate detailed heads for Surcharge on Stamp Duty collections and apportionment to local bodies. The adjustment should be effected only for the portion entitled for local bodies.

104) The difference in the entitlement and the amount actually adjusted from 2002-03 to 2005-06 should be worked out and adjusted immediately in 2007-2008.

105) The Government should get the concurrence of the local bodies before effecting the reduction in rates of Surcharge on Stamp Duty as the quantum is assumed based on the present rates. If at all reduction is effected, the loss in income should be compensated based on the level of flow of transfer prior to reduction.

106) There is no logic behind the differential rates of collection charges for rural and urban. Hence, a uniform rate of 1% of the surcharge collected shall be retained by Government as collection charges for both urban and rural local bodies.

107) Levy of Surcharge be made on the 5 items mentioned in para 63 of the Chapter at the rate applicable for other items of properties as already agreed to by the Government.

108) As already recommended by Second State Finance Commission, the rural share shall be 50% on population and 50% on collection for which Section 175 of Tamil Nadu Panchayats Act, 1994 may be amended.

109) The Surcharge on Stamp Duty should be adjusted by 15th of the next month by District Registrar in respect of Urban Local Bodies and by the District Collector in respect of Rural Local Bodies.

Local Cess / Local Cess Surcharge

110) Ceiling on Local Cess may be enhanced from Re.1/- to Rs.3/- with a minimum of Rs.2/- by amending Section 167 of Tamil Nadu Panchayats Act, 1994.

111) Minimum Local Cess Surcharge may be enhanced from Rs.5/- to Rs.10/- and further enhancement of Local Cess Surcharge may be left to the Panchayat Unions by suitably amending Section 168 of Tamil Nadu Panchayats Act, 1994.

112) There should be separate sub heads in the Revenue Budget for collection of Land Revenue / Local Cess / Local Cess Surcharge and detailed heads for the apportionment as noted below to ensure transparency in accounting.

0029 Land Revenue
101 Land Revenue AA or under AH
Land Revenue collections
Local Cess collections
Local Cess Surcharge collections

Similarly under apportionment

0029 101 AI
Local Cess apportioned to Village Panchayats
Local Cess Surcharge apportioned to Panchayat Unions

113) The adjustment of Local Cess/Local Cess Surcharge shall be made on or before 15th September of each year after the closure of Fasli and Jamabandhi failing which the local bodies should be given interest for delayed adjustment at a rate not less than the ways and means advance rate charged by Reserve Bank of India to the State Government.

114) There should be half-yearly meeting at District level under the Chairmanship of the District Collector in which the Revenue and Panchayat wing of the District Collectorate should participate so as to sort out the issues relating to adjustment of the dues in time.

115) There should be an annual meeting at Commissioner of Revenue Administration level in the month of October every year to review the Local Cess/Local Cess Surcharge adjustment.

116) The apportionment of Local Cess/Local Cess Surcharge shall be on the basis of the formula outlined in para 65 (d) of the Chapter to avoid under adjustment.

117) The Government shall constitute a Committee to study the feasibility of levying a Panchayat Tax in the place of Local Cess/Local Cess Surcharge and to entrust the work to VAOs, on the lines obtaining in Karnataka.

118) There should be atleast partial compensation say upto 50% to Village Panchayats and Panchayat Unions in the remission year to avoid loss in income, as the income has been taken into account in the resource base and also the State's financial constraints.

Mines and Minerals

119) A separate distinct sub head under "900 Deduct Refunds" – AC - Amount payable to Local Bodies from Minor Minerals" be opened as the present head includes refunds to lessees in the disputed cases and for refund of excess amount collected.

120) The sharable income shall be adjusted on a quarterly basis in the same financial year to avoid obtaining Government orders for lapsed appropriation.

121) The Village Panchayats / Special Village Panchayats / Town Panchayats shall be provided with sketches of the quarrying areas for their information.

122) The difference amount due to be apportioned from 2000-2005 as noted in Para 66 (c) of the Chapter shall be passed on to the local bodies during the financial year 2006-07 and 2007-08.

123) The confirmation of the mines / mineral lease shall be made within a month by the competent authority to avoid back-log in adjustment to local bodies.

Chapter-VI

Needs and Finances

124) The fixing of staff norms, restructuring the staff pattern, strengthening vital areas and re-deployment may be taken up on priority basis and a committee with HOD as head may be formed to work out the modalities discussed in the Chapter in a phased manner.

125) Similarly, on improving civic services, devices and suggestions offered in the Chapter may be studied by a working group and the same implemented in a phased manner.

126) Computerisation and e-governance initiatives may be speeded up with the funds set apart by Twelfth Central Finance Commission to ensure that the fruits of the mechanisation are felt by the people.

Chapter-VII

Fiscal Responsibility, Monitorable Fiscal Reforms and better Fiscal Management

127) A Fiscal Responsibility and Budget Management legislation for Urban Local Bodies may be enacted to take the structural reforms down to the third tier of the Government.

128) A programme as propounded of the Chapter may be evolved which may serve as parameters for assessing and awarding the incentive fund set apart for Urban Local Bodies.

129) Norms prescribed for core civic services including quality purchase of materials must be strictly adhered to and the expenditure is contained.

