

Report and Recommendations of
Third State Finance Commission
Tamil Nadu

2 0 0 7 - 1 2

September 2006

C O N T E N T S

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CHAPTER-I INTRODUCTION

தெரிந்த இனத்தொடு தேர்ந்தெண்ணிச் செய்வார்க்
கரும்பொருள் யாதொன்று மில்
(எண்: 462)

Evidence of local Self-Government in Tamil Nadu dates back to 10th Century A.D as seen from the Uthiramerur and Thalaigayiru inscriptions. Though the institutions are many centuries old, they had fluctuating history with the rise and fall till 19th century. During the Viceroyship of Lord Rippon, the local bodies had acquired statutory status. Unlike U.S.A. and other western countries where the sub-national authorities have defined roles to perform, in India the local bodies were mostly controlled by Provincial/State Governments by virtue of their enactments. Even after Independence, the local body institutions continued to be part of State Acts with no independent functioning till 1992, although Article 40 of the Constitution of India mandated the State to confer powers on Village Panchayats to enable them to function as units of Self-Government. The enactment of 73rd and 74th Constitutional Amendment Act has conferred on the local bodies the much needed Constitutional status thus enabling them to have regular elections and assured flow of funds from Central and State Governments. Even after a decade of acquiring the Constitutional status, the role clarity for local bodies as contemplated in the Constitutional Amendment Act is found wanting due to reluctance on the part of the Government to demarcate the powers.

Constitution of Third State Finance Commission

2) Article 243 (I) and 243 (Y) of the Constitution of India mandate the States to constitute State Finance Commission once in five years to review the financial position of the local bodies and to make recommendations to the Governor of the State. The First State Finance Commission, constituted in 1994, gave its report in 1996 for the award period of 1997-2002. The Second State Finance Commission was constituted in 1999. Its report submitted in May 2001 is effective for the period 2002-07. Third State Finance Commission was constituted with Notification No.II (1) Fin/77(b) 2004 published at page 1 of Part-II - Section 1 of the Tamil Nadu Government Gazette Extraordinary dated 02.12.2004 and Finance Department Notification No.II(1) Fin/26(a)/2005 published at page 1 of Part II - Section 1 of Tamil Nadu Government Gazette Extraordinary dated 27.06.2005. (vide Annexure I-1)

The composition of the Commission has been ordered to be as noted below:

Thiru M.A. Gowrishankar, I.A.S.,	Chairman
Thiru D. Heerachand	Non-official Member (Resigned on 31.05.06)
Director of Rural Development	Ex-officio Member
Commissioner of Municipal Administration	Ex-officio Member
Thiru P.M. Basheer Ahamed, I.A.S.,	Member - Secretary

3) The Terms of Reference for Third State Finance Commission were issued in G.O. Ms. No.584, Finance (FC-IV) Department dated, 14.12.2004 and the same was notified in Finance Department Notification II (1) Fin/78(b)/2004 published at page 1-4 of Part-II Section-1 of Tamil Nadu Government Gazette Extraordinary dated, 14.12.2004 (vide Annexure I-2). The Notification has directed the Third State Finance Commission to make its report available by 31st May, 2006 for the award period commencing from 1st April, 2007 to 31st March, 2012. The Terms of Reference were by and large on the basis of the provisions contained under Article 243 (I) and 243 (Y) of the Constitution of India and as per Section 198 of Tamil Nadu Panchayats Act, 1994 and under relevant provisions of various Urban Local Bodies Acts. Some of the additional references contain specific themes which were not specifically issued to Second State Finance Commission, viz

- i) Demarcation of functions of State Government vis-à-vis local bodies.
- ii) Monitorable fiscal reforms for local bodies.
- iii) Consideration of State Government's commitments under Tamil Nadu Fiscal Responsibility Act, 2003.
- iv) Grama Sabha
- v) Eleventh Central Finance Commission's recommendations and utilisation of funds.

4) At the same time, the reference issued to Second State Finance Commission in respect of the system of payment of pensions to the retired employees of local bodies has been left out for Third State Finance Commission as the recommendation relating to system and regulation of pension payment has already been implemented. Further, the Government in their letter dated 6.1.2005 have specifically requested to study the system and collection of Property Tax and other taxes for augmenting the own revenue of Urban Local Bodies. In the light of the references made for the Commission, the methodology and approach evolved by the Third State Finance Commission are discussed in Chapter II of the report.

CHAPTER-II
METHODOLOGY AND APPROACH

**தெரிதலும் சேர்ந்து செயலும் ஒருதலையாச்
சொல்லலும் வல்லது அமைச்சு**

(எண்:634)

Procedure for State Finance Commission

The Third State Finance Commission has evolved a procedure for the Commission's functioning and for its Secretariat as mandated under Article 243 I(3) of the Constitution of India. The details of the working procedure as adopted by the Third State Finance Commission are in Annexure II-1

Issue of Questionnaires to local bodies

2) In order to assess the income, expenditure, service level, debt and human resources, a detailed Questionnaire was prepared and sent to Rural Local Bodies/Urban Local Bodies. The questionnaires for Village Panchayats / Panchayat Unions / District Panchayats were sent to District Collectors concerned who in turn arranged to distribute the questionnaire formats to all Rural Local Bodies. For Municipal Corporations / Municipalities / Special Village Panchayats (Town Panchayats), the Questionnaires were sent through e-mail. Similarly, questionnaires to Mayors of Municipal Corporations, Chairpersons of Municipalities, Chairpersons of Special Village Panchayats (Town Panchayats), District Panchayat Chairpersons, Panchayat Union Chairpersons and Village Panchayat Presidents were sent to elicit information on functions, funds and functionaries besides their views on increasing their own income, devolution and grants etc. Most of them have responded to our request.

The number of local bodies covered under the questionnaires were:

1	Village Panchayats	12,618
2	Panchayat Unions	385
3	District Panchayats	29
4	Special Village Panchayats (Town Panchayats)	561
5	Municipalities	152
6	Municipal Corporations	6

After validation, the consolidation of data relating to Municipalities was done in the office of the Commissioner of Municipal Administration and in respect of Special Village Panchayats now Town Panchayats in the office of the Director of Town Panchayats. The data relating to Rural Local Bodies was consolidated at District level.

Questionnaires to Secretaries to Government / Heads of Departments / Other Stakeholders

3) In addition to the above questionnaires, another 36 questionnaires were issued to various stakeholders including Secretaries to Government, Heads of Departments and others. The list of stakeholders to whom the questionnaires were issued is given in Annexure II-2. Besides, interaction with stakeholders was arranged as noted below:

1)	Member - Secretary, Chennai Metropolitan Development Authority	25.08.2005
2)	Director of Town and Country Planning	25.08.2005
3)	Managing Director, Tamil Nadu Housing Board	25.08.2005
4)	Managing Director, Tamil Nadu Slum Clearance Board	25.08.2005
5)	Commissioner of Agricultural Marketing	06.10.2005
6)	Director of Local Fund Audit	06.10.2005
7)	Commissioner of Commercial Taxes Department	06.10.2005
8)	Inspector General of Registration	06.10.2005
9)	Managing Director, Tamil Nadu Water Supply and Drainage Board	24.11.2005
10)	Managing Director, Chennai Metropolitan Water Supply and Sewerage Board	27.12.2005
11)	Chairman and Managing Director, Tamil Nadu Energy Development Agency	27.12.2005
12)	Chairman, Tamil Nadu Electricity Board	27.12.2005
13)	Secretary to Government, Commercial Taxes Department	01.02.2006
14)	Secretary to Government, Housing and Urban Development Department	01.02.2006
15)	Secretary to Government, School Education Department	23.02.2006
16)	Chief Engineer (Highways)	23.02.2006
17)	Director of Geology and Mining	23.02.2006
18)	Commissioner of Municipal Administration	14.03.2006
19)	Director of Town Panchayats	17.03.2006
20)	Director of Rural Development and Panchayat Raj	17.03.2006
21)	Secretary to Government, Rural Development and Panchayat Raj Department	17.04.2006 & 23.08.2006
22)	Secretary to Government, Municipal Administration and Water Supply Department	21.04.2006 & 18.08.2006
23)	Secretary to Government, Finance Department	10.05.2006 & 16.09.2006

The views emerged from out of the interaction are incorporated at appropriate places.

Interaction with District Collectors and Elected Chairpersons of local bodies

4) The Third State Finance Commission undertook tours to various Districts to hold discussions with District Collectors, District officials and elected Chairpersons of local bodies at District Collectorates. The details of visit are as under:

Table II – 1

Sl. No.	Date of Meeting	Place of Meeting	Districts covered	Participants
1)	19th October 2005	Thiruchirappalli	Thiruchirappalli Pudukkottai Perambalur	Forenoon Session: District Collectors and District officials Afternoon Session: Elected Representatives of Rural Local Bodies / Urban Local Bodies
2)	20th October 2005	Thiruchirappalli	Thanjavur Karur Thiruvarur	- do -
3)	17th November 2005	Virudhunagar	Virudhunagar Sivaganga Ramanathapuram Kanyakumari	-do-
4)	18th November 2005	Tirunelveli	Tirunelveli Thoothukudi	- do -
5)	5th January 2006	Erode	Erode Coimbatore Nilgiris Namakkal	- do -
6)	6th January 2006	Salem	Salem Dharmapuri Krishnagiri	- do -
7)	17th January 2006	Dindigul	Dindigul Madurai Theni	- do -
8)	7 th February 2006	Villupuram	Villupuram Cuddalore Tiruvannamalai	- do -
9)	21 st February 2006	Kancheepuram	Kancheepuram, Thiruvallur Vellore.	- do -

In the interaction, the elected Chairpersons of local bodies aired their views on various issues. Salient features are:

a) Urban Local Bodies

Shrinking of their own resources viz., taking away the powers of Cable TV collections and Advertisement Tax, reduction in Surcharge on Stamp Duty and reduction in the rates of Entertainment Tax, Debt burden and deduction of loan annuities and non-debt liability from devolution were focussed.

b) Rural Local Bodies

- i) No linkage among the three tiers of Panchayat Raj
- ii) No powers to District Panchayats
- iii) High EB tariff for streetlights and power pumps.
- iv) Lack of funds for core civic services.

In the interaction with the District Collectors and other officials, it was found that there was total apathy on the part of District officials in adjusting the assigned revenue to Rural Local Bodies resulting in penalty for non-payment of EB dues in time. The above issues and other issues are dealt with in the respective Chapters. Besides NGOs, experts, industrial houses and Self Help Groups took part in the interaction and offered their views.

Interaction with Recognised Political Parties

5) A questionnaire was sent to the following Recognised National Political Parties and State Political Parties:

Recognised National Political Parties

- 1) Indian National Congress
- 2) Bharathiya Janatha Party
- 3) National Congress Party (Pawar)
- 4) Bahujan Samaj Party
- 5) Communist Party of India
- 6) Communist Party of India (Marxist)

Recognised State Political Parties

- i) Dravida Munnetra Kazhagam
- ii) All India Anna Dravida Munnetra Kazhagam
- iii) Pattali Makkal Katchi
- iv) Marumalarchi Dravida Munnetra Kazhagam

Besides, an interaction was arranged in which the following recognised Parties took part:

National Political Parties (14.02.2006)

- a) Bharathiya Janata Party
- b) Nationalist Congress Party (Pawar)
- c) Communist Party of India (Marxist)

State Political Parties (15.02.2006)

- a) All India Anna Dravida Munnetra Kazhagam

The views expressed by them on various issues concerning local bodies have been taken due note of and discussed in the report at the appropriate places.

Brain Storming Session

6) The Third State Finance Commission arranged for a Brain Storming Session on 23rd November, 2005 in which the following delegates participated:

- 1) Dr. V. Chandrasekara Naidu, Associate Professor, Madras Institute of Development Studies.
- 2) Thiru K. Satyagopal, I.A.S., Special Secretary to Government, Finance Department.
- 3) Thiru K. Shanmugam, I.A.S., Chairman and Managing Director, Tamilnadu Civil Supplies Corporation.
- 4) Thiru M.P. Vijayakumar, I.A.S., Commissioner of Chennai Municipal Corporation.
- 5) Thiru Ambuj Sharma, I.A.S., Commissioner of Municipal Administration.
- 6) Dr. M. Rajaram, I.A.S., Director of Rural Development and Panchayat Raj.
- 7) Thirumathi M.P. Nirmala, I.A.S., Director of Special Village Panchayats (Now Town Panchayats).
- 8) Thiru P.M. Basheer Ahamed, I.A.S., Member-Secretary, Third State Finance Commission.
- 9) Thiru P. Balakrishnan, Deputy Director of Evaluation and Applied Research Department.
- 10) Thiru T. Bhaskaran, Head of Division, State Planning Commission

The meeting has given focus on various issues confronting both Urban Local Bodies / Rural Local Bodies. The proceedings of the meeting is given in Annexure II-3.

Visit to Other States

7) The Member-Secretary, Third State Finance Commission undertook tour to Kerala to study the functioning of Panchayat Raj Institutions and the People's Plan Campaign. The issues brought out by him is available in Annexure II-4. One of the issues which received the attention is that District Planning Committee is functioning in a manner expected of it and that 50% of the allocation is set apart for the schemes chosen by District Planning Committee. The plans approved by District Panchayat / District Planning Committee are sent to State Planning Board.

Besides, the Member-Secretary, Third State Finance Commission went to Delhi to participate in the National Seminar sponsored by PRIA (NGO) in which the Chairpersons of all State Finance Commissions were invited. It discussed the issues before the Third State Finance Commission. Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister of India and Chairman of the Twelfth Central Finance Commission inaugurated the seminar. The Deputy Chairman of Union Planning Commission Dr. Montek Singh Ahluwalia also participated.

Constitution of Sub-Committees for Urban Local Bodies and Rural Local Bodies

8(a) In the first meeting of Third State Finance Commission, the Non-official member Thiru D. Heerachand, Chairman, Tindivanam Municipality mentioned about the erosion of powers to Municipal Councils and also to the Regional Director of Municipal Administration. He pleaded for more powers. Similarly in the Rural Local Bodies too, many elected Chairpersons expressed their unhappiness owing to lack of powers and centralisation of powers by bureaucracy. Based on their plea, Sub-Committees on entrustment of functions and delegation of powers to the local bodies were constituted.

(b) The Sub-Committee for Urban Local Bodies was headed by Thiru P.M. Basheer Ahamed, I.A.S., Member-Secretary, Third State Finance Commission in which Thiru M. Rajkumar, Additional Director of Municipal Administration and Thiru V. Pitchai, Joint Director in the office of the Commissioner of Municipal Administration were members. The Joint Secretary and Officer on Special Duty of Third State Finance Commission and Joint Director of Grade III Municipalities were special invitees.

(c) The Sub-Committee for Rural Local Bodies was headed by Thiru P. M. Basheer Ahamed, I.A.S., Member-Secretary, Third State Finance Commission in which Thiru M. Parameswaran, Additional Director of Rural Development, Thiru D. Karthikeyan, I.A.S., District Collector, Erode and Thiru Gagandeep Singh Bedi, I.A.S., District Collector, Cuddalore were members. Thiru K.S. Sekhar, Executive Consultant of the Commission was the special invitee.

(d) The Sub-Committees have made several recommendations which are given in Annexures II-5 & 6. The stand of the Commission on the Sub Committees' recommendations are dealt with in the respective chapters.

Field visit to Village Panchayats to study the functioning of Grama Sabha

9) As per Para 6 of the Terms of Reference, the Third State Finance Commission shall review the functions of Grama Sabha and suggest measures / powers to strengthen grass root democracy. Based on the directive, the Third State Finance Commission deputed the officials of Third State Finance Commission to various Village Panchayats for a field study on the functioning of Grama Sabha and to report to the Chairman with their findings. The details of visits undertaken are given below.

List of Grama Sabha Meetings attended by the officials of the Third State Finance Commission:

Table II -2

Sl. No.	Village	Date of Meeting
1)	Ayappakkam Village Panchayat, Tiruvallur District.	22.05.2005
2)	a) Kunnathur Village Panchayat (Grade-I) Coimbatore District. (A rural Panchayat headed by a Woman President)	15.08.2005
	b) Kaduvancheri Village Panchayat, Kancheepuram District.	
3)	Mudichur Village Panchayat (Grade-I), Kancheepuram District. (Semi-Urban Panchayat headed by a Woman President)	02.10.2005
4)	Thirumullaivasal, Nagapattinam District. (Coastal Village Panchayat).	26.01.2006

The findings of the field study and the views of the District Collectors and elected representatives are dealt with in the chapter on Grama Sabha.

Visit of Chairman, Third State Finance Commission, Uttarpradesh

10) Shri. Rizvi, I.A.S., (Retd.), Chairman, Third State Finance Commission, Uttar Pradesh visited Tamil Nadu from 6th March 2006 to 10th March 2006. He visited the following Village Panchayats:

- i) Kuthampakkam Village Panchayat, Tiruvallur District 07.03.2006
- ii) Jakkampettai Village Panchayat, Villupuram District 08.03.2006

He also visited Panruti Municipality on 08.03.2006 where 'e-governance' of Municipal functions is in full swing. He also discussed the issues relating to State Finance Commission with Secretaries to Government, Municipal Administration and Water Supply Department and Rural Development and Panchayat Raj Department on 09.03.2006 at the Secretariat Conference Hall. A presentation was made on the State Finance Commission related information, functions delegated to both Urban Local Bodies/Rural Local Bodies, functioning of Grama Sabha and the effectiveness of three tier PRI set up. He also held discussions with the Chairman and Member-Secretary of Tamil Nadu Third State Finance Commission on 10.03.2006 on various issues set before the State Finance Commissions. His views were useful to the Commission.

