

Terms of Reference

**FINANCE (FINANCE COMMISSION-IV) DEPARTMENT**  
**G.O. No.584, Dated 14th December, 2004**  
**(Tharana, Karthigai, 29, Thiruvalluvar Aandu,2035)**

COMMISSION - Third State Finance Commission - Constituted - To study the financial position of Municipal Corporations, Municipalities, District Panchayats, Panchayat Union Councils, Special Village Panchayats and Village Panchayats - Terms of Reference - Notified.

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READ:

- 1) G.O.Ms.No.573,Finance(FC-IV) Department, dated 1.12.2004.
- 2) Finance Department's Notification No:II(1)/Fin/ 77(b) / 2004 published in Tamil Nadu Government Gazette Extraordinary, dated the 2nd December, 2004

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ORDER:

In the Government Order read above, orders have been issued constituting the Third State Finance Commission with a Chairman and four other Members to study the financial position of Municipal Corporations, Municipalities, District Panchayats, Panchayat Union Councils, Special Village Panchayats and Village Panchayats. The Government now issue the Notification covering the terms of reference of the Commission.

2. The appended Notification containing terms of reference shall be published in an Extraordinary issue of Tamil Nadu Government Gazette, dated the 14th December, 2004.

(By order of the Governor)

LAKSHMI PRANESH,  
CHIEF SECRETARY TO GOVERNMENT.

To

- The Works Manager, Government Central Press, Chennai-600 079 (for publication of the Notification)
- All Secretaries to Government, Chennai-600 009
- The Chairman, Third State Finance Commission, Chennai.
- Thiru. D.Heerachand, Non-official Member, Third State Finance Commission, Chennai.
- All Departments of Secretariat, Chennai-9
- The Director of Rural Development, Panagal Buildings, No.1 Jeenis Road, Saidapet, Chennai-600 015
- The Commissioner of Municipal Administration, Chennai-600 005
- The Member-Secretary, Third State Finance Commission, Chennai.
- The Director of Special Village Panchayats, Kuralagam Buildings, Chennai-108

- The Commissioner of Corporations of Chennai, Madurai, Coimbatore, Tiruchirappalli, Tirunelveli and Salem.
- The Principal Accountant General (Audit-I), Chennai-18
- The Accountant General (A & E), Chennai-18
- The Director of Local Fund Audit, Chennai-600 108
- All Heads of Departments.
- All District Collectors (Except Chennai)
- All Assistant Directors of Panchayats
- The Block Development Officers of all Panchayat Unions
- All Zonal Assistant Directors of Special Village Panchayats
- All Regional Directors of Municipal Administration
- The Secretary to Governor, Raj Bhavan, Chennai-600 025
- The Secretary to Chief Minister, Chennai-600 009
- The Director of Information and Public Relations, Chennai-600 009
- The Registrar of High Court, Chennai-600 104
- Public (Special-A) Department, Chennai-9
- Stock File/Spare Copies.

/Forwarded by order/

SECTION OFFICER

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APPENDIX

**NOTIFICATION**

Further to Finance Department's Notification No. II(1)/FIN/77(b)/2004 dated 2nd December, 2004 published at page 1 of Part II--Section 1 of the Tamil Nadu Government Gazette Extraordinary, dated the 2nd December, 2004, the Governor of Tamil Nadu hereby direct that --

the period of office of the Chairman and other Members of the Third State Finance Commission, shall be upto the 31st day of May, 2006, from the date on which they respectively assumed charges.

2. The Commission shall review the financial position of the rural and urban local bodies namely village panchayats, special village panchayats, panchayat union councils, district panchayats, municipalities and municipal corporations and make recommendations as to --the principles which should govern -

- (i) the distribution between the State and the said local bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them and the allocation between the said local bodies of their respective shares of such proceeds;
- (ii) the determination of taxes, duties, tolls and fees which may be assigned to or appropriated by the said local bodies;
- (iii) the grants-in-aid to the said local bodies from the Consolidated Fund of the State.

the measures needed to improve the financial position of the local bodies taking into account inter-alia, their level of debt, pension and interest payment liabilities, possibilities of regulating the borrowing power and containing the debt liabilities of local bodies depending on their resource position and their ability to service the debt;

the measures needed to bring about greater efficiency in the functioning of local bodies in the mobilisation and use of their resources as Local Self Governments and suggestions on a well defined demarcation of functions of State Government vis-a-vis local bodies taking into account the prevailing levels of delegation of administrative, functional and financial powers to local bodies with reference to the functions enumerated in the Constitution of India and the concomitant State Legislations;

draw a monitorable fiscal reforms programme aimed at reduction of revenue deficit of the local bodies and a scheme for providing an incentive to local bodies within the ambit of devolution mechanism linked to progress in implementing the said programme taking into account the measures and the extent to which the local bodies have implemented such measures to exploit the available and the potential sources of the revenue and State Finance Commission and Central Finance Commission grants;

suggest possible new avenues for tapping resources in rural and urban local bodies keeping in mind local body tax structure in other States. In particular, the levy of user charges to attain the goals of covering operation and maintenance costs and capital costs for each item of service may be gone into together with suitable mechanisms to effectively realise these goals;

suggest measures, after review of the present system for assessing the accountability of the local bodies in utilising the resources raised or received from the State and Central Governments and other agencies and also the maintenance of local body accounts and database based on the recommendations of Central Finance Commission, for effective operation of these recommendations;

suggest measures for improvement of the administrative arrangements already made by the Government consequent on the reclassification of town panchayats. The Commission shall also suggest reclassification of other local bodies as well taking into account their present status and the reorganisation exercise already undertaken for the town panchayats.

3. In reviewing the financial position of the local bodies, the Commission shall assess the financial position of each of the local bodies as on 31st March 2005.

4. In making its recommendations, the Commission shall have regard to the resources of the State Government, the demands thereon, in particular the expenditure of the State on pension and debt servicing, including the debt servicing on behalf of local bodies/other committed expenditure or liabilities of the State Government and the need to generate adequate surplus on revenue account for State's commitments on capital account and the commitments of the State Government under the Tamil Nadu Fiscal Responsibility Act, 2003 (Tamil Nadu Act 16 of 2003).

5. The Commission shall also have regard to –

- (i) the existing level of devolution and other resource transfer from the State and Central Governments and other agencies including the award and recommendations of Twelfth Finance Commission to the local bodies and their adequacy;

- (ii) the requirement of the local bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the need for generating surplus for capital investment;
- (iii) revenue resources of the local bodies for the five years commencing from 1st April 2007 on the basis of level of taxation reached in 2004-05 and the expected increase in revenue keeping in mind the potential for revision of rates of tax and non-tax revenue;
- (iv) the status of implementation of the recommendations of the Eleventh Finance Commission appointed by the Central Government and the Second State Finance Commission constituted by the State Government and the utilisation by the local bodies of the resources transferred;
- (v) the scope for better fiscal management consistent with efficiency and economy in major components of recurring and non-recurring items of expenditure;
- (vi) the classification of rural and urban local bodies as per the Government of India guidelines and the consequences thereof.

6. The Commission shall also review the functions of Grama Sabha, its linkages with Non-Governmental Organisations, line agencies / departments on par with other States and suggest measures/ powers to strengthen grass root democracy.

7. The Commission can also make suitable recommendations regarding any other issues having bearing on the terms of reference above in paras 2 to 6.

8. The Commission shall make its report available by 31st May 2006 covering the period of five years commencing on 1st April 2007.

November 30, 2004,  
Chennai

SURJIT SINGH BARNALA  
Governor of Tamil Nadu

/True copy/

SECTION OFFICER