130) The Third State Finance Commission reiterates that the rates suggested by Second State Finance Commission may be updated and given effect from 2007-2008 and thereafter it may be revised by a committee at District level once in 2 years.

131) The relevant Municipal / Corporations Acts may be amended so as to incorporate the provisions of Section 79 of the suspended Tamil Nadu Urban Local Bodies Act, 1998. Further the written off assets should be deleted from the Assets Register and that no Operation and Maintenance provision should be made for those assets.

132) The orders issued in 1999 may be considered by a Ministerial committee for improving the urban-land stock.

Chapter-VIII

Debt Relief for local bodies

133) The weighted average interest adopted for certain Municipalities at 10.5% from 1.4.98 to 31.3.2002 shall be adopted for all Urban Local Bodies including Town Panchayats which availed Government / LIC loan for water supply and drainage schemes. (The rate of 10.74 recommended by Second State Finance Commission is rounded to 10.5 for administrative convenience).

134) From 1.4.2002, the interest rates for loans taken for water supply and drainage / sewerage projects shall be at 8% as adopted by the lending agencies.

135) From 1.4.2007, the Urban Local Bodies shall be charged 8% interest for the loans already taken from Government / LIC. If LIC is not agreeable, the Urban Local Bodies shall be instructed by way of Government order to repay the pending loan by obtaining fresh loan from lending agencies which charge interest at 8%.

136) As far as the interest relief recommended for all Urban Local Bodies are concerned, there should be no conditionalities as the debt-burden of Urban Local Bodies is severe.

137) The financial health of each Urban Local Body may be analysed by reputed credit rating agencies to determine whether they can afford to bear further loan burden.

138) The Government may prescribe a ceiling for borrowing by Urban Local Bodies to prevent them from falling into debt-trap.

139) A comprehensive review of the debt bearing capacity of the local bodies taking into account their existing level of debt and record of repayment should be launched before further burdening the local bodies with debt.

140) As many of the infrastructure projects do not directly improve the resource base of the local bodies, the funding through grants and loans should be reviewed to provide greater support to them in terms of lowering interest burden.

141) If the interest relief recommended is accepted and implemented, the non-plan grant provided for interest payment on behalf of Tamil Nadu Water Supply and Drainage Board / local bodies to LIC / other agencies may be discontinued.

Chapter-IX

Accountability and Audit

Audit

142) The time frame drawn for finalisation of annual accounts as recommended by Second State Finance Commission should be observed in letter and spirit by local bodies.

143) The Director of Local Fund Audit shall go in for mechanisation of auditing formats by adopting e-mode to reduce the time taken by auditors for scrutiny. The role and function of concurrent audit shall be brought under constant scanning so that the work of the regular audit wing will be reduced.

144) The recommendation of Second State Finance Commission for introduction of pre-audit in place of concurrent audit is once again reiterated to avoid harassment of the Municipal officials at the time of retirement by way of unsettled audit objections.

145) The State Government shall continue to exert pressure for enhancing the ceiling limit for scheme audit under Section 14 of Comptroller and Auditor General of India Act from the present level of Rs.25 lakhs to Rs.1 crore.

146) Committees for Management Audit Team and Performance Audit Team consisting of second level officer in the respective Heads of Department, State Planning Commission official and an Engineer drawn from outside department / agency to evaluate the works undertaken by local bodies should be constituted.

147) The High-level Committee constituted to look into the long pending audit objections should meet once in six months say in July and January and settle the objections and the Director of Local Fund Audit and Heads of Department viz Director of Rural Development, Commissioner of Municipal Administration and Director of Town Panchayats will be responsible for convening the meeting.

148) In all Village Panchayats the system of social audit may be introduced and the grama sabha shall be the forum to conduct social audit. The concept envisaged in the Chapter may be the basis for the social audit.

Accountability

149) The creation of Ombudsman as recommended by previous Commissions on the lines of Kerala and Karnataka is reiterated to bring to book the erring elected representatives.

150) The local bodies should involve Self-Help Groups and NGOs in creating awareness among the public and at the same time they should function as watch dogs of the local body administration.

151) The shelf of projects for each Urban Local Body for five year period commencing from 2007-12 has to be prepared and the same may be discussed in District Planning Committee for ultimate inclusion in the Eleventh Five Year Plan for the Districts.

152) The Urban Local Bodies should implement the citizens' charter and the public should invoke the Right to Information Act for obtaining details on the works undertaken by local bodies.

153) The Committee on local bodies on the lines of Public Accounts Committee should be formed immediately to bring to light the irregularities and loss suffered by local bodies on an yearly basis.

154) All Urban Local Bodies / Rural Local Bodies shall create database in the format prescribed by Comptroller and Auditor General of India which may ultimately be used by State / Central Finance Commissions for their study and recommendations. The concerned Head of Department shall monitor the data base on a quarterly basis viz April, July, October and January of each year.

Grama Sabha

155) The Grama Sabha meetings may be conducted only twice a year compulsorily during February to present the Budget and in August to review the implementation of schemes approved in the previous meeting. Meetings may be convened by Panchayats on various days in the month of February / August of the year concerned at the convenience of the Panchayat and on the dates listed at the block or District level. Special meetings at any numbers may also be conducted in between the statutory meetings whenever warranted under the direction of the Inspector of Panchayats. These measures will also facilitate line departments / agencies to attend Grama Sabha meetings in all Panchayats in a district. The time duration of not more than 6 months between two Grama Sabha meetings as envisaged in the Act should also be adhered by conducting meeting in between.