Hosting of Web-Site

11) In keeping with the policy of Government of Tamil Nadu on e-governance and to tread the path set up by the previous Second State Finance Commission, a Web-Site for Third State Finance Commission was launched in September, 2005. The Site contains details of fund flow prior to First State Finance Commission award period i.e from 1992-1997, emergence of First State Finance Commission, its constitution, Terms of Reference,

recommendations, Action Taken Report and fund flow. Similarly, the Second State Finance Commission's constitution, Terms of Reference, recommendations, Action Taken Report and fund flow are also made available. Besides Tenth, Eleventh and Twelfth Central Finance Commission's recommendations on local bodies and other State Finance Commissions' details are also on the site. Also, the Third State Finance Commission's constitution, Terms of Reference, questionnaires issued to local bodies and other stakeholders, schedule of activities including the district hearing and Commission's sittings have been uploaded with a request for feed back from the viewers. Considerable number of persons visited the site.

Commission's Sittings

12) The Third State Finance Commission met at periodic intervals to address the issues placed before it by way of Terms of Reference. It conducted meetings as indicated below:

1) First Meeting	17.06.2005
2) Second Meeting	25.08.2005
3) Third Meeting	01.10.2005
4) Fourth Meeting	24.11.2005
5) Fifth Meeting	27.12.2005
6) Sixth Meeting	23.02.2006
7) Seventh Meeting	14.03.2006 and 17.03.2006
8) Eighth Meeting	17.04.2006 and 21.04.2006
9) Ninth Meeting	31.05.2006
10) Tenth Meeting	22.06.2006
11) Eleventh Meeting	19.07.2006
12) Twelfth Meeting	04.08.2006
13) Thirteenth Meeting	14.08.2006
14) Fourteenth Meeting	23.08.2006
15) Fifteenth Meeting	22.09.2006

The proceedings of the meetings were kept confidential and the minutes were sent in sealed cover to the members of the Commission.

APPROACH OF THE COMMISSION

13) The decade old experience of local bodies after attaining Constitutional status provided the back ground for widest possible consultation as mentioned in the Chapter. As a Constitutional Authority, Third State Finance Commission maintained equi-distance vis-à-vis Government and Local Bodies. The Commission took note of the report of the Twelfth Central Finance Commission so far as it relates to the local bodies. The position obtaining in other States was also studied. In India, it is the direct responsibility of the State Government under the Constitution to give such powers, authority and resources to local bodies which are essential for building up a vibrant local Self-Government. But it is a matter of concern that line departments continue to exercise authority on areas which would be considered of local importance. The role clarity which should have emerged by this time is totally absent. After

adopting a 2 tier PRI set up for nearly 38 years, it is difficult for the State and the local bodies to digest and accept 3 tier set up and the resultant effect being the District Panchayats limiting its role to advisory nature. The District Planning Committee which should have been the focal Centre for dovetailing the District Plan to the State Five Year Plan is in doldrums.

14) The functions now being exercised by local bodies are by way of delegation of powers from State Government and not by inheritance. In the absence of local list in the Constitution, the functions are exercised concurrently by both State Government and local bodies. Many elected Chairpersons from Panchayat Raj Institutions resent the term 'Inspector of Panchayats' for the District Executive Authority which means that they have not attained the status of self governing. Moreover, tinkering of their 'Resource Base' by way of amendment to Act takes away whatever is left with the local bodies. At the same time, the local bodies too show hesitancy in tapping their resource base for fear of becoming unpopular. Hence, they do not feel shy of being under 'Dependency Syndrome'.

15) The own income growth of Urban Local Bodies is in the range of 10-12% while that of Rural Local Bodies is in the range of 8-10%. But the expenditure growth is sizeable. In order to make the local bodies partially self-reliant if not totally, it should be the endeavour of the State Government to remove the impediments in the Act/Rules for effective functioning of local Self-Government. The Commission is also conscious of the fact that all functions listed out in the Eleventh and Twelfth Schedules of the Constitution have not been transferred even after a decade of constitutional changes. Earnest attempts have to be made at least in core civic services. Among the three tiers of Government, viz Central, State and Local Body, the latter is looked upon for everything as was seen during Tsunami 2004 and unprecedented floods in 2005. This supports our view that they should be strengthened.

16) Further, Third State Finance Commission has been asked to draw a monitorable fiscal reforms programme aimed at reduction of revenue deficit of the local bodies and a scheme for providing incentive to local bodies within the ambit of devolution mechanism. This will be possible only if the structural reforms which had its base at the Central Government and thereafter at State level percolate down to local bodies.

17) In the light of the above background, the Third State Finance Commission has identified the core issues which need to be analysed in the context of the Terms of Reference issued to the Commission. The desired measures and the reform packages are discussed in the subsequent chapters.

CHAPTER – III

A) STATUS OF IMPLEMENTATION OF SECOND STATE
FINANCE COMMISSION'S RECOMMENDATIONS

அருவினை என்ப உளவோ கருவியான்
காலம் அறிந்து செயின்

(எண்:483)

The Second State Finance Commission has recommended 132 main recommendations with 254 sub recommendations totaling to 386 recommendations. The status report as on 31.8.2006 in respect of the above recommendations is as below:

Table III-1

Sl. No.	Chapter	No. of recommendations	Status		
			Accepted by the Government	Under consideration of the Government	Not accepted
1	Chapter IV-Resource Base	72	60	7	5
2	Chapter V-Assessment of civic needs and finances	62	44	15	3
3	Chapter VI-Better Fiscal Management	34	29	5	-
4	Chapter VII-Debt Management	18	13	4	1
5	Chapter VIII-Accountability and Audit	33	26	4	3
6	Chapter IX-Basis of Classification	18	10	7	1
7	Chapter X-Payment of Pension	17	17	-	-
8	Chapter XI-Eleventh Central Finance Commission's Recommendations	7	6	-	1
9	Chapter XII-Issues germane to TOR	89	51	22	16
10	Chapter XIII-Devolution Mechanism	36	26	-	10
	Total	386	282	64	40

Source: Action Taken Report / Government Orders

Out of 386 recommendations, decision has been taken on 322 recommendations and 64 are said to be pending. Even under the accepted / unaccepted recommendations numbering to 322, orders have been issued on 221. Orders are still awaited on 165 recommendations. The following is the break up details:

Table III-2

Sl. No.	Chapter	No. of recommendations	Orders issued				Total	Pending recommendations
			Accepted	Accepted in principle	Accepted with modifications	Not accepted		
1	Chapter IV-Resource Base	72	19	4	5	4	32	40
2	Chapter V-Assessment of civic needs and finances	62	13	6	2	4	25	37
3	Chapter VI-Better Fiscal Management	34	16	-	1	-	17	17
4	Chapter VII-Debt Management	18	7	-	3	1	11	7
5	Chapter VIII-Accountability and Audit	33	19	-	3	3	25	8
6	Chapter IX-Basis of Classification	18	3	-	4	1	8	10
7	Chapter X-Payment of Pension	17	6	1	1	-	8	9
8	Chapter XI-Eleventh Central Finance Commission's Recommendations	7	6	-	-	1	7	0
9	Chapter XII-Issues germane to TOR	89	30	2	4	16	52	37
10	Chapter XIII-Devolution Mechanism	36	14	0	14	8	36	0
	Total	386	133	13	37	38	221	165

Source: Action Taken Report / Government Orders

Analysis of Implementation

2) The Second State Finance Commission has suggested that as like Central Finance Commissions, the recommendations of the State Finance Commission have to be accepted in toto as Provision under Articles 280, 243 (I) and 243 (Y) are similar in nature. It has also quoted the remarks of Union Minister of State for Finance in December 2000 in Parliament that the Eleventh Central Finance Commission's recommendations were sacrosanct and could not be tinkered with while replying to the debate on Eleventh Central Finance Commission's report. Even though most of the recommendations of Second State Finance Commission have been accepted, yet there is laxity in implementing the recommendations by the Administrative Departments of the Secretariat. In fact, on the recommendations relating to the improving of 'Resource Base', casual approach is noticeable. The following table illustrates how it affected the resource base even though the recommendations were said to have been accepted.

Table III-3

Sl. No.	Subject	To whom it related	Stage of the recommendation	Details on orders issued	Reasons for delay in implementation
1 a)	Property Tax Reforms	Urban Local Body	Accepted by Government	No orders	Provisions are available in the suspended Act but amendment has to be incorporated in Tamil Nadu. District Municipalities Act, 1920 and Municipal Corporation Acts
b)	House Tax	Rural Local Body	Accepted by Government	No orders	Requires Act Amendment
c)	Profession Tax for Industries and companies	Urban Local Body/Rural Local Body	Accepted at Secretaries level meeting	No orders	-do-
d)	Profession Tax for Professionals on Karnataka pattern	Urban Local Body/Rural Local Body	Accepted at Secretaries level meeting	No orders from R.D. Department. For urban, orders issued in G.O.Ms.No.59 / MAWS Dept. dt.11.5.2005	Want of detailed study by Commissioner of Municipal Administration for amendment of Act. No direction from RD Secretary
e)	Advertisement Tax	Urban Local Body	Taken over by Government	Resource sharing: 75% to Government 25% to local body could not be transferred as it is a non-tax receipt for which specific	

Sl. No.	Subject	To whom it related	Stage of the recommendation	Details on orders issued	Reasons for delay in implementation
				refund head is needed. Finance Department has to propose necessary refund head based on HOD's proposal. No proposal has been sent to Government from Commissioner of Municipal Administration / Director of Town Panchayats and Chennai Corporation	
f)	Vacant Land Tax -Revision of rates	Urban Local Body	Accepted at Secretaries' level meeting	No Orders	Want of amendment to the present Act
g)	Pilgrim Tax	Urban Local Body	-do-	G.O.Ms.No. 59 /MAWS Dept. Dt.11.5.2005	To incorporate provisions available in the suspended Act in the Tamil Nadu District Municipalities Act, 1920, Commissioner of Municipal Administration has to send proposals for amendment.
h)	Motor Vehicle Tax for Rural Road Development Fund	Rural Local Body	Accepted by Government	G.O.Ms. No.158 RD Dept. dt.14.10.2004	Arrears for 1997-2002 have not been adjusted to local bodies as there is no response from Home Dept.
i)	Tax on Cable TV	Urban Local Body / Rural Local Body	Taken over by Government	The then Finance Minister announced that the tax proceeds should be shared on the basis of the collections reached in 2002-03.	Tax proceeds have not been shared with local bodies for want of amendment to Section 4 (E) and Section 13 of Entertainment Tax Act.
2)	Non-Tax				
a)	D&O License Fees	Rural Local Body	Accepted by Government	G.O.Ms. No. 158 RD Dept.	Not implemented in many districts

Sl. No.	Subject	To whom it related	Stage of the recommendation	Details on orders issued	Reasons for delay in implementation
				dt.14.10.2004	because of the Act provision (Section 159 of Panchayats Act, 1994)
b)	2C Patta trees	Rural Local Body	Accepted by Government	G.O.Ms. No.158 RD Dept. dt.14.10.2004	Not implemented because Highways Department has not received the order.
c)	Fishery rental in PWD tank	Rural Local Body	Accepted at Secretaries level meeting		No orders
d)	Social Forestry receipt	Rural Local Body	Accepted by Government	G.O.Ms.No.158 Rural Development dt.14.4.04	Forest Department requested the Government to review the sharing on 50:50 basis.
e)	Open space regulation charges / Development charges	Urban Local Body	Accepted in Principle	Orders have been issued covering Director of Town and Country Planning areas with conditionalities	In respect of Chennai Metropolitan Area, no orders have been issued
f)	Congestion Tax	Urban Local Body	Accepted at Secretaries level meeting.	No orders	
g)	Library Cess - Collection charges	Rural Local Body / Urban Local Body	Accepted at Secretaries level meeting.	No orders	
h)	Uzhavar Sandhai Land-Fixing Rental charges	Urban Local Body	Accepted at Secretaries level meeting.	No orders	
i)	Housing Board Notification for unimplemented Housing Scheme	Urban Local Body	Accepted at Secretaries level meeting	No orders	At present over-riding powers are available in Tamil Nadu Housing Board Act; Needs amendment
j)	Mines and Minerals – Minor minerals	Rural Local Body / Urban Local Body	Accepted by Government	G.O.Ms.No.284 Fin (FC-IV) Dept dt.12.8.2002	For want of funds under Refund head, adjustment is delayed.
3)	Assigned Revenue				
a)	Entertainment Tax - 90% transfer	Urban Local Body / Rural Local Body	Accepted by Government	G.O.Ms.No. 284 Fin (FCIV) Dept dt.12.8.02 G.O.Ms. No.90 CT Dept.	For want of amendment to TNFC Vol.-I

Sl. No.	Subject	To whom it related	Stage of the recommendation	Details on orders issued	Reasons for delay in implementation
				dt.12.7.02	
	Arrears for the period of 1997-2002	Urban Local Body / Rural Local Body	Accepted in principle	G.O. Ms. No.59 MAWS Dept. dt.11.5.05	Depending upon cash position as revealed in G.O dated 11.5.2005
b)	Surcharge on Stamp Duty - Apportionment among PRIs	Rural Local Body	Accepted by Government	G.O.Ms.No.284 Fin (FC-IV) Dept dt.12.8.02	Want of amendment to Tamil Nadu Panchayats Act
	Adjustment to Urban Local Bodies	Urban Local Body	Accepted by Government	G.O.Ms.No.59 MAWS Dept dt.11.5.2005	Not implemented for want of proposal from Commissioner of Municipal Administration
	Adjustment of dues for 1997-2002	Rural Local Body / Urban Local Body	Accepted at Secretaries level meeting	No orders	During interaction, it was revealed that there were no arrears to be settled.
c)	Local Cess, Local Cess Surcharge – Enhancement	Rural Local Body	Accepted by Government	G.O.Ms.No.284 Fin (FC-IV) Dept dt.12.8.02	Not implemented for want of amendment to Act provision
	Arrears for the period from 1997 to 2002	Rural Local Body	Accepted by Government	-do-	Not implemented in the Districts for want of further orders.

Source: HOD details

3) The Second State Finance Commission has also suggested a Council with representatives of Government on one side and elected representatives on the other side similar to Inter-State Council. In such a Council, the changes envisaged by Government need to be debated and thereafter the Government can certainly make suitable changes to the recommendations. But this has not been given due consideration.

4) In reclassification of Town Panchayats, the Second State Finance Commission had specifically recommended for reclassifying 178 Town Panchayats and for merger of 26 Town Panchayats with nearby Town Panchayats. Besides, it had recommended upgradation of Village Panchayats in Chennai Metro into Town Panchayats / Municipalities and also suggested regrouping of Village Panchayats and Panchayat Unions on population basis. It had also recommended for expanding the Madurai Corporation limit to increase its Tax base. All these measures were suggested for implementation before October, 2001 Elections. But the Government of Tamil Nadu did not take any decision till June, 2004. In June 2004, the Government reclassified 561 Town Panchayats as Special Village Panchayats and 50 Town

Panchayats as Grade III Municipalities. The reclassification in the middle of the tenure has created confusion resulting in the postponement of casual elections to erstwhile Town Panchayats. Now, the present Government have reversed the decision in respect of 561 Special Village Panchayats and restored to their original status i.e. Town Panchayats.

5) Moreover, the Government need to give reasons for not accepting the recommendations in detail since the State Finance Commissions make recommendations after thoroughly debating the issues from all angles. This will be discussed in the Chapter on Monitoring Mechanism.

Table III – 4
Fund Flow under Devolution (Pool B)

(Rupees. in crores)

Sl. No.	Year	Devolution transferred
1	2000-01	867.14
2	2001-02	407.60 *
3	2002-03	1331.44
4	2003-04	1269.67
5	2004-05	1766.73
6	2005-06 (RE)	1715.09
7	2006-07 (RBE)	2111.66

* (Owing to resource crunch, a portion of the devolution has been adjusted in 2002-03)

Source: Budget documents

Fund Flow : Pool A

Table III – 5

(Rupees in crores)

Sl. No.	Year	Surcharge on Stamp Duty	Entertainment Tax	Local Cess	Local Cess Surcharge
1	2000-01	302.19	67.38	6.21	31.05
2	2001-02	382.55	34.06	6.20	30.56
3	2002-03	454.32	81.35	Remission - no adjustment	Remission - no adjustment
4	2003-04	444.52	58.28	Remission - no adjustment	Remission - no adjustment
5	2004-05	350.04	44.15	Figures not available	Figures not available

Source: Figures obtained from HODs.

6) In the District hearing, it has come to the notice that assigned revenue especially Local Cess/Local Cess Surcharge took a long time for adjustment even though the District Collectors have been heading both Revenue and Panchayat Development Wings. In respect of Surcharge on Stamp duty and Entertainment Tax too, there has been considerable delay in adjustment in certain districts.

7) Reserve, Equalisation and Incentive Fund

a) The Second State Finance Commission recommended

3% for Reserve

5% for Equalisation

5% for Incentive Funds from State Finance Commission devolution

b) But the Government have modified the formula as

2% for Reserve Fund of which 1% for Rain Water Harvesting

1% for Collector's Development Fund

6% for Equalisation Fund

5% for Incentive Fund

8) In 2002-03, guidelines have not been issued. Hence the above tied components have been included in the general devolution. From 2003-04, funds have been released according to the guidelines of the Government.

Utilisation of State Finance Commission Devolution

9) The State Finance Commission devolution is primarily spent for salaries, wages, pension and Operation and Maintenance for the existing assets. However, a portion has been spent for asset creation. In Rural Local Bodies, Government discretionary grants are released for scheme purposes, for asset creation and also for better delivery of services. Similarly from Centrally Sponsored Schemes and MPLAD / MLACD Schemes capital works were taken up. In Urban Local Bodies, most of the capital works were taken up by way of loans and few schemes are partially funded from State/Central Schemes and MPLAD / MLACD Schemes.

10) The one constant representation during district hearing from the elected Chairpersons is that they do not have adequate funds to take care of the existing assets or for creation of new assets. Another issue is that the entire devolution is adjusted for debt and non-debt liabilities in respect of Urban Local Bodies even though Second State Finance Commission has recommended 25% for debt and 20% for non-debt liabilities. These and other issues highlighted in the Chapter will be discussed in the relevant Chapters.

B) STATUS OF IMPLEMENTATION OF ELEVENTH CENTRAL FINANCE COMMISSION'S RECOMMENDATIONS

11) Para 5 (iv) of the Terms of Reference specifically requires the Third State Finance Commission to look into the status of implementation of the recommendations of Eleventh Central Finance Commission appointed by Central Government and Second State Finance Commission constituted by State Government and the utilisation by the local bodies of the resources transferred.

Salient features of Eleventh Central Finance Commission's Recommendations relating to grants for Local Bodies are summarized below

12 (i) The Eleventh Central Finance Commission recommended a portion of its allotment for creation of data base for both Rural Local Bodies / Urban Local Bodies. It also recommended special allocation for the preparation of accounts for Panchayat Raj Institutions where regular staff were not available at a fixed rate of Rs.4000/- per annum for contracting but suggested flexibility in fixing the rates depending on the situation by meeting the extra expenditure if any from the Central devolution set apart for Panchayat Raj Institutions.

(ii) It recommended that Comptroller and Auditor General should prescribe the formats for preparation of budget and for keeping of accounts for the local bodies which should be amenable to computerisation.

(iii) It also recommended that 0.5% of the total expenditure incurred by the local bodies should be placed at Comptroller and Auditor General of India for this purpose.

(iv) It also recommended for levy of user charges on all Government properties, whether they belong to Central or State Governments and suggested that it should be regulated by suitable legislation.

(v) It recommended that the grants should be utilised for the maintenance of civic services and that the grants should be given to the Panchayats and Urban Local Bodies which have a primary responsibility in this sphere.

Implementation and utilisation of Eleventh Central Finance Commission grants

13 a) The Eleventh Central Finance Commission recommended grants to local bodies in Tamil Nadu as per the break up shown below:

		Rs. in lakhs
Rural Local Bodies	-	9322.36 per annum
Urban Local Bodies	-	3867.34 per annum

Out of this, Rs.519.12 lakhs per annum had been earmarked for maintenance of accounts in Rural Local Bodies. In respect of Urban Local Bodies, no allocation has been earmarked as they have accounting wing. For creation of data base, allocation was made as noted below from out of the total share.

Rural Local Bodies	-	Rs.1037.51 lakhs for the whole award period i.e 2000-05
Urban Local Bodies	-	Rs.59.35 lakhs for the whole award period i.e 2000-05

But the Government of India released funds much below the committed amount. The following are the break up for the entire award period:

Table III – 6

(Rupees. in lakhs)

Sl. No.	Local Bodies	Total entitlement	Amount released by GOI	Difference
1	Rural Local Bodies	46611.80	44016.20	2595.60
2	Urban Local Bodies	19336.70	19277.35	59.35

The details are available in Annexure III-1

The difference in amount represents the sum due to maintenance of accounts in respect of Rural Local Bodies and the difference in Urban Local Bodies relates to the sum earmarked for database. The State Government had already released the said amount to local bodies in anticipation of Government of India's release. But so far the amount has not been released by the Government of India to the State Government.

b) Utilisation of Eleventh Central Finance Commission grants

i) Rural Local Bodies

a) Database

The allocated amount of Rs.1037.51 lakhs by Eleventh Central Finance Commission together with Rs.259.37 lakhs of matching contribution provided by the Local Bodies totaling to Rs.1296.88 lakhs had been spent for the purchase of computers, modem, telephone connections and furniture to cover certain Panchayats in the first phase. The tier wise break up is as below:

Table III – 7

(Rupees in lakhs)

Sl. No.	Tiers of Rural Local Bodies	Purchase of computers, etc.	Training	Matching Contribution	Total
1	Village Panchayats	779.44	39.21	204.66	1023.31
2	Panchayat Unions	217.78	1.08	54.71	273.58
	Total	997.22	40.29	259.37	1296.88

b) Maintenance of Accounts

The entire amount of Rs.2595.60 lakhs earmarked for the whole award period for maintenance of accounts has been spent in Village Panchayats only for the purchase of computers etc so as to cover second phase of computerisation in view of the fact that trained accounting personnel are already available at Panchayat Union level and computerisation is the only option that is left with for maintenance of accounts in the format devised by the Comptroller and Auditor General of India.

ii) Urban Local Bodies

Database

There is no provision for maintenance of accounts. But the sum of Rs.59.35 lakhs earmarked for database had been fully allotted to Town Panchayats and Grade III Municipalities. The following are the breakup:

WAN connectivity for Grade III Municipalities	Rs.42.70 lakhs
Broadband facility for Town Panchayats	Rs.16.65 lakhs

Maintenance of civic services

Rural Local Bodies

14 (i) The amount allocated for maintenance of civic services had been utilised for the following core civic sectors viz Roads, Water Supply, Streetlights and Sanitation. Eventhough sector wise allocations are not available, tier-wise releases are furnished below:

	Rs. in lakhs
Village Panchayats -	23638.28
Panchayat Unions -	18454.91

The Eleventh Central Finance Commission did not prescribe any matching contribution for distribution of grants to local bodies for maintenance of civic services. But the Government of India on its own prescribed matching contribution for the release of Central grants for local bodies and the State Government / local bodies had to obey the directive. Accordingly, the Rural Local Bodies provided matching contribution of Rs.10744.68 lakhs for maintenance of civic services.

Urban Local Bodies:

14 (ii) The Eleventh Central Finance Commission grants were spent for core civic services viz Roads, Water supply, Streetlights, Sanitation and Solid Waste Management. As the Urban Local Bodies have been moved over to Accrual Accounting System, the amount spent towards maintenance under each sector includes its own revenue, State devolution, and Eleventh Central Finance Commission grants. Hence, the tier-wise utilisation are furnished below:

Table III – 8

(Rupees in lakhs)

Sl. No.	Local Body	Amount
1	Municipal Corporations	5975.98
2	Municipalities (upto Grade II)	6554.30
3	Municipalities (Grade III)	267.50
4	Town Panchayats	6479.57
	Total	19277.35*

* Excludes matching contribution provided by ULBs at 50%

Here also, Urban Local Bodies on the basis of the Government of India's directive provided matching contribution of Rs.9638.675 lakhs for availing the Central grants.

Adoption of Uniform Accounts formats

15) The Comptroller and Auditor General have recently prescribed the Standard Accounting formats for Panchayat Raj Institutions. In respect of Urban Local Bodies, Comptroller and Auditor General has not prescribed any format as they already moved over to Accrual Accounting System.

Audit by Comptroller and Auditor General

16) The recommendation for the audit by Comptroller and Auditor General and setting apart of 0.5% of the total expenditure has not been considered, as the Director of Local Fund Audit continues to conduct audit of all local bodies except Village Panchayats. In respect of Village Panchayats, internal audit is done by Deputy Block Development Officer (Audit) and test audit is conducted by Director of Local Fund Audit. The Panchayat Raj Institutions have been exempted from payment of audit fees but Urban Local Bodies have been paying audit fees to Director of Local Fund Audit. Also, Comptroller and Auditor General has been conducting audit as per Section 14 of Comptroller and Auditor General Act without any contribution from the local bodies. Meanwhile, the Comptroller and Auditor General has been addressed by the State Government for revising the limit of Rs.25 lakhs to Rs.1 crore as it was fixed long ago.

User Charges for Central Government properties

17) As instructed by Government of India, Ministry of Finance, New Delhi, Urban Local Bodies have been advised to levy user charges on Central Government properties; but in a related case, the Supreme Court of India has struck down the Government of India's notification on the ground that the levy of user charge amounts to tax and that it cannot be levied, unless Article 285 of the Constitution of India is amended for levy of such user charge. Hence, the recommendation is yet to be implemented.

18) After assessing the release of funds and the utilisation, Third State Finance Commission recommends the following:

- i ***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 above.***
- ii ***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

அற்கா இயல்பிற்றுச் செல்வம் அதுபெற்றால்
அற்குப ஆங்கே செயல்

(எண்:333)

The Twelfth Central Finance Commission submitted its report to the Central Government for the award period 2005-10 and the Central Government also accepted the recommendations. The action taken report on the Twelfth Central Finance Commission and the guidelines governing the distribution have also been communicated by the Ministry of Finance. In this Chapter, the issues relating to the local bodies are focussed. The Twelfth Central Finance Commission has allocated to Tamil Nadu a sum of Rs.870 crores for Panchayat Raj Institutions and Rs.572 crores for Urban Local Bodies for the award period of 2005-2010. In actual terms, the Panchayat Raj Institutions will get Rs.174 crores per annum and Urban Local Bodies will get Rs.114.40 crores per annum.

Guidelines for allocations

2) The Central Finance Commission has indicted that the grants allocated to local bodies are untied except that priority should be given to expenditure on the Operation and Maintenance relating to water supply and sanitation in respect of the Panchayat Raj Institutions and 50% of the grants allocated to Urban Local Bodies should be spent for Solid Waste Management. Besides allocation has been suggested for maintenance of accounts and creation of database within the grants recommended. Unlike Eleventh Central Finance Commission, no rigidity has been imposed for outsourcing of maintenance of accounts or for setting apart any specific amount for creation of data base. The guidelines also reiterated the same conditions.

3) In the Twelfth Central Finance Commission's report there is mention about priority in spending on maintenance of water supply and sanitation. In this case also, the Village Panchayats alone are performing the functions. Hence, the allocation meant for Panchayat Raj Institutions have to be necessarily set apart for Village Panchayats. The Third State Finance Commission has to suggest norms for utilisation of Central Finance Commission grants to local bodies. As the award period of Twelfth Central Finance Commission has already commenced from 2005-2006, the Government have released the grants. The Government have not sought any opinion from Third State Finance Commission on the Central grants. Third State Finance Commission would offer its views and suggestions for

utilisation of Central grants to local bodies. The norms for distribution of Twelfth Central Finance Commission grants are discussed below.

4) The State High Level Committee on local bodies have prescribed conditions for distribution of Central grants intended for local bodies. The main conditionalities are:

PRIs

- i) Distribution of grants at 80:20 for Village Panchayats and Panchayat Unions respectively.
- ii) Electricity charges may be met at the rate of Rs.1.50 per unit for financially weak Village Panchayats and 0.50 paise per unit for other Village Panchayats.

In the above back ground, the Third State Finance Commission analysed the issues as in the following lines:

a) Panchayat Raj Institutions

The Third State Finance Commission feels that priority should be given to expenditure on the Operation and Maintenance costs of water supply and sanitation. This will facilitate Panchayats to take over the schemes and operate them. The local body oriented schemes are already under their control. Similarly public conveniences which are under the control of the local bodies are also maintained. But in combined water supply schemes the maintenance is with Tamilnadu Water Supply and Drainage Board, since it covers both urban and rural local bodies. But the water charges for the supply made are paid by Village Panchayats.

Also, most of the civic services are attended to by Village Panchayats except a few by Panchayat Unions. Therefore, a major share has to go to Village Panchayats. Last time when Eleventh Central Finance Commission grants were released, 55% went to Village Panchayats and 45% to Panchayat Unions. At present Village Panchayats are looking after Roads, Water supply, Sanitation, Streetlights and Garbage clearance of the civic services. For Panchayat Unions, school buildings, roads and primary health centres are the area of core civic services. On the above basis, the Central grants may be apportioned at 80:20 for Village Panchayats and Panchayat Unions respectively as already decided by High Level Committee. But before fixing sectoral allocation what constitutes Operation and Maintenance needs to be explained. Normally, operation and maintenance means the ingredients required for making it workable. In this sense, replacement of spare parts, fuel, electricity and water charges paid by Village Panchayats under Combined Water Supply Scheme are covered. Hence whatever is spent for water supply can be met from Twelfth Central Finance Commission grants. User charges are already collected at Rs.30/- per house connection. For this purpose, 50% of the allocated amount may be reserved for water supply. Out of the balance 50%, 45% may be allocated to

maintenance of streetlights, roads and garbage clearance and the balance 5% may be allocated for data base. As aforesaid, maintenance of streetlights includes replacement of spare parts, electricity charges and the labour charges paid for replacement. Hence, the balance amount may be apportioned on District wise population basis. The Districts thereafter shall distribute 75% grants to the financially poor Village Panchayats based on per capita revenue arrived at block level and it should cover upto the block average per capita of Village Panchayats. Those who are above the block average per capita the balance 25% may be distributed on population basis. For Panchayat Unions, the share recommended i.e 20% by Third State Finance Commission, may be spent on maintenance of roads, school buildings and primary health centres.

b) Urban Local Bodies:

The High Level Committee on local bodies recommended distribution of grants to Urban Local Bodies as noted below:

i) Municipalities / Municipal Corporations:

After setting apart 50% for Solid Waste Management, the balance 50% shall be distributed at 25% for road and storm water drains and 25% for data base and electricity charges.

ii) Special Village Panchayats

For Special Village Panchayats now Town Panchayats, the distribution has been suggested as at below:

Solid waste management 50%, drainage and sewerage 20% roads and data base 20% and electricity charges 10%.

5) The Third State Finance Commission analysed the issues after studying the Twelfth Central Finance Commission's report and High Level Committee's recommendations. The condition attached by Central Finance Commission is that 50% of the grants shall be earmarked for solid waste management through public private partnership. Moreover it has been stated in the report that the cost of these activities whether carried out in house or out sourced can be met from the grants. From this, it is inferred that the cost of personnel involved in the activities can be met provided they have the infrastructure. For those who lack man power, outsourcing can be thought of. But no grants can be given to Chennai Corporation. Hence the funds earmarked for solid waste management may have to be given to 152 Municipalities, 561 Town Panchayats and 5 Municipal Corporations. The Twelfth Central Finance Commission in its report has suggested that the State Governments may require the Municipalities having 1,00,000 population as per 2001 Census report to prepare a comprehensive scheme including composting and waste to energy programmes to be

undertaken in the private sector for appropriate funding from the grants in aid recommended by them. In the above context, it has become necessary to make recommendations on this issue. The Commission feels that the amount set apart for solid waste management shall be prioritised by covering bigger Municipalities at the first instance and thereafter to other Municipalities.

6) The balance 50% of the grants is untied. But it has to be utilised for Operation and Maintenance cost of civic services. As already identified, streetlights, water supply, roads and sanitation may be the other areas. For them, Operation and Maintenance means replacement of spares, fuel, electricity and the water charges payable to Tamil Nadu Water Supply and Drainage Board. As such, it is suggested that the grants may be utilised for the above purpose. The sectoral allocation may be street lights – 25% water supply – 25%. The present guidelines prescribing 75% for distribution on population basis and 25% for fiscal collection basis may not be relevant for allocating central grants as it is not incentive grant.

7) In the light of the above analysis, the Third State Finance Commission recommends the following:

- i ***The sectoral allocation suggested for Panchayat Raj Institutions for each core civic service for utilisation of Central grants outlined in para 4 (a) shall be followed for the award period of 2005-10.***
- ii ***The funds set apart for data base shall be utilised for providing computer hardwares and connectivity for obtaining data on various levels of services.***
- iii ***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.***
- iv ***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) above. 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

பொறையொருங்கு மேல்வருங்கால் தாங்கி இறைவற்கு
இறையொருங்கு நேர்வது நாடு
(எண்:733)

URBAL LOCAL BODIES

TAX REVENUE

Para 5 (iii) of Terms of Reference requires that Third State Finance Commission shall have regard to revenue resources of the local bodies for the five years commencing from 1st April 2007 on the basis of level of taxation reached in 2004-2005 and the expected increase in revenue keeping in mind the potential for revision of rates of tax and non-tax revenue. Para 2 (e) of Terms of Reference requires the Commission to suggest possible new avenues for tapping resources in rural and urban local bodies keeping in mind local body tax structure in other States, particularly the levy of user charges to attain the goals of covering operation and maintenance costs after taking into account the capital cost for each item of service.