156) District Collectors / Director of Rural Development and Panchayati Raj may be asked to stick on to the time schedule for giving any instructions regarding Grama Sabha and the issue of notices by the Panchayat should not await any instructions from the District Administration.

157) To bring in transparency in Panchayat Raj administration and to fulfill the aspirations guaranteed under Right to Information Act, the accounts of the previous year

may be printed on the reverse side of the intimation notice so as to facilitate the public to know the actual financial position and transaction of their Panchayat.

158) Notices for the Grama Sabha meeting should be served to each household besides the residents welfare associations. This can be done through so many sources such as newspaper suppliers, milk vendors and others apart from the daily waged Mazdoors available in the Panchayat.

159) The quorum for the Grama Sabha meeting may be prescribed as 1/20th of the total voters of the village with a maximum attendance of 300 for conducting the meeting. The provisions in the relevant Rule shall be amended.

160) The following activities are recommended which would bring more members to the meeting and thereby quorum could be maintained:

- a. The resident welfare associations may be involved in conducting and participating in cultural programmes linked to various rural development schemes implemented by the Government.
- b. An appreciation can also be given by Grama Sabha to those members who attend all the meetings in a year regularly.
- c. Open space exhibition of handicrafts made by Self-Help Groups can also be organised at the venue.
- d. Meeting should be held at each hamlet / habitation on rotation basis.
- e. Some representative officials from higher level should attend the meeting regularly.
- f. The people's eagerness in getting replies to the demand made by them in previous Grama Sabha meeting should be fulfilled.

161) The agenda for the meeting should be generally prepared by the Village Panchayat and subjects if any on new schemes introduced by the Government should only be communicated by the District Administration for inclusion.

162) A well in-built social audit system needs to be evolved through Grama Sabha to avoid corruption and nepotism in the local bodies. This will pave the way for administration of social justice. The documents of Panchayats including details on the contracts awarded and the list of approved contractors etc should be kept for social audit under proper security and supervision during the Grama Sabha meetings. The accounts and approved budget, details on tax / non-tax collections, month wise current consumption charges paid by the Village Panchayat should be placed on the notice board compulsorily and it should be monitored by the block officials.

163) Decisions taken on the subjects and resolved by the Grama Sabha should be immediately recorded in the minute book during the meeting as it is not the case in most of the Panchayats observed.

164) Action taken on the resolutions passed in the previous meeting should be properly communicated and discussed in the meeting of Grama Sabha as it was not the case in most of the sample Panchayats. The resolutions passed in the Grama Sabha should be honoured by the departments concerned immediately. This would let the voters hope that their demands would be implemented.

165) The needs and priorities of various schemes in the Village Development Plan should be decided by the members of Grama Sabha.

166) The Village Development Plan / Shelf of Projects for each village should be prepared and the MLAs/MPs should choose the works from out of the Shelf of Projects approved by the Grama Sabhas only so that local priorities can be looked into. So also the sanction, execution and completion of all projects or programmes in Panchayat areas should be brought to the notice of Grama Sabha. Guidelines issued by Government of India / Government of Tamil Nadu should be revised so that the MP/MLAs and District Rural Development Agency should select works identified and approved by Grama Sabha only to execute the respective schemes.

167) Linkages between Grama Sabha and Self-Help Groups / NGOs can be improved through the following measures:

- a. Listing and enrolment of members of Self-Help Groups should be approved by Grama Sabha.
- b. NGOs participation in the implementation of various schemes should be integrated with Panchayat / Grama Sabha facilitating the consultation of Grama Sabha in respect of all issues in the implementation of such schemes.
- c. The District / block level officials should encourage involvement of more number of NGOs in the development activities of each village.
- d. NGOs should inculcate Self-Help Groups to engage themselves in Solid Waste Management activities, maintenance of Integrated Sanitary Complex, Anganwadi Centres, Public Health Centres etc.

168) The District level / block level officials should organise mass awareness programmes in each village regarding the powers of Grama Sabha, its functions and responsibilities and the role of members of Grama Sabha.

169) Integration of the village level plan, approach by the Grama Sabha, with District plan must be ensured.

170) Inclusion of the priorities identified in the Grama Sabha with the activities of line departments should be reviewed at the District Planning meeting.

171) The functions which are likely to be transferred to Village Panchayats based on the Third State Finance Commission's recommendations shall also be discussed in Grama Sabha meetings for proper monitoring.

172) Amendments, if any required to the relevant Act / Rules so as to give effect to the above recommendations shall be made by the Rural Development and Panchayati Raj Department.

Area Sabha

173) As suggested by the Ministry of Urban Development and Poverty Alleviation, New Delhi, community participation law may be enacted to involve people of urban areas in the planning and implementation process.

174) The Area Sabha shall consist at the first instance the representatives of Residents Welfare Associations, representatives of NGOs, Self-help groups, Women's Association, Youth Wing and prominent citizens on a ward wise basis.