2) The additional Term of Reference issued to Third State Finance Commission requires the Third State Finance Commission to "consider the present system of Property Tax assessment and its revision in Urban Local Bodies in the State and recommend alternate mechanisms for assessment and revision of Property Tax, if necessary, considering similar systems and innovations introduced in other States so that the Urban Local Bodies can get a sustainable and steady source of revenues to meet their statutory provisions regarding the powers of Urban Local Bodies in effecting Property Tax revisions and the modalities for such revisions and recommend changes in these, where felt to be necessary for achieving this objective".

3) The local bodies under different tiers have been vested with powers for local taxation devolved over the years under various circumstances. The local bodies enjoyed such powers even before the advent of British rule. The principle to devolve taxation powers to local bodies should envisage the taxes over which the local governments should have full control in terms of determination of tax rate, assessment, collection and appropriation of the proceeds. It should depend on the suitability to meet the needs of core civic services. Moreover, the tax base should be immobile to allow the local authorities some freedom to vary the tax rates without the tax-base vanishing. The tax yield should be adequate, buoyant, stable and predictable. Of the tax base, property tax is the major source of income to Urban Local Bodies from own tax revenue.

A) Property Tax Reforms

Background

4) The importance of Property Tax is indisputable in the municipal revenues more significantly in the municipal tax revenues, (which accounts for about 30-40%). Revenue from property tax is the single largest source in local bodies. However, various studies have established the fact that the property tax is not being exploited to its full potential. This is due to several factors, namely

- Inexact/improper valuation
- Inequitable rate structures
- Lavish exemption and rebate and
- Absence of regular updating of assessments (Tax Mapping)
- It is politically unpopular and for that reason the effective tax rates tend to be kept low.

Several States and urban local bodies have realised these drawbacks and have initiated reforms to rationalise and optimise the revenue from property tax.

Current System of Taxation in Tamil Nadu

5 (a) The First State Finance Commission of Tamil Nadu had recommended that whole city be divided into six zones for the purpose of Property Tax and the revision frequency to be brought down to 3 years from 5 years. However, Government of Tamil Nadu has adopted the system with some modifications such as retaining the revision frequency to 5 years, etc.

(b) While Corporation Acts prescribe a minimum and maximum rate of taxation, the Municipal Act which is also applicable to Town Panchayats has no such minimum or maximum rate. The Council is free to fix the rate.

(c) The other salient feature of the Tamil Nadu is that the basic plinth area rate for rental value has been fixed for each zone, this rate is arrived for residential holdings with RCC roof. The unit rates for industrial holdings and commercial holdings are charged twice and thrice the residential rate respectively.

(d) For the purpose of classifying the town into different zones, the entire local body jurisdiction has been classified into three or four zones / categories based on the income, real estate characteristics, service level etc., reflected on the prevailing rental value viz:

- Zone A: Affluent Area – higher rate
- Zone B: Middle Income Area – middle rate
- Zone C: Low Income Area – lower rate

It needs mention that within a given ward/division one or more zones could exist.

(e) The Annual Rental Value (ARV) for the building is arrived by multiplying the basic rate for unit area of zone and the built-up area.

Based on the building type following discount is provided over the net ARV.

Table V – 1

Sl. No.	Building Type	Discount on Net ARV
1	Owner Occupied Residence	30%
2	Asbestos Sheet Roof	25%
3	Thatched Roof	50%

The ARV arrived after accounting for the above discount is the average ARV and the tax payable is arrived by multiplying the tax rate and the average ARV.

Proposed System of Property Tax as per New Urban Local Bodies Act

6) In order to overcome the problem of plinth area rate and tax rate, Government of Tamil Nadu proposed to introduce basic property tax rate (Section 83 of the Tamil Nadu Urban Local Bodies Act, 1998 which is now in suspended animation) which is worked out based on

- existing property tax;
- value of the building and land and
- the use of the building

The local body could fix an additional basic tax for every building with reference to its location, type of construction etc; however the basic tax rate needs to be within the minimum and maximum limits prescribed by Government of Tamil Nadu. The system which had to be given effect in October 2003 was not implemented owing to the suspension of the Act and the rules framed there under.

ii) The Second State Finance Commission which studied the property tax base in depth made 16 recommendations to bring about reforms and also to net in sizeable revenue. But the Government have not passed any orders on the recommendations even though decisions have been taken. But the Government reiterated its position of retaining the periodicity of revision of property tax as at present. Even this has not been implemented when Urban Local Bodies requested the Government for permission to revise the property tax from October 2003. (The previous revision was done on October 1st 1998). This has deprived the Urban Local Bodies from mobilising resources for their needs.

iii) Even under present taxation, there are under assessments and non-assessments. But from the details made available, it may be in the range of 15% to 20% of the total property stock. In many Municipalities, property stock has touched the nadir and there is no scope for elasticity except by way of revision. But the revision effected in 1998 did create a

wedge between old assesseees and new assesseees i.e pre 1998 assesseees and post 1998 assesseees because of the ceiling introduced on the old assesseees.

iv) The combined Urban Local Bodies Act has many positive features on taxation. But the Act was suspended ostensibly for administrative problems. But the provisions relating to taxation could have been incorporated in the existing Acts but the Governments in power did not attempt thereby forcing the local bodies to kneel before the State Government for revision of taxes etc. Under the Suspended Act, the Government shall prescribe the minimum and maximum rates of

- basic Property tax for the building or land
- additional basic Property tax for every building with reference to its location
- additional basic Property tax for every building with reference to its type of construction
- the concession with regard to age of the building.

Besides the above, the Commissioner has been empowered to revise the Property tax once in 5 years in accordance with Act provisions. Also the Suspended Act empowers levy of water tax and sewerage tax in addition to property tax.

7) Kerala Municipalities Act, 1994 has all the features of our tax system as enshrined in the suspended Tamil Nadu Urban Local Bodies Act, 1998 except the rate of tax and periodicity. In Section 233 of Kerala Municipalities Act the aggregate percentage of the annual value of buildings or lands shall not be less than 6 percent and more than 20% in the case of a Town Panchayat, 9% and 25% in the case of a Municipal Council and 12% and 25% in the case of a Municipal Corporation. The general revision of tax as per Section 238 of the above Act shall be once in every 4 years and the half yearly tax shall be payable by the owner.

8) In the interaction with elected representatives, there was near unanimity on removing the legal impediments which affect the revision of property tax quinquennially. As the major source of own revenue comes from property tax, it is but natural that such impediments should be removed. But what is surprising is that the Municipal Councils were empowered to levy and revise the tax quinquennially through Act Amendment (65/97) and it was notified on 24.4.98. But it was kept in abeyance by a GO dated 2.9.98. It is unfair to keep an amended provision in abeyance by an executive order for almost 8 years.

9) Further, the elected representatives and officials pleaded for field inspection to bring to light the unassessed and under assessed properties. Moreover, it has been brought to the notice that there is lack of coordination between planning permission wing and revenue wing. The revenue wing which should conduct street survey on the progress of the building

works is in a quandry. In fact, the software modules developed by Municipal Administration did not have a verification mechanism between the building licences issued for construction of buildings and the property assessment to be made. A suggestion has also been made to link it with EB service connections.

10) In the interaction with Chennai Corporation Commissioner and other officials in the Brain Storming Session, it has been suggested that Geographical Information System will be of use to detect the unassessed properties. In Trichy Municipal Corporation it was revealed that Remote Sensing was used to detect the unassessed properties. It was also revealed that in smaller urban areas, field visits alone could detect such omissions. It was also suggested that all the exercises relating to tax mapping could be entrusted to private agency on a periodical basis to arrest the leakage in revenue.

11) In Karnataka GIS-based property tax is being introduced. The project envisages gathering authentic information for use in collection of the property tax. This would create a map-linked data base to enable systematic urban area management, formulate a basic data base that would be useful for planning the growth of the urban areas, develop an interface with the public to help them access information, ensure availability of data for all Government Departments and make base maps of the city that would incorporate all properties and roads. The project which will be under the banner of e-governance Foundation will cost Rs.7 crores and is expected to take Property Tax collection by storm. Infosys will provide the software for GIS free of cost.

12) In our State, Panruti Municipality has set an example by taking the Tax collection to the door step of the residents through e-mode. Under the system in operation, mobile van fitted with computer system is going round the town for collection of property tax, other taxes and user charges. The assesseees are also informed of the dues then and there. Counter remittance facility is also available at Municipality. Besides, assesseees can access information through Mobile phone and Mobile SMS. The Municipality claims near total collection except the disputed cases in Courts. By adopting total computerisation, the Municipality has removed the gaps between the citizens and the employees.

13) Under the World Bank assisted TNUDP II project, the entire e-governance tasks were developed and implemented successfully in Trichy Municipal Corporation with the user friendly and standardized modules and the same was inaugurated by the then Hon'ble Chief Minister of Tamil Nadu in March 2003, covering vital areas of tax and non tax collection.

14) As per the Act, all buildings are subject to property tax except Central Government properties and exempted properties. But the exempted properties outnumber the assessed properties in certain cases. Added to the agony that properties which come up in unapproved layout and poromboke lands which are availing all the civic amenities are not

subjected to property tax; this is dealt with separately in the Chapter. But the service charge concept introduced in the suspended Tamil Nadu Urban Local Bodies Act, 1998 has not been incorporated in the existing Act resulting in loss of revenue income.

Central Government Properties

15) The Eleventh Central Finance Commission recommended for levying of service charges on Central Government properties in the absence of Property Tax. The Government of India through Ministry of Finance issued a circular based on the recommendation. But the levy was challenged by Senior Superintendent of Post offices Amritsar, Punjab in the Supreme Court. The Supreme Court in its order in civil appeal 6532/2002 dated 21.11.2004 quashed the levy of service charges by insisting on amending the Constitutional provisions under Article 285 of the Constitution of India. In the above scenario, levying of service charges on Central Government properties is not possible. But the Central Public Undertakings can very well be taxed. This is clear from a reading of Article 285 of the Constitution. As such, Telephones Department which has become BSNL, VSNL can be taxed. But in most of the towns, the BSNL is not paying the tax or service charges. The Commission feels that it is time for the State Government to take up the issue with the Ministry of Urban Development, New Delhi for amending the Constitutional provisions.

16) At present, all State Government properties are subjected to property tax. But all the Educational Institutions have been exempted from Property Tax. But giving exemption to Government / Government owned Educational Institutions and denying the same to other private institutions may not be fair. Hence, all educational Institutions except elementary education schools may be subjected to Property Tax to help Urban Local Bodies to realise sizeable income.

Minimum Property Tax

17) In certain Municipal Corporations like Tirunelveli, Salem and Trichy there are some assessments which are in the range of Rs.10/- owing to the merger of certain Village Panchayats and Town Panchayats with the Corporation. Similarly in Town Panchayats there are assessments which are below Rs.10/-. In Municipalities too there are some assessments in the above range. The Second State Finance Commission which studied the issue has recommended minimum levy of Property tax at Rs.25/- per half-year in Town Panchayats. But no orders have been issued by the Government. In Kerala, Section 233 (5) of Kerala Municipalities Act prescribes the minimum property tax to be given for a half year shall be Rs.25/- in the case of Town Panchayat, Municipal Council and Rs.50/- in the case of Municipal Corporation. The Commission feels that a minimum property tax as prescribed by Kerala is needed considering the civic amenities provided by the Municipality.

Irrecoverable Taxes

18) At present taxes which remain unrecovered for 12 half years (6 years) are time-barred. The Second State Finance Commission has recommended that Property Tax being the first charge on property cannot be considered under time-barred except under Limitation Act (i.e 12 years). While the lacuna in the Act needs to be remedied, the enforcing machinery should also be taken to task for not realising the tax in time or resort to legal action to make it recoverable before the period.

19) Another suggestion emerged during the interaction with the elected representatives is that the cell tower put up by cell phone companies are not being taxed as there is no provision at present. They wanted to levy property tax based on the plinth area of the land and the superstructure put up on it. Further, some of the possible reforms suggested are:

Indexation

20) In any country with significant inflation, existing valuation rapidly changes, becomes obsolete and it is generally observed that revision is not undertaken as per the schedule due to various factors thus buoyancy of tax revenues cannot be maintained.

- i Though general revision can't be fully eliminated, as the character of the town keeps changing, thus affecting the rental/property values, to make the tax revenues buoyant and to overcome the delay in general revision an alternative could be indexing the basic rate annually with some acceptable and reliable index like inflation rate, consumer price index or the whole sale price index etc.
- ii It is an accepted fact that properties price/rentals increases over time and it is logical to index the ARV to certain accepted index annually and correction to ARV could be made when general revision is undertaken. In order to overcome the problem of general revision every five years, existing rates could be indexed w.r.t to certain indices like
 - *Increase in Guide Line Value (GLR)*: The GLR is fixed by Registration Department every year; the increase could be adopted for indexing the basic tax rate (This is proposed to be implemented in Uttar Pradesh)
 - *General Inflation*: The general inflation rate could be adopted for indexing the basic rates (In Brazil, Municipalities are permitted to make increases in the assessed values providing that they do not exceed the general inflation rate).

It needs mention that the First State Finance Commission of Tamil Nadu has recommended that inflation rate could be adopted to bench mark the revision in base rates of ARV. The

report recommends compounding the base rate by percentage equivalent to inflation rate and allow a 10% rebate for depreciation for the 5 year period. e.g. If the average inflation during the 5 year period was 8% then unit rate needs to be revised by about $(1.08)^5$ 47% but providing about 10% for depreciation, minimum revision needs to be about 42%.

Other Initiatives

21) i) Progressive Tax (Stepped rate): Rate of Property tax should be made progressive (based on ARV-as in Ahmedabad and Pune Municipal Corporation). Where the tax rate is progressive i.e. lower ARV properties have lower tax rate and is progressive as the ARV increases and similarly the tax rate is progressive with respect to building use.

ii) Computer Assisted Mass Appraisal (CAMA): As in Singapore, the properties may be assessed using CAMA.

iii) Local bodies should be allowed to use the provisions of Revenue Recovery Act in case of perennial default.

iv) Basic tax rate to be linked to budget needs and proportionate increase to be attempted as an annual budget exercise.

v) Property tax being the first charge on property should be excluded from the purview of 'time barred' for taking legal action for collection etc.

vi) An external 'tax squad' be formed to check omission in assessments and gross under-assessments, with appropriate powers to set right the discrepancies.

vii) Incentive to assesseees for advance payment and 50% penalty for belated payment can be considered.

viii) Quinquennial revision should not be postponed for any reason and it should become mandatory.

ix) The self assessment system for property tax assessments being followed in Bangalore City Municipal Corporation which is very comprehensive and transparent can be adopted in Tamil Nadu with appropriate modifications to suit all types of Urban Local Bodies.

x) Property tax, being a significant resource base should be treated as a special resource base, and state level award for best performance in the system administration for Local Body and cash and recognition incentive for employees may be introduced.

xi) Information Technology development may be availed fully and tax administration may be computerised and gradually made on line, for improved access on tax information to citizens.

22) The following are the property stock pattern and the yield from it for the years from 2000-2005.

Table V – 2
Number of assessees

Sl. No.	Type	(In numbers)		
		Corporations	Municipalities	Town Panchayats
1	Residential	1024759	1873670	1650935
2	Commercial	121507	362134	214924
3	Industrial	54214	50033	17862
4	Others	57216	257085	39190
5	Exempted	7551	24811	-
	Total	1265247	2567733	1922911

Table V – 3
Property Tax Receipts

Local Body	Details	(Rupees in Crores)				
		2000-01	2001-02	2002-03	2003-04	2004-05
Town Panchayats	Property Tax	35.73	54.29	39.79	40.31	51.20
	Total Own Income	110.16	181.05	141.99	147.54	186.66
	Percentage of Property Tax in Own Income	32.4	29.9	28.0	27.3	27.4
Municipalities	Property Tax	159.24	173.24	181.33	185.81	199.28
	Total Own Income	338.03	365.14	395.49	418.41	446.15
	Percentage of Property Tax in Own Income	47.11	47.44	45.85	44.41	44.67
Municipal Corporations	Property Tax	211	250	253	302	323
	Total Own Income	388	409	419	501	538
	Percentage of Property Tax in Own Income	54%	61%	60%	60%	60%

23) After analysing the issues from various angles, the Third State Finance Commission recommends the following:

- i ***The impediments in Municipalities Act and Corporations Acts which come in the way of Quinquennial revision shall be removed by amending the Act.***
- ii ***The zonal rates for each Urban Local Body by fixing the minimum and maximum may be approved by the Government after obtaining council resolution.***

- iii** *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.*
- iv** *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.*
- v** *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.*
- vi** *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.*
- vii** *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.*
- viii** *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.*
- ix** *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.*
- x** *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.

- xi** *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.*
- xii** *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.*
- xiii** *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.*
- xiv** *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.*
- xv** *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.*
- xvi** *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.*
- xvii** *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.*

- xviii ***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.***
- xix ***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.***
- xx ***Taxing of properties in unapproved layouts has been dealt with separately.***

B) Profession Tax

24) The levy of Profession Tax draws power from Article 276 of the Constitution of India read with entry 60 of List II of Schedule VII. In Tamil Nadu, prior to 1992, the local bodies were administering the collection based on the powers vested in the Municipal Acts / Panchayats Act. It was based on income. The maximum and minimum tax leviable based on the income of the individuals / establishments was indicated in the Act itself. But not much head-way was made because of the poor approach by the collecting machinery. This was the case till 1988, when the local bodies were without any elected representatives. In 1988, the Government of India by way of 60th Constitutional Amendment Act enhanced the ceiling on Profession Tax from Rs.250 to Rs.2500. This emboldened the State to enact a separate consolidated Act for improving the resources of local bodies by name The Tamil Nadu Tax on Professions, Trade, Callings and Employment Act, 1992. Under the above Act, dealers registered under the General Sales Tax Act, 1959 were liable to pay Profession Tax based on their annual gross turn over even though it underwent many revisions between 1992-1995. For those who are in employment, the half-yearly income has been taken as the basis for levy of Profession Tax. As the collection of Profession Tax from the salaried class was by way of source deduction, collection went up considerably. But compliance from traders and business community was poor.

Profession Tax on Traders as on 1.4.1995

25) The rates of tax for dealers registered under Tamil Nadu Government Sales Tax Act, 1959 and whose annual gross turnover of all sales or all purchases are

Table V - 4

(In Rupees)

Sl. No.		Minimum	Maximum
1.	Less than Rs.1 lakh	30	60
2.	Rs.1 lakh or more but less than Rs.2 lakhs	60	120
3.	Rs.2 lakhs or more but less than Rs.3 lakhs	120	240
4.	Rs.3 lakhs or more but less than Rs.5 lakhs	240	300
5.	Rs.5 lakhs or more but less than Rs.7.50 lakhs	300	360
6.	Rs.7.50 lakhs or more but less than Rs.10 lakhs	360	540
7.	Rs.10 lakhs or more but less than Rs.15 lakhs	540	600
8.	Rs.15 lakhs or more but less than Rs.20 lakhs	600	690
9.	Rs.20 lakhs or more	690	720

Besides, it also fixed the rate of levy on professionals and self-employed persons by prescribing the years of practice as the basis as in Karnataka and other States. Even though it did not fetch much money because of the failure of the collective machinery, it did try to fix a criteria for assessment and collection.

26) The First State Finance Commission which studied the issue in-depth suggested for inclusion of some more trades, companies and industries in the Tamil Nadu Tax on Professions, Trade, Callings and Employment Act. It also recommended that the Commercial Taxes Department may be made responsible to furnish the list of traders and their turnover to the local bodies. Unfortunately, in 1998, the Government of Tamil Nadu cancelled the entire Act and vested powers on the local bodies to collect the tax based on income for all by prescribing the maximum at Rs.600/- thereby reducing the maximum rate of tax which was at the range of Rs.900-1000. No compensation for the loss of income from this source was given to the local bodies. In the new Act enacted in 1998 (Act 59/1998) the tax shall be based on half yearly income and that the traders, companies and industries have been asked to file returns. For non-filing of return by the traders and companies, Executive Authority himself shall prepare and levy the rate. The fact is that most of them have not filed and in the absence of distraint proceedings or invoking of Revenue Recovery Act, the collection could not be made from the above categories.

27) The Second State Finance Commission which studied the issue in the back drop of the new enactment has made the following recommendations:

While pleading for continued exercise of powers by local bodies, it recommended for revision once in 3 years by revising the income slabs and tax rates. It also recommended for levying the maximum rate of tax of Rs.2500/- P.A on industries and companies registered under Industrial Relations Act and under Companies Act, 1956. In respect of traders, it recommended for entrusting the work to Commercial Taxes Department which will assess the derived income and intimate the same to local bodies for collection for which service charge at 5% of the total collection has been suggested. Besides, for self employed professionals, the Second State Finance Commission recommended for Karnataka pattern of taxation based on service and experience.

28) The Government at the Secretaries' level meeting accepted the recommendations of taxing the industries and companies at the maximum rate of Rs.2500/- P.A but did not accept the recommendations on revision of rates once in 3 years. It stuck to the rule provision of hiking as contemplated in the Act/Rules. On traders, the Government did not accept the Commission's recommendation on the ground that traders coming under GST were very few. On self employed professionals, the levy on Karnataka pattern was accepted. For accepted recommendation, no Government orders were issued. In the interaction with District Collectors, District officials and Municipal authorities, it was brought to our notice that traders, professionals and self-employed persons could not be brought into tax net because of the absence of stringent provisions. Moreover owing to the lack of man power, the tax potential from the source could not be tapped.

The income derived from this source is furnished below from 2000-2005:

Table V – 5
Income from Profession Tax

(Rupees in crores)

Sl. No.	Year	Municipal Corporations	Municipalities	Town Panchayats	Village Panchayats
1	2000-01	38.29	22.54	12.10	N.A
2	2001-02	37.38	24.90	18.73	N.A
3	2002-03	38.19	25.59	12.74	17.55
4	2003-04	39.02	26.27	14.51	23.08
5	2004-05	60.51	29.96	17.48	36.45

N.A: Not Available.

The increase noticed in 2001-02 in Town Panchayats is due to collection of arrears. The increase noticed from 2003-04 is due to the revision of Profession Tax by 25-35% in October, 2003. There is no appreciable increase in the number of assesseees from trading or self- employed categories.

29) The Karnataka Act provision covers all categories. A list of persons / institutions covered under the profession tax may be seen in Annexure V-1. Similarly in Kerala, all professionals have been covered even though collection-wise it is poor. In Andhra Pradesh, the tax is administered by the State Government Department and the proceeds are transferred to local bodies.

30) As per the Tamil Nadu Profession Tax Act provisions, some local bodies increased the levy by 25% which is the minimum, some of them 30% and the Chennai Corporation increased it to the maximum of 35%. The current rate of Profession Tax from 1.10.2003 is as below.

Table V – 6
Profession Tax Rates

(In Rupees)				
Sl. No.	Average half-yearly income slab	Rate after 35% increase	Rate after 30% increase	Rate after 25% hike
1.	Rs. upto 21000	Nil	Nil	Nil
2.	Rs.21001 to 30000	81	78	75
3.	Rs.30001 to 45000	203	195	188
4.	Rs.45001 to 60000	405	390	375
5.	Rs.60001 to 75000	608	585	563
6.	Rs.75001 and above	810	780	750

31) In the above situation, the Third State Finance Commission analysed the issues concerning the levy and collection of Profession Tax. It is observed that only salaried sections particularly in Government Departments / Government owned Organisations are subjected to the levy and that for others it is capricious. It is also true that the Act provisions are not severe and the collection machinery of local bodies is also not upto the level. There need to be some mechanism to improve the collection and to tighten the Act/Rule provisions. In this context, the situation obtaining in the neighbouring States has also been studied. After a detailed study, the Third State Finance Commission recommends the following:

- i ***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

Table V – 7

(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.

- ii *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.*
- iii 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.*

Table V – 8

(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.

- iv *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.*
- v *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.*

Table V – 9

(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

- vi *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.*

C) Water Tax / Sewerage Tax

32) At present, in Urban Local Bodies, Water Tax / Sewerage Tax is a component of Property tax and no separate tax is levied. In Chennai Corporation limit, Chennai Metropolitan Water Supply and Sewerage Board is collecting the Water Tax / Sewerage Tax at 7% of Annual Value of the Property and the balance of 23% is collected by the Chennai Corporation. No separate Tax is levied by Chennai Metropolitan Water Supply and Sewerage Board. But the combined Urban Local Bodies Act (now under suspension) empowered the Urban Local Bodies to levy separate Water Tax / Sewerage Tax. The Second State Finance Commission also recommended for such levy. But the Government accepted the recommendation at the Secretaries' level meeting but no orders have been issued. The issue was discussed by Third State Finance Commission. Now, water service connections

and sewerage connections to residences and other institutions are given after obtaining a deposit amount and this deposit bears no interest and that the residents can get back if they want disconnection. But the user charges for water served to residences and institutions are recovered based on the supply every month. Similarly sewerage connections also are given after obtaining contributions by way of fixed amount. Monthly maintenance charges are collected from every residence / institution at the rates prescribed by the council. In as much as deposits / contributions and user charges are collected for water and sewerage, there is no need for separate levy. Hence, the Third State Finance Commission recommends the following:

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

D) Education Tax

33) Prior to the enactment of 74th Constitutional Amendment Act, Municipal bodies have been running the schools and education tax has been collected, primarily for maintenance of Municipal school buildings. The tax levied is at the rate of 2 ½% of Annual Rental Value. The combined Urban Local Bodies Act (now under Suspension) prescribed 5% of the property tax as Education Tax. But Annual Rental Value based levy fetches more revenue than the percentage fixed based on property tax. It has also been brought to our notice that Director of Local Fund Audit raised an objection for not remitting the education tax to the Government Account since the Teachers' salaries are borne by the Government. But the fact remains that even before the take over of Municipal teachers' salary disbursement by Government, teaching grants were given to local bodies and the education tax was used for maintenance. As such the Commission finds no valid reason for remitting the tax to Government Account. In fact the Municipal bodies could not undertake construction of additional buildings or for providing better furnitures in the absence of specific grants and that the infrastructure development has become a casualty. Moreover, the Municipal Corporations have been disbursing pensions for retired Municipal employees including teachers. As such the levy of education tax is essential. In the above circumstances, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***

E) Vacant Land Tax (ULBs)

34) The First State Finance Commission recommended for levy of Vacant Land Tax at the rate of 0.5 to 1% on the capital value of the land as in its opinion it was not exploited even though provisions were available in the Municipal Acts. Under the envisaged system, tax for 10 years at one go had been suggested for collection at a discounted rate. The above recommendations had been given effect to by the Government. Subsequently, while enacting the combined Urban Local Bodies Act, 1998 (now under suspension), the Government have revised the system of capital value basis to area linked square foot rate to remove the anomaly of small vacant land owners paying higher tax than those with similar land with houses built up on it paying less Property Tax. But after the suspension of the Act, the original Rule provision of levy on capital value basis has come to stay. During interaction with District officials and the elected representatives that income from vacant land could not be tapped, as the levy is exorbitant because of the huge increase in land value and requested for reduction. They also cited that buildings constructed in a similar area fetching lesser property tax than the vacant land tax because of the adoption of different method, viz property tax on buildings is on Plinth Area Annual Rental Value and the Vacant Land Tax is on capital value. The Commission studied the issue in-depth. It concurs with the view that the Vacant Land Tax cannot be more than what it would fetch had there been a building on it. Hence, the Third State Finance Commission recommends the following:

- i ***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.***

Table V – 10

(per square foot)

Vacant land with reference to its location	A Grade		B Grade		C Grade		D Grade	
	Chennai Corporation		Other Corporations and Special / Selection Grade Municipalities		First and Second Grade Municipalities		Town Panchayats and other Transitional Township areas.	
	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

- ii ***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.***

The above rates shall also be made applicable to unapproved layouts till such time the layouts are approved so as to bring them under tax net.

F) Pilgrim Tax / Tourist Tax

35) The provision to levy Pilgrim Tax / Tourist Tax is seldom invoked by urban local bodies. In some cases, the local bodies levy toll fee for private vehicles during festival season and in holiday resort places. At present, Rameswaram Town Panchayat alone is getting an income from Pilgrim Tax from the Railway Department. The First State Finance Commission recommended levy of Pilgrim Tax for places of Holiday resort, Temple / Tourist Towns and Towns known for archeological and historical interest by prescribing rates for private vehicles. But the Government rejected the recommendation. Subsequently in the combined Tamil Nadu Urban Local Bodies Act, 1998 (now under suspension) the Municipal Councils have been empowered by Section 111 to levy charges on every Motor Vehicle including Government vehicle entering into any pilgrim or tourist resort in any Municipal area for any specified period or throughout the year by fixing different rates for different types of vehicles. Before it could be given effect to, the Act / Rules were suspended. With the suspension of the Act, the position of the Tax is back to square one. During interaction, the elected representatives have focused the difficulties faced by the floating population owing to the inadequate civic facilities, in the tourist resort places, temple towns and other historical areas in Municipalities. They urged for special grant for meeting the basic amenities of the floating population. It has also been brought to our notice that in Tiruchendur, the toll fee for vehicles is collected by HR & CE Department and no amount is passed on to the local body. In Valparai too, Forest department is collecting the toll. From the above deposition, it is clear that no pilgrim tax / tourist tax nor toll is collected by the Municipal bodies. It is also true that even if powers are vested on Municipal Councils to collect tax / fee for the above places, the Government Transport Corporations and other State agencies may not be willing to pay as they used to look upon them disparagingly. In the above context, the Third State Finance Commission recommends the following:

- i ***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>

- ii ***The urban local bodies should report to Commissioner of Municipal Administration / Government in respect of defaulting Government agencies for collection and appropriate direction.***
- iii ***The Railways should also be requested to collect tax for the above places and pass it on to local bodies as like Rameswaram.***

G) Advertisement Tax (ULBs)

36) Prior to 1997, Advertisement Tax was collected by Chennai Corporation and in other Municipal Corporations. In some Municipalities in Kanyakumari District, it was collected as licence fees. The First State Finance Commission recommended for levying of Advertisement Tax by all Municipal Bodies. Based on the recommendation, necessary amendments to District Municipalities Act / Municipal Corporations Acts were made and a sizeable revenue was collected. Subsequently, the Advertisement Tax has also been incorporated in the combined Urban Local Bodies Act, 1998. There are two elements in the levy and collection of the Advertisement Tax. One deals with Advertisements through lamp posts, telephone posts, posters on wall, writing on walls including compound walls, and through buses and vehicles. It is dealt with under Section 107A of District Municipalities Act, 1920, under Section 129A of Chennai City Municipal Corporation Act and under Section 92 in Tamil Nadu Urban Local Bodies Act, 1998 (now under suspension). Similar provisions are available in other Municipal Corporations' Acts. The other deals with Tax on advertisement on hoardings. This is dealt with under Section 285 (C) and 285 (CC) of District Municipalities Act, 1920 and Section 326C and 326CC of Chennai City Municipal Corporation Act, 1919. Similar provisions are available in other Municipal Corporation's Acts. The above provision was also incorporated under Section 131 of Tamil Nadu Urban Local Bodies Act, 1998 (now under suspension). But what the State Government did in 2003 by way of Tamil Nadu Act 19/2003 was to entrust to the District Collector instead of to the Executive authority of the Municipalities the functions relating to the licensing and levying of advertisement tax by amending Section 285 (C) and 285 (CC) of District Municipalities Act and other similar provisions in other Municipal Corporation Acts. This has resulted in all round chaos. Municipalities have interpreted the amendment as if they have no role in collection of advertisement tax. They do not realise that the amendment takes away the licensing and Advertisement Tax on hoardings only and not the other form of Tax. The Government while enacting the amendment have instructed in Government letter No.26570/Elec/2003-2 dated 16.03.2004 and also under Rule 19 of Licensing of Hoardings and Collection of Advertisement Tax Rules, 2003 for sharing of the tax proceeds between Government and the local bodies in the ratio of 75:25 respectively. But the entire proceeds collected were remitted to Government account in some Districts. In some Districts including Chennai no action was taken to license and levy the tax. Even though the sharing method has been suggested by Government, the head of account to which the proceeds were

remitted do not have a refund head for sharing of 25%. This resulted in the erosion of meager resource base of the Urban Local Bodies. However in respect of Rural Local Bodies, no change was made in Tamil Nadu Panchayats Act, 1994. In the interaction with the District officials and elected representatives, it has been stressed that the licensing of hoarding and collection of Advertisement Tax can be done methodically by urban local bodies than by the District Collector. In fact in the licensing function, the District Collector is assisted by way of a committee in which Municipal officials are members. Recently, the Madras High Court delivered a judgement by directing the Chennai Corporation Commissioner and the District Collector, Chennai to regulate the hoardings on the basis of the Supreme Court judgement besides removing the unlicensed and objectionable hoardings. It has also directed the authorities to collect the arrears of tax and fees from the date of licensing. The lament of the Municipalities and Municipal Corporations on this issue is understandable. The issue was also discussed with Secretary to Government, Municipal Administration and Water Supply Department. She also concurred with the view that it should be restored to Urban Local Bodies. After studying the issue in depth, the Third State Finance Commission recommends the following:

- i *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 Corporation Acts.***
- ii *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.***
- iii *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.***
- iv *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.***
- v *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.

- vi **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.**

H) Tax on Cable TV

37) Tax on Cable TV was first introduced in September 1994 by Amendment Act 37 of 1994. Under the Act, there shall be levied and paid to the State Government a tax calculated at 40% of the amount collected by way of contribution or subscription or installation or connection charges for Television exhibition. The value of 40% was subsequently reduced to 20% from 1st April 1995 by Section 2 of the Amendment Act No.21 of 1995. The above Section was substituted by an Amendment Act No.38 of 1997 under which a tax should be paid to the State Government on the basis of every connection instead of on the gross receipts, at the following rates per month:

Rs.20/- per connection in the Municipal Corporation areas

Rs.15/- per connection in the Municipal areas

Rs.10/- per connection in Industrial Towns / Town Panchayats / Village Panchayats.