175) The Area Sabha, like Grama Sabha shall meet twice a year i.e in February and August to review the Budget and scheme implementation respectively.

176) The meeting shall be conducted in each ward on a rotation basis and the meeting expenses if any shall be met by the respective Urban Local Bodies.

177) The action taken on the issues decided shall be put up in the next meeting.

178) The Shelf of Projects for a five year period of the Urban Local Body should be prepared by the Area Sabha.

Chapter-X

Reclassification of Local Bodies

Rural Local Bodies

179) The Government should form Village Panchayat / Panchayat Union Reorganisation Committee by involving the District Collectors for reconstituting and regrouping the Village Panchayats with a minimum population of 3000. However exceptions may be given to Tribal and Hilly areas. Similarly, the Panchayat Unions may be regrouped on the basis of 35 Village Panchayats per Block so as to make the Panchayat Unions more cohesive and to avoid unnecessary administrative expenditure. As the exercise may take some time, October 2006 local body elections may be conducted as per the present set up. The exercise for regrouping and reconstituting may be taken up after the elections and consensus arrived at within a period of 3 years including legal hurdles if any so that the 2011 local body elections can be held in the reorganised set up. The year

2011 is significant in the sense since the next census will be due by then and the rural and urban population may also be correctly worked out.

180) The Census towns in Chennai Metropolitan area classified as Village Panchayats may be reclassified as Town Panchayats or Municipalities so as to extend the service levels in those areas and also to tap the tax potential as has been done for urban areas.

181) Under Jawaharlal Nehru National Urban Renewal Mission, Chennai, Coimbatore and Madurai have been included in the development of the town area. As such, Village Panchayats and weak Town Panchayats around Madurai and Coimbatore may be merged with Municipal Corporations to avail the benefits accruing to them by the above programme.

Town Panchayats

182) The Commission concurs with the decision of the Government in reclassifying the 561 Special Village Panchayats into Town Panchayats by its order in G.O. Ms. No.62, Municipal Administration and Water Supply Department dated 28.07.2006 and that its continuance as transitional body shall be ensured.

183) All the Census towns numbering 111 may be classified as urban to avoid different classification, i.e one by Census and the other by State Act.

184) About 263 Town Panchayats which are said to be possessing rural characteristics and their financial viability may be studied by the Committee already suggested for Rural Local Bodies by 2008 and a decision taken so that 2011 local body elections can be conducted without any legal hitch. Any reclassification before 2011 Census will give a true picture of rural / urban population.

185) The present classification of 4 grades among Town Panchayats may be brought down to 3 and that all Grade II may be upgraded as Grade I Town Panchayats.

186) Government should periodically examine reclassification of Village Panchayat to Town Panchayats of particularly around the major urban centres. In view of the different pattern of election for the ward systems, reclassification exercise should be taken up in the last year of the term (5 year) and completed at least six months before the date of elections.

Municipalities

187) Reclassification / Regrouping of Municipalities into three grades with income as suggested below may be adopted to overcome many anomalies as discussed in the Chapter.

Grade II	-	Above Rs.1 crore but below Rs.4 crores
Grade I	-	Above Rs.4 crores but below Rs.6 crores

Selection Grade - Above Rs.6 crores

188) The norms noted above for constitution / grading of Municipality shall be followed while reclassifying the Municipalities and also upgrading any Transitional area / Town Panchayat or by whatever name it is called into Municipality. Necessary Act / Rule provisions shall be incorporated in the existing Municipalities Act and in the new Act if it is notified.

189) The existing Municipalities with less than Rupees one crore as annual income with no additional tax potential for improvement, such Municipalities may be considered for reclassification as Town Panchayats as already recommended by Second State Finance Commission in respect of unviable Municipalities.

190) A Committee may be formed with Commissioner of Municipal Administration as Chairman and all Regional Directors of Municipal Administration as Members, with Joint Commissioner of Municipal Administration as Member-Secretary. This committee may fix the staff norms for all grades of Municipalities and suggest re-deployment of personnel wherever necessary consequent on reclassification of 50 Town Panchayats as Grade-III Municipalities.

Municipal Corporations

191) The issue on reclassification shall be decided by Government based on a more detailed study by a Committee consisting of Commissioner of Municipal Administration, the respective District Collectors viz. Madurai and Coimbatore, respective Corporation Commissioners, Director of Town Panchayats and Director of Rural Development.

192) For the award period of Third State Finance Commission no Municipality need to be upgraded as they all fall short in population and income except Tirupur.

193) The Government shall have to face the consequences arising out of such an exercise and try to build up consensus within 3 years and also to get any legal hurdles removed within 3 year period so that in the next local body elections, our State should have financially sound units, to meet the challenges of posterity.

Chapter-XI

Entrustment of functions and delegation of powers to Local Bodies

Public Distribution System

194) The Public Distribution System shops now run by Civil Supplies Department / Co-operative Department in Village Panchayat area may be entrusted to Village Panchayats as contemplated in the Constitution for proper distribution and monitoring.

195) The Civil Supplies Department / Corporation shall continue to be the State agency for procuring and distribution of rice and other food articles.

196) The Public Distribution System shops and the salesmen shall be under the control of Village Panchayat. The salary of salesmen shall be credited to Village Panchayat Account by the Civil Supplies Department / Co-operative Department well in advance to enable timely disbursement.