The above rates came into effect from 1st April 1997. This was further amended from 12th June, 2000 by Section 2 (1) by which the local bodies were empowered instead of the State Government to determine the rate of tax and also to collect and retain the collections. The above sub section was again substituted from 1st June 2003 enabling the State Government to levy, collect and retain the tax instead of the local bodies at the following rates from the operators.

Municipal Corporation limits	Rs.6000/- PM
Municipality area	Rs.3000/- PM
Town Panchayat area	Rs.1500/- PM
Village Panchayat area	Rs.1000/- PM

While amending the Entertainment Tax Act on Cable TV, the then Finance Minister announced that the Tax receipts from Cable TV would be passed on to the local bodies at the level at which they collected as on 31.03.2003. The following are the collection details

		(Rupees in lakhs)
Municipal Corporation	-	88.12
Municipalities	-	205.31
Town Panchayats	-	100.45

But no amount has been passed on to the local bodies in 2003-04, 2004-05 and 2005-06. Moreover field reports say that there has been slackness in collection and there has been slump in Tax collections. This has to be studied by the concerned Departments from 1994-1995 to 2005-2006. In the interaction with the elected representatives during District visits by the Commission, it was pointed out that the power to levy, collect and retain the tax by local bodies should be restored. After studying the issue in detail in the context of change from one agency to another and the resultant loss to local bodies, the Third State Finance Commission recommends the following:

- i *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.***
- ii *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.***

Rural Local Bodies:

- iii *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.***

I) Track Rent on Television Cables: (ULBs)

38) Government, before entrusting the collection of Tax on Cable TV in June 2000 had empowered the Urban Local Bodies to levy track rent in their order G.O. Ms. No.51 Municipal Administration and Water Supply Department, dated 12.04.2000 and Government letter No.9395/MA4/2000-1 dated 27.04.2000. According to the GO, Chennai Corporation can levy at the rate of Rs.9400/- PA for a KM, other Municipal Corporations and Municipalities can levy Rs.6300/- PA for a KM length and Town Panchayats at Rs.5500/- PA for the same length. This has not been cancelled. But with the take-over of Cable TV Tax by Government, Municipal officials except Chennai Corporation have not collected the rent. This has come to the notice of the Commission during its District sittings. There is no ambiguity that tax on Cable TV and levy of track rent are entirely different. The GO has also empowered the Municipal Councils to raise the rent once in three years. In the above scenario, the Third State Finance Commission recommends the following:

- i *The tract rent leviable on Cable TV operators shall be collected by the Urban Local Bodies at the rates mentioned above for the current year and for the past period also from the Cable TV operators.***
- ii *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.

J) Other Taxes

39) The Third State Finance Commission is not making any recommendations on other taxes if any levied by Town Panchayats / Municipalities / Municipal Corporations.

URBAN LOCAL BODIES

NON-TAX REVENUE

40) Income from regulatory fees and user charges form part of Non-Tax Revenue. Major portion of the income comes from water charges, D&O license fees, building fees, development charges, lease rental and other fees and fines. Among the major contributors, sizeable investment is made for water supply and sewerage schemes. Similarly on lease rentals, substantial investment is made. But they do not fetch revenue, not even break even, leave alone surplus for reinvestment. The Twelfth Central Finance Commission and the Ministry of Urban Development insist on recovering full costs for covering operation and maintenance. But in reality the Urban Local Bodies are nowhere near the goal. Let us look into the major non-tax sources and their augmentation.

A) Water Charges

41) As per the norm fixed, Chennai Corporation has to provide water supply at 140 LPCD, other Municipal Corporations at 120 LPCD, Municipalities at 90 LPCD and Town Panchayats at 70 LPCD. In Chennai, Metropolitan Water Supply and Sewerage Board is the local authority for water supply and sewerage and the rest of the functions are with Chennai Corporation. In respect of other Urban Local Bodies all core civic functions are with them. The Urban Local Bodies other than Chennai are providing water supply by two methods one by way of locally administered scheme and the other is the Combined Water Supply Scheme. The Combined Water Supply Scheme is administered by Tamil Nadu Water Supply and Drainage Board. The income and expenditure on Water Account is as below:

Table V - 11
Income from Water Supply

(Rupees in crores)

Sl. No.	Local Body	2000-01	2001-02	2002-03	2003-04	2004-05	Total (2000-05)
1)	Municipal Corporations	51.92	52.87	58.88	63.79	72.38	299.84
2)	Municipalities	42.08	49.99	56.29	65.78	72.73	286.87
3)	Town Panchayats	14.77	26.16	21.94	27.80	35.93	126.60

Table V – 12
Expenditure on Water Supply

(Rupees in crores)

Sl. No.	Local Body	2000-01	2001-02	2002-03	2003-04	2004-05	Total (2000-05)
1)	Municipal Corporations	37.27	35.58	43.23	43.92	54.45	214.45
2)	Municipalities	53.60	64.94	80.84	89.18	97.38	385.94
3)	Town Panchayats	43.53	63.82	65.07	71.10	88.29	331.81

Table V – 13
Income and Expenditure of Chennai Metropolitan Water Supply and Sewerage Board

(Rupees in crores)

Sl. No.	Details	2000-01	2001-02	2002-03	2003-04	2004-05	Total (2000-05)
1)	Income	248.06	283.51	250.18	351.46	481.60	1614.81
2)	Expenditure	218.14	282.01	242.60	349.55	476.42	1568.72

Except Chennai, other Urban Local Bodies have heavy water supply arrears payable to Tamil Nadu Water Supply and Drainage Board. The following are the details of arrears payable as on 31.03.2005:

	(Rupees in crores)
Town Panchayats	- 15.62
Municipalities	- 28.81
Municipal Corporations	- 108.47

A tendency has set in to provide everything at free of cost. Public fountains consume large quantity of water at free of cost while the house service connections fetch lesser revenue. Under the Combined Water Supply Scheme, the Government has been revising the rates periodically. But the Urban Local Bodies are collecting a flat rate of Rs.50/- to Rs.75/- p.m from the residential connections and at higher rates from Industrial / Business houses. The Second State Finance Commission recommended for revision of water charges once in 3 years. The Tamil Nadu Urban Local Bodies Act, 1998 (now under suspension) prescribed under Section 157 and under Rule 183 of Urban Local Bodies Rules, 2000 (now under suspension) the fees collectable from the users. In fact it suggests revision once in a year not exceeding 10% of the fee prescribed under the scheme. The Commission also feels that instead of giving hefty hike it would be better to effect 10% hike every year. Chennai Metropolitan Water Supply and Sewerage Board may also resort to annual hike as the revenue earned by it is far less, while the investment is heavy.

B) Sewerage Charges

42) Wherever new Sewerage schemes are put in operation, monthly maintenance charges are collected. In Alandur Municipality, it is at the rate of Rs.75/- per residence. In Valasaravakkam Rs.100/- is collected as maintenance charges. But in Chennai Corporation area, Chennai Metropolitan Water Supply and Sewerage Board is collecting water charges which is said to cover sewerage maintenance also. The rate for individual houses is Rs.50/- and Rs.200/- for commercial and institutional connections. After analysing the prevailing water rates, the Third State Finance Commission recommends the following:

- i 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.**
- ii For metered connections too, the levy may be raised after taking into account the quantum consumed but not less than the un-metered connections.**
- iii 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.**
- iv 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.**
- v 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.**

C) Licence and fees

43) The title D&O licence fees is a misnomer. After considering the abominable term, the Tamil Nadu Urban Local Bodies Act, 1998 (now under suspension) has changed the term and named it as licence and fees under Section 102. The above section mandates that no person shall carry on any trade or business in any place whether public or private within the Municipal limit without a licence granted by the Commissioner subject to such terms and conditions and the period shall not exceed three years at the first instance and thereafter renewal if need be. This is different from the tax levied for the same business. The power to

license and regulate particular branches of business or specified trades, occupations and other matters is what is usually called in American Text Books the police power and the exercise of police power carries with it the power to collect a fee for the issue of licenses and permits. In the above context, the suspended Act / Rules prescribed the licence fees payable for all trades (whether temporary or regular) in Schedule II and Schedule III. The above revision was based on First State Finance Commission's recommendations. But the above revised rates have not been incorporated in the existing Municipal Corporation / Municipalities Act. This resulted in sizeable loss of revenue at a time when most of the Municipalities are reeling under debt burden. The details of trades covered in Schedule II and Schedule III of the suspended Act/Rules may be seen in Annexure V-2. In the above circumstance, the Third State Finance Commission recommends the following:

- i 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.***

D) Lease rentals

44) Many shopping complexes constructed by Municipal bodies are kept idle for want of lessee or the occupier refuses to make payment by creating legal hurdles. One of the hurdles is that where the lease rent for the shops owned by Municipal bodies are not renewed two months before the end of the validity period, the Municipal bodies cannot vacate such shops for violation of the renewal agreement. In Trichy Corporation, a sum of Rs.7 crores is said to be pending for collection in view of the above reasons. Hence, there is need for amending the Act/Rule provisions for condonation of delay and also to levy penalty in such cases. A list of properties which remained vacant may be seen in Annexure V-3. It has also been brought to the notice of the Commission that many assets have been created in far-off places on the pressure exerted by elected representatives which fetched no revenue. Such properties if remained idle for more than 2 years, need to be disposed off. Similarly the lands / markets taken over by Marketing Committee for launching Uzhavar Sandhais did not yield any lease rent even though proposals were given by the Municipalities. Such lands / markets would have fetched revenue had they not been leased out. As such, there is need to fix lease rents for 100 odd Uzhavar Sandhais. In the above scenario, the Third State Finance Commission recommends the following:

- i 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.***

- ii ***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.***
- iii ***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.***

E) Tract Rent on OFC Feeders (ULBs)

45) At present, tract rent is levied by Municipal bodies on Optic Fibre Cable feeder providers but no levy is made in respect of BSNL as revealed during District hearings. This is because BSNL maintains that it belongs to Central Government and as such not subjected to tax or levy. This may be true when the Telecommunication was wholly managed by the Department of Telecommunications. After the re-organisation of Telephones Department, BSNL has become a separate entity and on par with other private competitors in all its commercial activities. It therefore enjoys no immunity from local taxation. When the private operators of Telecommunication are subjected to levy, it is not fair to leave BSNL. It is therefore time for the State Government to take up the matter with Ministry of Information Technology and Telecommunications if BSNL refuses to pay the rent. In the above circumstances, the Third State Finance Commission recommends the following:

- i ***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).***

F) Collection of fees on parking vehicles

46) At present, the collection of fees is done as per the provisions applicable under Section 270 B of District Municipalities Act, 1920 for Cart Stands. In Chennai City Corporation Act too, the fee is collected as per Section 285. No appreciable revenue is derived for want of proper regulation. In Chennai too, almost all places are business oriented. But parking stand fee is collected in one or two places like T.Nagar / Egmore. The Chennai Corporation may have to select places for construction of parking lots to reduce congestion of traffic and hap-hazard parking. Under Section 130 of the suspended Act, 1998, the Commissioner with the approval of the Council may reserve any portion of a public street or public space and declare it as a parking area and collect parking fees from the owners of the vehicles at such rate for such period and in such manner as may be prescribed. The Commissioner is given power to grant licence to any private person or organisation for collecting parking fees. In the questionnaire sent to the Chennai Corporation Commissioner, the following details were sought:

- Scope for augmentation
- Levy in respect of commercial establishments who have no or inadequate parking area of their own.
- Levy in respect of omni bus and hire vehicle operators.
- Creation of parking facilities in crowded areas to reduce traffic hindrances.

The Commissioner while replying to the points has informed that the collection of parking fees has been entrusted to TEXCO and the net profit is shared at 70:30 by the Corporation of Chennai and TEXCO respectively. As already stated in the foregoing paragraphs, the present parking lot is inadequate. There appears to be a proposal to construct multi-storeyed parking lot at Panagal Park by Chennai Metropolitan Development Authority. But the Chennai Corporation is entitled by virtue of Act provisions for construction and levy. In the above circumstances, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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.***

G) Unapproved Layouts

47 (a) The unapproved layouts are layouts eligible for construction but not fulfilling the parameters prescribed by Director of Town and Country Planning / Chennai Metropolitan Development Authority. In Urban Local Bodies, many residential / commercial properties have come up in unapproved layouts. The residents are not subjected to any property tax as the buildings constructed do not have the approval of the Urban Local Bodies. But they avail the civic services at the expense of others by their political leverage. In G.O. Ms. No.79, Municipal Administration and Water Supply Department, dated 16.6.2000 and G.O. Ms. No.16, Municipal Administration and Water Supply Department, dated 1.2.2001, Government have issued orders regularising the unapproved layouts by fixing development charges payable by the owners of the plots and Open Space Reservation charges. Despite this, a large number of unapproved layouts continued to exist. The following are the details of unapproved layouts:

Table V – 14

Sl. No.	Local Body	No. of Layouts	No. of Tentative assessments
1.	Municipal Corporations except Chennai	1,482	51,953
2.	Municipalities	2,181	2,26,398
3.	Town Panchayats	3,401	41,178

Similarly in Government vested poromboke lands, the occupiers have put up houses either thatched or tiled by obtaining 'B-Memo'. 'B-Memo' is only a licence for occupation for a particular period. It is not a ownership patta. But buildings have come up on the above lands. Even though they do not pay taxes they avail all civic amenities by bringing political pressure. For Urban Local Bodies the approval of layouts is with the Planning Authority i.e., Director of Town and Country Planning / Chennai Metropolitan Development Authority.

b) The First State Finance Commission has suggested levy of vacant land tax for unapproved layouts in Urban Local Bodies. But in many cases the properties have been sold to different parties and some of them have constructed houses. In this situation, the properties cannot be taxed by way of vacant land tax. At the same time, Municipal authorities are not able to levy the property tax as the Planning Authority has not approved the layouts. If it is approved after 6 years or more the tax cannot be collected retrospectively.

c) Recently, the Government in G.O. Ms. No.11, Municipal Administration and Water Supply Department, dated 19.1.2006 have issued orders for regularising the unapproved layouts by prescribing the parameters and the fees payable by the owners of the plot. This may eliminate the problem of unapproved layouts. Further in G.O. M.S. No.59, Municipal Administration and Water Supply Department, dated 25.07.2006, the Government have further reduced the fees to enable the unassessed assesseees to come to tax net so as to avail the civic amenities. According to the guidelines, the occupant of the unapproved layout has to pay Rs.5/- per square feet in Municipal Corporations, Rs.2/- in Municipalities and Re.1/- in Town Panchayats. Besides, the occupants of the unapproved layouts on which houses were built prior to 1st January 1980, need to pay Re.1/- per square foot regardless of the location. Since the guidelines take into account the unapproved layouts that may come up in future with a severe warning, the Urban Local Bodies have to take necessary action for regularising the layouts as on date.

d) But the problem of levying taxes in poromboke lands continues to haunt the Urban Local Bodies. This also needs to be looked into. After discussing the issue, the Third State Finance Commission recommends the following:

- i ***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.

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

RURAL LOCAL BODIES

TAX REVENUE

House Tax

48 (a) As per Section 172 of Tamil Nadu Panchayats Act, 1994, the House Tax shall be levied on all houses in every Panchayat Village on the basis on which tax was levied in the local area immediately before the commencement of the Act or on the basis of classified plinth area rates as specified in Schedule-I as the Village Panchayat may adopt. This has given a handle to Village Panchayats to remain under capital value basis. Further the Act says that it is a first charge on property and the Government shall determine whether the House Tax shall be levied every half-year or on yearly basis. So far only the levy is on annual basis.

b) The tax based on the capital or rental value will have buoyancy since there is provision for quinquennial revision of the value by the executive authority. Plinth Area basis indicated in Schedule-I to the Act prescribed the rate of tax for different types of buildings with a minimum and maximum. Also, surcharge element has been added for commercial and industrial properties. Unlike levy of taxes on Annual Rental Value (ARV) basis, the fixation of the rate of tax for the plinth area will make the tax yield static, unless the tax rate is revised. As like in plinth area basis, levy on capital value basis suffers from the same infirmity as the building value is likely to go down with reference to the age of the building.

As in the case of other local bodies, plinth area rental value can be prescribed instead of the tax levied directly to plinth area.

c) In some cases the Village Panchayats which are nearer to urban areas are levying a lower rate of tax. In certain cases where plinth area related rate is enforced, the tax collected is more than what is collected in urban areas, but such Village Panchayats are negligible. But in majority of the Village Panchayats, the rate of levy and collection leave much to be desired.

d) The number of assessments and the income yield under House Tax in Village Panchayats from the above source are given below:

Table V – 15

Sl. No.	Year	Basis of Taxation	Assessment	Percentage	Collection (Rs. in crores)	Percentage to total collection
1.	2004-05	Capital Value	60,99,748	73%	33.44	65%
2.	2004-05	Plinth Area	22,20,302	26%	17.80	34%
3.	2004-05	Annual Rental Value	92,167	1%	0.47	1%
		Total	84,12,217	100%	51.71	100%

The Director of Rural development in his deposition has stated that 12296 Village Panchayats out of 12618 have revised the house tax. The remaining 322 Village Panchayats have not revised the house tax. But in terms of increase in income it appears to be negligible. The following are the details.

Year	House Tax Income (Rs. in crores)
2002-2003	37.30
2003-2004	48.04
2004-2005	51.71

In the field visit to Districts, the Commission's Secretariat has observed that in one Village Panchayat the capital value of a new house with RCC Roof has been assessed as Rs.10,000/- with no details of the constructed area. Similarly, a meager sum of Rs.1500/- was fixed as capital value for many pucca houses. This is because of Rule 3 which empowers the executive authority to determine the tax to which each person or property is liable. This leads to arbitrary fixation of value by the Village Panchayat Presidents who happen to be the executive authority and tax was levied on capital value basis. In the interaction with the elected representatives the Commission has observed that they are more eager to get powers and funds for PRIs, but appear to be luke-worm in tapping the tax potential. It seems that they are happy to be under 'dependency syndrome'. This is in sharp contrast to the Municipal elected representatives who pleaded for removing the impediments in the Act provisions for revising the property tax and other taxes.

e) As per Schedule-I under Section 172 of Tamil Nadu Panchayats Act, 1994, levy of surcharge on commercial buildings of petty nature at the rate of 20% and 60% on large commercial establishments, industrial and business establishments, cinema theatres, hostels and lodges etc besides the House Tax has been prescribed. But in the district visit, no Village Panchayat appears to have invoked the provisions. Even though some District officials have stated that it is levied in certain Village Panchayats, it could not be taken on merit as it has not been reflected in terms of volume of House Tax collected.

f) Similarly some district officials have stated that self financing educational institutions have been subjected to House Tax. But most of them have not been taxed due to Court intervention. The fact that even after revision of House Tax, no sizeable revenue had accrued to Village Panchayats as the increase was only marginal.

g) The Second State Finance Commission brought to focus the huge difference between House Tax in Village Panchayat adjacent to Municipality and Property Tax in Town Panchayat / Municipalities in Chennai Metropolitan area and suggested that the huge gap need to be bridged. Further, the Second State Finance Commission suggested levy of service charges on educational institutions in the absence of clarity under Section 15 of Tamil Nadu Village Panchayats (Assessment and Collection of Taxes) Rules, 1999. This has been echoed during the District hearing. Further the Second State Finance Commission has recommended for the deletion of the provision which empowers the Inspector of Panchayats to postpone the general revision of House tax upto four half-years. But no orders have been passed by Government.

h) Moreover, Schedule-I under Section 172 of Tamil Nadu Panchayats Act, 1994 has no clarity. For instance, for thatched houses of above 20 square metres, the levy is based on square decimetre and for the thatched houses of below 20 square metres the levy is based on Square Metres. It would be fair and ideal if the unit of measurement is the same for any type of houses.

i) It has also been brought to our notice that in some Districts, group houses and Samathuvapuram houses have not been taxed. They need to be brought under tax net. Apart from all this, the collection machinery is ineffective. In the field visit, it was brought to the notice of the Commission that the part-time Assistant was overloaded with the work. Now with the appointment of Makkal Nala Paniyalargal, it has become necessary to allocate the work among the two to make the tax collecting machinery effective. Similarly, Government has also announced that the Panchayat Clerk and part-time Panchayat Assistant will be brought under time scale with effect from 1.9.2006. They should be made more accountable. In the light of the above analysis, the Third State Finance Commission recommends the following:

- i ***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 complete within five year period.

- ii 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.*
- iii 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.*
- iv 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.*
- v All fee collecting institutions viz Nursery, Matriculation Schools, Tutorial Colleges, Engineering Colleges, Medical/Dental Colleges and Coaching centres shall be subjected to house tax.*
- vi 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.*
- vii 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.*
- viii 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.*
- ix 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.*

RURAL LOCAL BODIES

NON-TAX REVENUE

A) Water Charges

49 (a) In Village Panchayats, water supply is almost through public taps. Wherever house connections are given, deposit amount of Rs.1000/- is taken and the user charges (i.e. water charge) at the rate of Rs.30/- p.m. is collected. The above system is based on a G.O. issued in 1999. As the water charge is a fixed sum, the Panchayats could not meet the Operation and Maintenance costs. Under the Combined Water Supply Scheme, Tamil Nadu Water Supply and Drainage Board is charging Rs.3/- per kilo litre for Village Panchayats and most of the consumption are not recovered. In fact, Twelfth Central Finance Commission has recommended at least 50% recovery of the recurring costs in the form of user charges in respect of water supply. The income derived from Non-Tax including Water charges during 2002-03 to 2004-05 are as below:

Year	(Rs. in crores)
2002-2003	3.04
2003-2004	4.32
2004-2005	7.87

This includes other levies like D & O licence, fees, fines, lease rentals etc.

b) During interaction with the District officials and elected representatives, it was pointed out that dues to Tamil Nadu Water Supply and Drainage Board could not be settled for want of sufficient funds. According to Tamil Nadu Water Supply and Drainage Board, Village Panchayats have to pay Rs.77 crores as on 31.3.2005 towards water charges under Combined Water Supply Scheme.

c) The Second State Finance Commission has recommended for levy of Water Tax at 10% of House Tax. But no orders have been issued by the Government on this issue.

d) The issue has been analysed in the context of the growing needs of water in many rural areas. The norm fixed for Water Supply is in the range of 40-55 LPCD. In order to meet the Operation and Maintenance costs as suggested by Twelfth Central Finance Commission, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***

B) D & O Licence fees

50) Section 159 of Tamil Nadu Panchayats Act, 1994 empowers Village Panchayats to issue licence for D&O trade. The rates under D&O licence fee have not been revised. The First State Finance Commission identified 73 trades and suggested revised fee structure. But this has not been given effect resulting in loss of income. The list of trades identified and the fee suggested may be seen in Annexure V-5. This has been suggested some 8 years back. But the rates suggested in the Annexure may be taken as the basis for adoption at the first instance and thereafter it may be subjected to revision. In the District hearing, the officials and elected representatives pleaded for revision of rates. Hence, the Third State Finance Commission recommends the following:

- i 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.**
- ii 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.**
- iii The licensing fee shall be revised once in five years by the District Collector through District gazette notification.**
- iv 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.**
- v 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.**
- vi 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.**
- vii The Assistant Director (Audit) shall conduct surprise checks to find out whether the listed trades are brought into tax net.**

C) Fishery Rental

51) The Second State Finance Commission recommended for constitution of a committee consisting of President of Village Panchayat, Revenue Inspector and Inspector of Fisheries Department for the conduct of lease sale and to curb the practice of forming syndicate to under pitch the auction value. Besides, it has recommended that fishery rental in respect of M.I. tanks of Panchayat Union may be shared on 50:50 basis between Panchayat Unions and Panchayats. It also recommended that the proceeds of Fisheries in PWD Tanks

should also be shared between or among all Panchayats covered in the tank area. The Government at the Secretaries' level meeting have accepted the recommendation in respect of Panchayat Union tanks among Panchayat Unions and Village Panchayats and also for 100% utilisation of the proceeds relating to fishery rental relating to Village Panchayats but did not accept the recommendation relating to fishery rental in respect of PWD Tanks. However, no formal orders have been issued. In the above background, the Third State Finance Commission recommends the following:

- i 100% proceeds of Fishery rental from Village Panchayat ponds should be credited to Village Panchayat Account.**
- ii 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.**
- iii In respect of PWD Tanks, at least 25% of the proceeds of Fishery rental may be given to Village Panchayats.**
- iv 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.**

D) 2C Patta Trees

52) The usufructs of avenue trees which are leased to Panchayats by Highways are availed by Village Panchayats by auctioning them. The Second State Finance Commission which went into the issue of wind fallen trees has recommended for constitution of a committee consisting of Village Panchayat representatives, Panchayat Union Commissioner and Revenue official. Besides, it has recommended for conferring powers to Village Panchayats in respect of removal of dead trees. The Government have also issued orders. But no follow up action has been taken for constituting a committee and for conferring powers to Village Panchayats for removal of trees. Hence, the Third State Finance Commission reiterates the recommendation of Second State Finance Commission that

- i the Constitution of a committee may be notified by the Inspector of Panchayats for auctioning of wind fallen trees in Village Panchayat area.**
- ii 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.**

E) Social Forestry Receipts

53 (a) There was no statutory obligation for sharing the Social Forestry Receipts till 1992 but the 73rd Constitutional Amendment Act, had assigned the Social Forestry and Farm Forestry to Rural local bodies under Schedule-XI of the Constitution of India. Even before that the Government have realised that there is need to share the Social Forestry Receipts with the Panchayats on the ground that the trees and plantations are grown in local body land and hence issued orders in G.O. Ms. No.592, Environment and Forests Department, dated 16.8.89. As it is a non-tax revenue, it has not been shared regularly with the Village Panchayats. In the District hearing, officials and elected representatives have pleaded for timely adjustment and also their lawful involvement. In fact the Social Forestry Receipts as on 2005 have been adjusted only upto 1995-1996. Towards the end of the year, after the issue was taken by Third State Finance Commission with the Principal Chief Conservator of Forests, the proceeds from 1997-98 to 1999-2000 have been ordered for transfer. Even while ordering the transfer, the Forest department has directed to reserve 20% for Forest Development.

b) The Second State Finance Commission which went into the issue has recommended for formation of a Committee with Village Panchayat President as member for conducting auction, sharing of proceeds after deducting the working expenses at 70:30 for Village Panchayats and Forests Department respectively and for monitoring the adjustment at State level. But the Government while issuing orders on the recommendations in G.O. Ms. No.158, Rural Development Department, dated 14.10.2004 has not accepted for including Village Panchayat President as member in the auction committee and also for monitoring the transfer of proceeds at State level. However the Government have accepted and modified the sharing of proceeds at 50:50 on gross basis.

c) This was contested by Principal Chief Conservator of Forests on the ground that Social Forestry plantations are sold every year on a 10 year rotation and the extent of plantations is gradually coming down. Moreover his department has been incurring Rs.3.5 crores annually towards payment of wages to Social Forestry workers / plot watchers. He has also expatiated that some of them are being absorbed in the regular vacancies of Forest Department and it may take some more years to re-deploy all of them. Also some of them have got direction for payment of minimum wages and the issue is under Government scrutiny. Hence, the department pleaded for implementation of Second State Finance Commission recommendation on sharing.

d) The Third State Finance Commission has studied the whole gamut of the issue from both the angles. The fact that wage component is a factor has to be reckoned with. At the same time avoidable inordinate delay by citing reconciliation of figures is not acceptable,

since the malady has to be cured by the department. Moreover, there is reason in local bodies claim that, for the past 10 years no income has been derived from the above source. In the above back ground, the Third State Finance Commission recommends the following:

- i There should be a separate detailed head for apportioning the Social Forestry Receipts to Local Bodies.**
- ii 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.**
- iii 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) above.**
- iv 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.**
- v 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

54) Para 2 a(ii) of the Terms of Reference requires the Commission to study the determination of taxes, duties, tolls and fees which may be assigned to or appropriated by the said local bodies. At present, the following are the Assigned Revenue (Tax):

1. Entertainment Tax
2. Surcharge on Stamp Duty
3. Local Cess/Local Cess Surcharge

In addition to the above, the following are the Shared Revenue (Non-tax)

1. Mines and Minerals
2. Social Forestry Receipts
3. Fishery Rental
4. 2 C Patta trees

These taxes and levies are usually collected by the Government and assigned to local bodies. This assigned revenue is a part of the resource base of the local bodies and needs to be kept

intact. But time and again, the resource base has been eroded by Government thereby depriving the local bodies their legitimate dues. The following are some of the instances:

- Reduction in Surcharge on Stamp Duty because of the Memorandum of Understanding signed with Ministry of Urban Development.
- Reduction in Entertainment Tax owing to change from compounding pattern to collection on admission basis.
- Non-implementation of increase in Local Cess/Local Cess Surcharge as suggested by Second State Finance Commission and ordered by the Government.

The quantum of loss and the remedial measures needed are discussed under the respective heading.

A) Entertainment Tax

55) The First State Finance Commission recommended transfer of 90% of Entertainment Tax to the local bodies. But due to the non-amendment of Entertainment Tax Act, 1939 and Tamil Nadu Financial Code Volume-I, the proceeds transferred were at the old rates, i.e 65%. The Second State Finance Commission also reiterated 90% transfer and the Government issued orders in G.O. Ms. No.90, Commercial Taxes Department, dated 12.7.2002 for transfer of 90% of the Entertainment Tax proceeds with effect from 1.4.97. But it does not appear to have been implemented as seen from G.O.Ms. No.59, Municipal Administration and Water Supply Department, dated 11.5.2005. There could be no valid reason for withholding the legitimate dues as the sharing of tax proceeds at 90% has the approval of the Legislature by way of Action Taken Report. The Secretary to Government, Commercial Taxes Department with whom the Third State Finance Commission interacted concurred with the view for adjustment of the dues. The total entitlement and the actual amount transferred for the period 1997-2002 are tabulated below. This includes the entitlement for 2000-01 and 2001-02 made under Section 5(A) and 5(B) of Tamil Nadu Entertainment Tax Act but not assigned to local bodies.

Table V - 16

(In Rupees)

Sl. No.	Local Body	Tax Entitlement	Tax proceeds transferred	Difference
1	Municipal Corporations	162,12,84,974	162,12,82,974	Nil
2	Municipalities	116,83,14,882	116,37,41,428	45,73,454
3	Town Panchayats	45,81,69,762	45,80,07,545	1,62,217
4	Village Panchayats	22,45,93,870	22,37,38,446	8,55,424
5	Panchayat Unions	28,18,708	28,18,708	Nil

Source: Commercial Taxes Department

Adjustment of Entertainment Tax to local bodies during 2002-2005

56) The total amount of Entertainment Tax collected during 2002-2005 and the amount transferred to local bodies are given below:

Year	(Rs. in Crores)	
	Amount Collected	Amount Transferred
2002-03	73.95	81.35
2003-04	106.97	58.28
2004-05	61.05	44.15
Total	241.97	183.78

Source: Commercial Taxes Department

The amount which should have been transferred out of the total collection works out to Rs.217.78 crores whereas the amount transferred is 183.78 thus leaving a balance of Rs.34 crores. This, besides the dues from 1997-2002, constitutes a big sum which needs to be transferred.

Reduction in Entertainment Tax rates

57) The Government have switched over from compounding pattern to collection on gross admission with effect from 4.10.2004. This has resulted in substantial fall in income under Entertainment Tax during 2004-05 and 2005-06, as could be seen from the figures furnished below:

2004-05	-	Rs.54.23 crores
2005-06 (RE)	-	Rs.38.50 crores
2006-07 (RBE)	-	Rs.3.82 crores

The Twelfth Central Finance Commission has also suggested that whenever any reduction in assigned revenue is contemplated, the local bodies should be consulted. The suggestion may be considered for adoption by the State Government. In case of decline in revenue to the local bodies due to change in the policy of the Government, local bodies should be compensated.

Delay in adjustment

58) The field visits reveal that there has been delay and differences in the adjustments made. In the interaction with the Secretary to Government, Commercial Taxes Department, it was suggested that with the computerisation of all zones, it would be practical to effect adjustment on monthly basis. The Secretary also concurred with the view. After taking a holistic view, the Commission feels that the adjustment of Entertainment Tax to local bodies can be made by 15th of the succeeding month instead of quarterly adjustment.

Collection Charges

59) It was also pointed out during interaction that the collection charge of 10% seemed to be very high. It appears from the department receipts that only 0.8% alone is spent on cost of establishment. Hence, the Commission feels that 1% is enough towards collection charges.

In the above context, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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.***
- iv ***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.***
- v ***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.***

B. Surcharge on Stamp Duty

60) The rate of Surcharge to be collected on the duty imposed under the Indian Stamp Act, 1899 on the transfer of property has been reduced from 5% to 2% with effect from 21.11.03. This has resulted in the steep fall in the income derived from the above source. The surcharge amounts transferred to local bodies are given below:

Table V - 17

(Rupees in crores)

Sl. No.	Year	Total Surcharge collected	Allocation to Local Bodies	Collection charges retained	AG's figure on the transfers to the local bodies
1	2000-01	327.74	302.19	25.55	265.80
2	2001-02	408.98	382.55	26.43	179.22
3	2002-03	482.20	454.32	27.84	646.75
4	2003-04	468.36	444.52	23.84	513.69
5	2004-05	369.18	350.04	19.14	346.81
	Total	2056.46	1933.62	122.80	1952.27

Source: Inspector General of Registration, Chennai

In the year 2001-02 there was a resource crunch which necessitated delay in the transfer of surcharge to the local bodies. But in the past 5 years, the amount entitled to be transferred to local bodies and the amount actually reflected in AG's accounts were found varying. This needs to be looked into. The tier wise allocation is available in Annexure-V-6. Moreover in the Revenue Budget for Registration Department, there is no separate detailed head for Surcharge on Transfer duty and it is booked along with stamp duty under 0030 Stamps and Registration Fees-02 Stamps – Non-Judicial 102 Sale of Stamps AB 02 Other Stamps and 103 Duty on Impressing of Documents AB Unstamped or insufficiently Stamped Documents. This leads to confusion in apportionment. The Third State Finance Commission feels that there need to be transparency in the amount collected and the amount transferred for which separate detailed heads are needed.