197) The indent of rationed articles of Public Distribution System made by Village Panchayats shall be checked by Panchayat Unions and sent to the respective agencies for supply.

198) The functioning of Public Distribution System Shops shall be monitored at the District level on a monthly basis.

199) The Government may consider entrusting the functions relating to Public Distribution System shops in urban areas to the Town Panchayats / Municipalities / Municipal Corporations after studying the performance in rural areas.

Birth & Death Certificates

200) The issue of birth and death certificates shall be entrusted to Village Panchayats and Village Panchayat President shall be the issuing authority on the basis of the report submitted by Village Administrative Officers.

201) The fee to be collected for the issue of birth and death certificate shall be at the same rate as was charged by Taluk office.

202) A consolidated monthly report may be sent to Taluk office for consolidation and statistical purposes.

203) While delegating the functions relating to issue of birth and death certificates, a regulatory mechanism can be evolved to cross-verify the population related matter as a sequel to these delegations.

Primary Education

204) Primary Education may be entrusted to Panchayat Raj institutions and the procedure for administering the functions entrusted may be on the basis outlined in the Chapter.

Libraries

205) The District libraries and other branch libraries at the Block level now under the control of the Directorate of Libraries shall be transferred along with the functionaries to the District Panchayats.

206) The library cess collected by both Rural Local Bodies / Urban Local Bodies shall be transferred to District Panchayat Account.

207) In respect of Chennai, the libraries except Connemara Public Library and Central library shall be transferred to the Chennai Corporation along with the functionaries. The library cess shall be utilised for running the libraries, staff and other maintenance.

208) The right and privileges of the existing staff shall be protected and that the Director of Libraries shall be the appellate authority for disciplinary proceedings.

209) The Director of Public Libraries shall give technical support for running the libraries and to improve the quality content of the books and other related activities. The endowments related functions may continue to be with the Director of Public Libraries.

210) Future recruitment shall be decided by the District Panchayat / Chennai Corporation on the basis of the guidelines issued by the Government on 'Recruitment Policy' from time to time.

211) Wherever Municipal Corporations / Municipalities are running the libraries on their own, those libraries shall continue to be run by them.

212) Purchase of books for District libraries and branch libraries shall be centralised and monitored by Director of Rural Development and that a minimum of 30% of the collections shall be set apart for purchase of books.

Delegation of Powers to ULBs

213) The powers to accord administrative sanction by Regional Director of Municipal Administration withdrawn in G.O. Ms. No.119, Municipal Administration and Water Supply Department, dated 18.07.1998 shall be restored to Regional Director of Municipal Administration with a rider that the Regional Director of Municipal Administration shall dispose of the administrative sanction within a month of its receipt from the Municipal Council. Failing to comply with the time limit shall entail in disciplinary proceedings against the concerned officials.

214) The monetary limit to accord administrative sanction by Regional Director of Municipal Administration shall be raised to Rs.50 lakhs and technical sanction by Regional Executive Engineer to Rs.50 lakhs or more on par with the Superintending Engineer in Public Works Department. The ceiling enhancement is for each work subject to the availability of funds in the Budget.

215) The works to be taken up for execution after the enhancement of ceiling shall be reviewed by Inspector of Municipalities i.e. Commissioner of Municipal Administration on a monthly basis.

216) The delegation of powers for sanction of works by the Municipal Council is low as the ceiling was fixed some 7 years ago. Hence the ceiling shall be revised as detailed below:

(Rupees in lakhs)

Grade of Municipality	Municipal Council	RDMA	C.M.A.	Government
	upto	upto	upto	
Selection Grade	35	50	500	Above 500
First Grade	30	50	500	Above 500
2nd Grade	25	50	500	Above 500

In respect of Municipal Corporations, the ceiling may be revised by the Government based on the enhancement suggested for Municipalities.

217) The Municipal Acts may be amended to enable the Council to demolish the unauthorised constructions after obtaining a detailed report from the Commissioner / Municipal Engineer.

218) All letters except confidential letters may be compulsorily circulated to the Municipal Chairpersons to facilitate better awareness of Government guidelines, orders etc apart from establishing cordial relationship.

Chapter-XII

Role of Line Departments and Parastatal Agencies

Chennai Metropolitan Water Supply Sewerage Board

219) As at present, 10% of the Chennai Corporation's share of devolution shall be passed on to Chennai Metropolitan Water Supply and Sewerage Board.

220) Water Tax shall be revised at the rates mentioned under Section 34 of Chennai Metropolitan Water Supply and Sewerage Board Act.

221) Water charges / Sewerage charges shall be revised in the year 2007-08 and thereafter once in 3 years. All water supply assessments shall be metered so as to fetch more money and this may be attempted in a phased programme.

222) The Government should consider the issue of compensation to Chennai Metropolitan Water Supply and Sewerage Board, for the higher cost of desalination.

223) The devolution grants may be exclusively spent for development.

Director of Town and Country Planning

224) The planning authority and the building licence authority shall be brought under one umbrella to clear the back-log in layout approval and to tap the resource

potential of Urban Local Bodies by amending the Town and Country Planning Act and Municipal Acts by invoking the provisions already adduced in the Chapter.

225) 75% of the Development Charges / Open Space Regulation charges shall be passed on to the Urban Local Bodies straightaway without any conditions. But the Urban Local Bodies shall obtain the approval of the Government for the projects in order to meet the cost from out of the transferred amount.

226) Directorate of Town and Country Planning / Chennai Metropolitan Development Authority may be brought under the control of Municipal Administration and Water Supply Department to avoid dual control and to obviate the administrative difficulties faced by the Urban Local Bodies.

227) The collection of 1% of the total revenue of Urban Local Bodies to the Planning Authorities' Fund shall be abolished forthwith which appears to be an anachronism.

Chennai Metropolitan Development Authority

228) The planning permission and building licence wings shall be brought under one umbrella so that the deviations and violations would be tackled by a single authority for which necessary amendments may be incorporated in the Town and Country Planning Act and in the Municipal Acts.

229) In consonance with 74th Constitutional Amendment Act, the planning functions and land use may be conferred on Urban Local Bodies and that the required technical personnel may be sent to Urban Local Bodies for training and capacity building.

230) As recommended in the para on constitution of Chennai Metropolitan Planning Committee, Chennai Metropolitan Development Authority may function as the Secretariat of Chennai Metropolitan Planning Committee.

231) 75% of Development charges and Open Space Regulation charges may be passed on to the respective Urban Local Bodies without any conditions for development of the area. The projects chosen from out of the transferred money should have the approval of HOD/Government.

232) The collection of 0.25% of revenue income of Urban Local Bodies in Chennai Metropolitan area for the Planning Authority's fund shall be abolished forthwith in view of the functions vested with the Urban Local Bodies under XII Schedule of the Constitution.

233) The regularisation income now under subjudice may be shared with concerned Urban Local Bodies after the pronouncement of the verdict by the Madras High Court.

Chennai Metropolitan Planning Committee

234) A separate Act governing the Chennai Metropolitan Committee may be enacted instead of amending the Corporation Act, Municipalities Act and Panchayats Act.

235) The entire Chennai Metropolitan area shall be under urban as classified by Census Department by bringing the Village Panchayats as urban entities or merging with nearby Municipalities.

236) The functions as suggested by Second State Finance Commission for the Metropolitan Planning Committee are reiterated again, besides any other functions to be earmarked by the Act.

237) After the constitution of Chennai Metropolitan Planning Committee, the Chennai Metropolitan Development Authority may be the Secretariat of the Committee as suggested by Second State Finance Commission.

Tamil Nadu Pollution Control Board

238) The Urban Local Bodies shall be exempted from the levy of water cess by amending the Water Cess Act, 1977.

239) The recommendation of Second State Finance Commission for constitution of District level Committee with the District Collector as the head and for Chennai with Mayor of Chennai as the head of the Committee to effectively monitor the implementation of environmental and pollution control programmes is reiterated.

240) The following functions need to be discharged by Tamil Nadu State Pollution Control Board in close cooperation with the Urban Local Bodies.

- a) Regulation of sanitary fill sites.
- b) Scientific disposal of municipal solid waste.

Tamil Nadu Housing Board

241) The over riding provisions in Tamil Nadu Housing Board Act viz 35, 37, 38, 39, 40, 44, 45, 64 and 152 and other Sections if any, against local bodies need to be amended in conformity with 74th Constitutional Amendment Act.

242) The local bodies should be empowered to levy property tax in the Housing Board notified area.

243) There should be proper coordination between Tamil Nadu Housing Board and local bodies before notifying a scheme and a coordination committee may be constituted.

244) There should be a specific time limit say 1 year for land assessment to avoid difficulties in acquisition of land and other related activities.

245) The Tamil Nadu Housing Board should send the list of beneficiaries once in 6 months say in April and October of each year about the Housing Board flats sold either by outright sale or by hire purchase scheme, to enable local bodies to levy property tax.

246) The unsold flats of Tamil Nadu Housing Board should be subjected to property tax as in the case of private parties after the expiry of the licence period, say 3 years.

247) In respect of rental housing schemes, the present practice of Housing Board paying the property tax by obtaining funds from Government shall be continued.

Tamil Nadu Slum Clearance Board

248) The details of owners of the outright sale scheme should be sent to the respective urban local body for levying property tax once in 6 months viz April and October of each year.

249) The practice of remitting property tax in respect of rental apartments by Tamil Nadu Slum Clearance Board initially and thereafter getting reimbursement may be continued and there should not be any delay in the process. The Tamil Nadu Slum Clearance Board should arrange to have sufficient provision for remittance of property tax in their Budget.

250) The elected Mayors/Chairpersons of select Municipal Corporation and Municipalities may be inducted in the Tamil Nadu Slum Clearance Board to have smooth working relationship and to sort out the problems.

251) The over-riding provisions on local bodies if any in the Act shall be amended in conformity with the Constitutional provisions.

Tamil Nadu Electricity Board

252) Urban Local Bodies shall be permitted to levy tract rent on the land used for Tamil Nadu Electricity Board poles at the rates to be prescribed by the Government.

253) There should be differential rates for electricity tariff for street lights and water supply as in vogue in other States during next revision of tariff.

254) A cess on Electricity at the rate of 10 Paise per unit consumed by Industrial and Commercial units may be levied after getting the concurrence of the Tamil Nadu Electricity Regulatory Authority from the financial year 2007-2008.

255) Centage for poll shifting charges in Urban Local Bodies may be reduced to 5%. Whenever local bodies are in a position to supply the poles, it may be accepted.

256) Tamil Nadu Electricity Board should insist on No Objection Certificate from Revenue department for houses constructed on poromboke lands before giving service connections.

257) In respect of Patta lands, No Objection Certificate should be obtained from the respective local body to avoid mushrooming of unapproved layouts.

258) The rates of fees payable to Electricians (Line-man) by Village Panchayats for replacing street lights shall be fixed by Tamil Nadu Electricity Board after discussion with District Collector. The rate may be revised once in three years.

259) As the deduction from devolution made at Head of Department level towards the arrears of Electricity consumption charges and passed on to central office of Tamil Nadu Electricity Board does not get reflected in local body accounts, the Superintending Engineers / Divisional Engineers shall be instructed to furnish the details of arrears received by them local body wise so as to incorporate the same in their accounts. Any settlement of arrears shall be done at Village Panchayat level for Rural Local Bodies and by institution-wise in respect of Urban Local Bodies by distributing the devolution or grant to avoid omission in accounting.

260) The local bodies which come forward to set up wind mill energy units for their consumption may be empowered to undertake generation of electricity by way of the stipulation for use by HT industries. If necessary, Act / Rule provisions of the Electricity Act may be amended.

Tamil Nadu Water Supply and Drainage Board

261) Tamil Nadu Water Supply and Drainage Board should furnish Project cost, restoration cost and on that basis, resolutions have to be obtained from the local bodies. The present practice of holding discussion with Engineering wing without the knowledge of the Municipal Council / Panchayats Council should be discontinued.

262) The centage charge in Turn key system has to be brought down from the present level of 13% to 5%

263) Government may also explore the possibilities of privatising maintenance of Combined Water Supply Scheme after determining the norms on maintenance.

264) Extensive use of bio-diesel for operating water pumps may be given thought to reduce recurring expenses.

265) All Over Head Tanks may be fitted with water meter and the water charges levied on the basis of the meter reading.

266) The local water potential may be treated by using Reverse Osmosis equipment to augment the water supply instead of embarking on combined water supply schemes which at many times run into difficulties as explained earlier, wherever possible.

267) The Government may arrange to settle the arrears of water charges as on 31.8.2006 due to Tamil Nadu Water Supply and Drainage Board from local bodies under

special purpose grant in a phased manner as explained in the Chapter on Devolution Device.

268) As explained in the Chapter, the quantity supplied, maintenance expenditure and the demand raised for the period from 2000 to 2005 appear to be unscientific and the rates fixed for kilo litre need to be reduced. Further, there appears to be a need for fixing the norms for over head expenditure so that the inefficiency of Tamil Nadu Water Supply and Drainage Board is not covered under the carpet.

District Planning Committee and District Rural Development Agency

269) The election to 4/5 of the members of the District Planning Committee shall be conducted on the basis of 2001 Census after the newly elected local body councils assume office after October 2006 elections.

270) The special invitees to District Planning Committee shall include representatives from Village Panchayats and Panchayat Unions on rotation basis every year so as to make it a compact and a representative body of all tiers. Similarly all Chairpersons of Town Panchayats / Municipalities other than the elected may be by means of rotation every year.

271) The District Rural Development Agency may be the Secretariat of District Planning Committee and the Project Officer of District Rural Development Agency shall be the Member-Secretary of District Planning Committee.

272) The District plans for the five year period from 2007-2012 may be prepared by the newly constituted District Planning Committee and the same may be sent to the State Planning Commission after the receipt of approach paper for the Eleventh Five Year Plan period.

273) The election of District Panchayat President may be by way of direct election by getting the Constitutional provisions amended and also by amending Section 56 of Tamilnadu Panchayats Act so as to make the post of Chairperson of District Planning Committee more acceptable to all members and the public at large. Till such time, the present method of indirect election may be continued.

Chief Engineer (Highways)

274) The Second State Finance Commission's recommendation that all local body road works should be executed by Rural Local Bodies through the Engineering Wing of the Rural Development Department is reiterated. Orders issued in G.O. MS. No.301, Highways Department, dated 22.12.2004 may be withdrawn.

275) There shall be a shelf of projects on rural roads and that priority should be given to Bus route roads.

276) The 50% of the Rural Road Development Fund shall be given to the District Panchayats only and works identified by the Panchayats in the plan prepared should be taken up.

277) The Other District Roads which satisfy the criteria of becoming Major District Road can be retained by the Highways Department and the balance length may be transferred to PRIs for improving the road condition.

Collectors' Development Fund

278) The Collectors' Development Fund created out of the Reserve Fund Scheme during the award period of Second State Finance Commission (i.e. 2002-07) shall be abolished with effect from 1.4.2007.

279) Government may strengthen the District functionary by means of discretionary fund, from out of allocation of State Plan Fund, as earmarking of a devolution to a Government functionary goes against the spirit of self-governance.

MLA Constituency Development Scheme

280) 30% of MLAs Constituency Development Fund falling in urban areas shall be earmarked for improving core civic services.

281) For the earmarked portion of MLAs Constituency Development Fund, scheme / programme in urban areas shall be chosen from out of the shelf of projects prepared by the respective urban local bodies and it should not be chosen whimsically.

282) The urban local bodies should also be prepared to meet the recurring costs for the assets created from out of the above fund.

283) The present allocation for rural sector under MLAs Constituency Development Fund shall be continued. However, the scheme/programme has to be executed on the basis of a shelf of projects prepared by the Grama Sabha.

Chapter-XIII

State Finances

284) The Third State Finance Commission recommends that the State Government may address Government of India to remove the ceiling on the Profession Tax rates by amending the Constitutional provisions and to let the States to decide on it depending on the augmenting capacities of the Local bodies.

285) The Third State Finance Commission recommends that a plea for higher quantum of Central Finance Commission grants to local bodies may be taken up with the next Central Finance Commission at the rate of at least Rs.150 per capita per annum based

on 2001 Census population. The State Government should also address Government of India in this regard for consideration by next Central Finance Commission.

286) The State Government shall take up with the Central Government for amending Article 285 of the Constitution to enable local bodies to levy service charges on Central Government buildings / properties.

Chapter-XIV

Devolution Device and Monitoring Mechanism

287) Based on the States' Own Tax Revenue as arrived at by the Commission by adopting Compounded Annual Growth Rate for major State Taxes viz Sales Tax, Motor Vehicle Tax, Stamp Duty and State Excise and for other taxes and expenses at MTFP projections, the devolution transfer to local bodies under Pool B shall be 10% for each year during the entire award period of Third State Finance Commission i.e 2007-2012.

288) The Pool A transfer (Assigned Revenue) shall be on the lines indicated in the chapter on Resource base.

289) Specific purpose grant under Pool C shall be at 0.5% to 1% of the States' Own Tax Revenue.

290) While arriving at the Net proceeds of Taxes, only the collection charges for the staff employed in the departments concerned and the transfer to Rural Road Development Fund alone should be deducted.

291) Vertical sharing of Pool B devolution between RLBs and Urban Local Bodies shall be at 58:42 respectively.

292) Horizontal sharing among PRIs shall be at 8% for District Panchayats, 32% for Panchayat Unions & 60% for Village Panchayats.

293) In respect of Urban Local Bodies the sharing shall be 30% for Municipal Corporations, 41% for Municipalities and 29% for Town Panchayats. From out of the share of Chennai Corporations, 10% shall go to Chennai Metropolitan Water Supply and Sewerage Board as already recommended in the para relating to Chennai Metropolitan Water Supply and Sewerage Board.

294) Inter-se distribution among the tiers of local bodies shall be on the basis of the criteria suggested in the Chapter.

295) The devolution shall be released monthly as at present on the first of the month.

296) The arrears of devolution due to Urban Local Bodies during 1997-2006 amounting to Rs.285.30 crores shall be settled in 2007-2008. In respect of excess

devolution transferred to PRIs those may be waived, in view of the time delay in release of the balance.

297) From out of the suggested devolution under Pool B 3% from out of the Village Panchayats share shall be set apart as Incentive Fund for Village Panchayats and 5% for Urban Local Bodies as Incentive Fund as explained in the Chapter.

298) The distribution pattern for the release of incentive shall be as outlined in the Chapter. The present practice of releasing the incentive fund at the fag end of the financial year shall be discontinued and that the release of the above funds may be in the second quarter of each year.

299) 1% of Plan funds may be set apart for District Collectors to undertake works which require urgent attention and also to the needy Village Panchayats. It shall not be part of the devolution.

300) As at present the pension commitment of local body pensioners shall be deducted from gross devolution meant for the respective tiers based on the demand and the same passed on to Director of Local Fund Audit. Similarly the election fund for Urban Local Bodies shall be deducted from the gross devolution every year based on the need and shall be kept in a separate account as at present.

301) The loan deductions from devolutions in respect of Urban Local Bodies shall not exceed 25% of the gross devolution.

Monitoring Mechanism

302) Decision on all recommendations made by Third State Finance Commission shall be taken within a period of 6 months from the date of commencement of the award period.

303) Every year along with the Budget, the Government must place details of the transfer to the local bodies made during the year based on the decision taken by the Government.

304) Along with the policy note of the departments of Rural Development and Panchayat Raj Department and Municipal Administration and Water Supply Department, the progression on the issue of orders should be placed.

305) Government may consider constituting a separate committee of the Assembly to review the implementation on the decision taken by the Government.

306) Follow up action on the decisions of the Government shall be monitored on a quarterly basis by the High Level Committee constituted for this purpose.

307) The local body council shall be constituted as explained in the Chapter and its effective functioning is ensured.

308) As suggested in the Chapter, the monitoring cell shall assist the local body council in its policy perception, change in tax structure and other issues.

Conclusion

The above recommendations are reflection of our approach as set forth in Chapter - II. The operative Chapters begin with Chapter III to Chapter XIV. It covers the entire operations of the local bodies. It is the Commission's hope that if all the recommendations are implemented by Government, it will go all the way in improving the financial and functional areas of local bodies to make the Citizens' life livable.