Reduction in the Rates of Surcharge

61) The Second State Finance Commission while recommending devolution to the local bodies has taken into account the income from Surcharge on Stamp Duty at the rates prevailing during 2001 with the normal buoyancy in income. But the Government have reduced the surcharge rates on the basis of the Memorandum of Understanding signed with Government of India. While the reduction in stamp duty is only 25%, the reduction in Surcharge on Stamp Duty is around 60%. The Twelfth Central Finance Commission has also suggested that whenever any decision concerning reduction in assigned revenue is contemplated, the local bodies should be consulted. In the context of the above suggestion, the Third State Finance Commission feels that before deciding any reduction in Surcharge on Stamp Duty, the local bodies have to be necessarily consulted. As an institution of better financial standing compared to local bodies, State Government should bear the burden more. State should also evolve a compensation package for local bodies.

Collection Charges

62) At present, the collection charge is 5% in respect of Urban Local Bodies and 3% in respect of Rural Local Bodies. The Third State Finance Commission feels that there is no valid *raison-detre* behind the differential rates of collection charges. After all, the staff who are collecting and remitting the amount to Government account, do the same work, whether it relates to urban or rural. Since the collection is only an additional entry to the normal procedure, allocation of 1% as collection charge, should more than suffice the efforts of the State.

Levying of Surcharge on certain items relating to property

63) The Second State Finance Commission has recommended 11 items relating to property for levy of surcharge. The High-Level Committee constituted to study the recommendation has also accepted the recommendation. But during the interaction with the

Inspector General of Registration and Secretary to Government, Commercial Taxes Department, it was informed that in respect of the following items, only fixed amount is charged towards stamp duty and that the realisable amount was also negligible:

(a) Award (b) Reconveyance of Property (c) Surrender of lease (d) Transfer of lease (e) Security Bond.

Hence, they pleaded for exemption from the levy of Surcharge for the above mentioned items. Still there are 5 more items which need to be brought under surcharge net. They are:

(a) Agreement (b) Power of Attorney (c) Release of Benami right (d) Release of right in favour of partner (e) Settlement.

Adjustment of entitled Surcharge to local bodies

64) The field visits reveal that neither the local bodies nor the Government departments show any concern for timely adjustment of the dues to the local bodies. The quarterly adjustment takes atleast 1 to 3 months. This is possible because there is no prescribed date for adjustment of the surcharge. If there is a fixed date, the responsibility can be fixed on both. In order to fix responsibility, the Commission feels that 15th of the succeeding month for the adjustment of the monthly collection. As the computerisation of the Registration Department is getting completed, there can be no justification for the compilation and allocation of local body share within 10 days of the completion of the month. Moreover the District Registrar is sending the collection details in respect of both Rural and Urban Local Bodies for adjustment to the District Collector. The Urban Local Bodies get the actual collection based on registration in their area. But in Rural Local Bodies the sharing is based on both population and collection. The First State Finance Commission and Second State Finance Commission have recommended direct adjustment of the surcharge on stamp duty in respect of Urban Local Bodies by the District Registrar at the respective Sub-Treasury / District Treasury and for Rural Local Bodies, the District Collector may continue to adjust the dues. The Third State Finance Commission also feels that the procedure suggested by previous Commissions is ideal and concur with them. In the light of the above analysis, the Third State Finance Commission recommends the following:

- i *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.***
- ii *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.***
- iii *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.

- iv 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.***
- v Levy of Surcharge be made on the 5 items mentioned in para 63 above at the rate applicable for other items of properties as already agreed to by the Government.***
- vi 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.***
- vii 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.***

C) Local Cess/Local Cess Surcharge

65 (a) Revenue Department collects the Local Cess and Local Cess Surcharge along with the Land Revenue under the same head of account, i.e. Land Revenue. Local Cess is levied as per Section 167 of Tamil Nadu Panchayats Act, 1994 at the rate of Re.1/- on every rupee on Land Revenue. Under Section 168 of Tamil Nadu Panchayats Act, 1994 Local Cess Surcharge is leviable by the Panchayat Union Councils on a scale ranging from Rs.5/- at the minimum to Rs.10/- at the maximum on every Re.1/- collected as Land Revenue. While Re.1/- is collected as Local Cess, Local Cess Surcharge rate has been frozen at Rs.5/- by a Government order even though the Section 168 permit Panchayat Unions to revise Local Cess Surcharge upto a maximum of Rs.10/- on every Re.1/- collected as Land Revenue by way of a resolution passed by Panchayat Union Councils.

b) The Second State Finance Commission which went into the issue has recommended for enhancement of Local Cess from Rs.5/- to Rs.7/-. While amendment to Tamil Nadu Panchayats Act, 1994 is necessary for Local Cess revision, there is no need for any Act Amendment for revision of Local Cess Surcharge as it empowers levy upto a maximum of Rs.10/-. The Government while tabling the Action Taken Report in the Assembly have accepted the recommendation for revision of Local Cess/Local Cess Surcharge and issued orders in G.O. Ms. No.284, Fin (FCIV) Department, dated 12.08.2002. But no follow up action was taken by Rural Development and Panchayat Raj Department to give effect to the recommendation. While in some districts, Local Cess Surcharge has been revised based on the G.O, many have not opted. The Commissioner of Revenue Administration, Chennai-5 has also instructed not to give effect to the enhancement till Act

amendment is made by way of clarification sought by the District Collectors of Dindigul and Ramnathapuram. In the absence of Act Amendment, the enhancement has not come into force.

c) In the award period of Second State Finance Commission, remission of Land Revenue was given for Fasli 1412 (2002-03) and Fasli 1413 (2003-04) in G.O. Ms. No.163, Revenue Department, 11.04.2003 and G.O. Ms. No.76, Revenue Department, dated 13.02.2004 respectively. But a scrutiny of the Local Cess/Local Cess Surcharge reveals that there had been an inordinate delay in adjustment. In fact, the Revenue wing and Panchayat Development wing of the District Collectorate which should have a harmonious relationship are pulling in different directions eventhough they function under the direct control of the District Collector thereby depriving the already shrunken resource base of the Village Panchayats and Panchayat Unions to the brink. It is an irony that while rule provisions empower advance adjustment of Local Cess/Local Cess Surcharge, once in a quarter by the District Collectors based on the average collection of local cess for the past three Fasli years and the final adjustment of local cess made after finalisation of jamabandhi for every Fasli year, in reality it took months and years after the closure of Fasli year for adjustment to local bodies. This is because that there is no prescribed date for adjustment and that the local bodies are taken for a ride by officialdom.

d) Besides delay, the quantum of adjustment made to local bodies is also found to be questionable. In G.O. Ms. No.834, RD & LA dated 07.06.1982 the procedure for adjustment has been outlined. According to the above procedure, the formula for apportionment shall be

$$\frac{\text{Local Cess Demand}}{\text{Total Demand (Includes LC, LCS \& LR)}} \times \text{Pooled collection}$$

$$\frac{\text{Local Cess Surcharge Demand}}{\text{Total Demand (Includes LC, LCS \& LR)}} \times \text{Pooled collection}$$

But in practice the amount adjusted is far less than the entitled amount. For instance, the figures furnished by the District Collectors and Commissioner of Revenue Administration are given below:

Table V – 18

(Rupees in crores)

Sl. No.	Year	Commissioner of Revenue Administration		District Collectors' figures	
		Local Cess Adjusted	Local Cess Surcharge Adjusted	Local Cess Adjusted	Local Cess Surcharge Adjusted
1	Fasli 1410 (2000-01)	6.2116	31.0538	5.9436	29.9636
2	Fasli 1411 (2001-02)	6.1987	30.5559	5.7371	27.7592

There is a difference of Rs.72.96lakhs in Local Cess and Rs.388.69 lakhs under Local Cess Surcharge. To cap it all, the Budget figures give a different picture on this. It has also been noticed by Third State Finance Commission that the figures booked by the District authorities in respect of collections made towards Local Cess/Local Cess Surcharge are startling. Some of them have booked under 0029 101 AA, some under 0029 101 AH and some under 0029 101 AI too. In order to clear ambiguity and proper verification at a future date, there need to be separate heads for this and other issues. The above malady arises out of

- Want of separate and clear sub heads for recording collections in the Revenue Budget.
- Apportionment has not been made on the basis of the formula suggested.
- No proper monitoring.
- Apathy of the elected representatives to get their entitled share.
- Lack of transparency in accounting.

e) In the remission period, the local bodies have suffered revenue loss under Local Cess/Local Cess Surcharge as noted below:

Table V – 19

(Rupees in crores)			
Sl. No.	Year	Local Cess	Local Cess Surcharge
1	Fasli 1412 (2002-03)	5.0989	26.0329
2	Fasli 1413 (2003-04)	4.8139	24.2962
3	Fasli 1414 (2004-05)	1.4183 *	7.0722 *

* Partial remission in 6 Districts, viz Cuddalore, Thanjavur, Tiruvarur, Nagappattinam, Villupuram and Ramnathapuram.

f) The Second State Finance Commission's recommendations and the situations in other States have also been gone into. As far as compensation during the remission period, the Second State Finance Commission has recommended full compensation to local bodies. But the Government have not accepted the recommendation. One way-out of the piquant situation is delinking of Local Cess/Local Cess Surcharge from Land Revenue to overcome the revenue loss to local bodies owing to remission of Land Revenue. Another view emerged during the Commission's District visit is that the Local Cess/Local Cess Surcharge may be levied in some other form not linked with Land Revenue and collected by the Panchayats. In such case, perhaps the updated land records may not be available to the Panchayats. The other option would then be to collect a similar and separate tax by Revenue Department and to assign it to the Panchayats / Panchayat Unions.

g) In Karnataka, land pattas are issued after collecting a fee which is assigned to local bodies. Such a measure would compensate the revenue loss due to remission, to some extent.

In the light of the above analysis, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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

- iv ***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.***
- v ***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.***
- vi ***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.***
- vii ***The apportionment of Local Cess/Local Cess Surcharge shall be on the basis of the formula outlined in para 65 (d) above to avoid under adjustment.***

- viii ***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.***
- ix ***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.***

D) Income from Mines and Minerals

66 (a) The Mines and Minerals Act, 1957 is a Central Act and the State Government is framing rules for its enforcement. The quarry lease income from minor minerals derived from the above Act and Rules is shared with the local bodies. Previously it was with Revenue Department but subsequently it was entrusted to a separate department called Geology and Mining. After the formation of a separate department with District level officers, the Government have issued orders for sharing the revenue from minor minerals in G.O. Ms. No.170, Rural Development Department, dated 6.3.89. In 1990, the Government in their letter No. 63604/QII 89-5 dated 27.2.90 have clarified that the debits under the sub-head 'Deduct Refunds' is not based on any appropriation in the Budget and the due amounts can be adjusted as per G.O. cited. Based on the Government instructions, the department has issued instructions for adjusting the amount at the end of April every year which means after the closure of the financial year. This has led to confusion and non-adjustment of the dues.

b) When the issue was taken up with Director of Geology and Mining he agreed for apportioning the amount to local bodies within the same financial year. But in the absence of a separate head as ordered in the G.O. cited above, there was delay. Even though the dues upto 2004-05 has been adjusted, the possibility of delay will continue unless proper measures are taken. One of the measures is opening of a separate sub head for apportioning the income from minor minerals under "900 Deduct Refunds", to avoid delay.

c) The details of apportionment of receipts to local bodies during the years from 2000-01 to 2004-05 are furnished below:

Table V - 20

(Rupees in lakhs)

Sl. No.	Year	Amount payable to LBs	Amount paid	Difference	Breakup details for difference		
					Refund	Litigation	To be apportioned
1	2000-01	3365.13	3121.89	243.24	177.95	62.70	2.59
2	2001-02	3676.23	3508.36	167.87	50.79	116.68	0.40
3	2002-03	5686.71	4071.08	1615.63	576.54	959.08	80.01
4	2003-04	6127.69	3961.51	2166.18	1200.20	566.70	399.28
5	2004-05	3824.14	3325.17	498.97	50.58	84.77	363.62

Source: Director of Geology and Mining.

d) The above particulars include receipts from sand upto 1.10.2003 and thereafter it is part of PWD income. From 2.10.2003, the PWD is operating the sand quarries and the income has gone to Government Account. However, the Seignorage fees have been apportioned to local bodies as noted below:

Table V – 21

(Rupees in lakhs)			
Sl. No.	Year	Amount payable	Amount paid
1	2003-04 (2.10.2003 to 31.3.2004)	1849.93	1849.93
2	2004-05	2475.31	2475.31

e) In the interaction with District officials during field visits the elected representatives pleaded for details on quarrying and the lease amount obtained. After taking into account the present working procedure, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***The sharable income shall be adjusted on a quarterly basis in the same financial year to avoid obtaining Government orders for lapsed appropriation.***
- iii ***The Village Panchayats / Special Village Panchayats / Town Panchayats shall be provided with sketches of the quarrying areas for their information.***
- iv ***The difference amount due to be apportioned from 2000-2005 as noted in Para 66 (c) above shall be passed on to the local bodies during the financial year 2006-07 and 2007-08.***
- v ***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 FOR LOCAL BODIES

**ஆகாறு அளவிட்டி தாயினுங் கேடில்லை
போகாறு அகலாக் கடை**

(எண் : 478)

Para 5 (ii) of our Terms of Reference requires us to study the requirements of the local bodies for meeting the revenue expenditure including maintenance of capital assets keeping in view the need for generating surplus for capital investment. Providing civic services for the well-being of its citizens is an obligatory function and it is a major determinant on the quality of life of the people. While norms have been fixed for roads, water supply, drains, street lights and solid waste management, yet in terms of delivery of service it is pathetic. After the 73rd and 74th Constitutional Amendment Act, the Central Finance Commission has been allocating funds. The Tenth Central Finance Commission, because of paucity of time made adhoc allotment for capital works. In contrast, Eleventh and Twelfth Central Finance Commissions have earmarked their grants purely for Operation and Maintenance of civic services. This is a refreshing feature, considering our obsession for creating assets at the cost of maintenance of old and working assets.

2) Peoples' expectations in a country of our size with nearly 40% of the population living below the poverty line, cannot be fulfilled instantaneously. At the same time earnest efforts have to be made to ensure that the funds are judiciously invested in creating assets and also in ensuring well-maintenance of existing assets. The feel good factor of the people can be ensured if the quantitative and qualitative factors are well taken care of by participatory process.

3) Operation and Maintenance expenditure, salaries and wages in the past years are furnished below:

**Table VI – 1
Village Panchayats**

(Rupees in crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Roads & Bridges	26.19	23.20	27.58	26.95	31.01
2	Water Supply	60.18	57.15	77.96	85.25	82.67
3	Street lights	35.89	32.51	40.82	38.69	36.51
4	ECC	58.45	60.40	94.17	101.64	135.38
5	Others	52.01	43.30	51.05	45.95	51.45
	Total	232.72	216.56	291.58	298.48	337.02

**Table VI – 2
Panchayat Unions**

(Rupees in crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Roads	35.66	30.80	28.73	38.21	61.20
2	Buildings including schools & dispensaries	19.87	29.71	44.86	30.46	22.27
3	Administration	106.64	103.60	115.65	117.98	120.74
4	Water Supply	6.69	6.98	12.20	12.24	42.39
5	Others	22.30	18.17	24.35	25.71	31.40
	Total	191.16	189.26	225.79	224.60	278.00

District Panchayats

There is no staff expenditure as the salary expenditure of the officials is met from Government. Also, Operation and Maintenance expenditure for the assets created are actually met by the concerned Village Panchayats or Panchayat Unions as the case may be.

Town Panchayats

The expenditure on salary and Operation and Maintenance in respect of Town Panchayats for the period from 2000-05 is given below. The detailed need-wise Financial Operating Plan may be seen in Annexure VI-1.

**Table VI – 3
Town Panchayats**

(Rupees in Crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Salaries	63.54	86.74	72.40	70.68	76.30
Operation and Maintenance						
1	General Administration	20.42	22.59	23.37	24.49	25.08
2	Water supply	36.52	39.24	57.22	64.72	79.40
3	Public Health	8.78	10.42	8.34	10.39	12.86
4	Conservancy	2.23	2.02	3.14	3.38	4.00
5	Roads	10.50	12.70	5.57	7.65	8.16
6	Storm water drains	3.82	3.29	2.75	3.36	5.18
7	Street lights	23.67	31.03	37.68	41.68	46.22
8	Discretionary Services and others	10.30	19.69	11.89	13.92	13.98
	Total (Operation and Maintenance)	116.24	140.98	149.96	169.59	194.88
Debt Repayment						
1	Debt repayment	12.28	19.45	25.58	10.64	19.70

**Table VI – 4
Municipalities**

(Rupees in Crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Salaries	191.00	197.88	202.14	203.34	209.98
Operation and Maintenance						
1	General Administration	45.37	44.25	50.29	57.69	54.16
2	Water supply	53.60	64.94	80.84	89.18	97.38
3	Public Health	8.11	8.47	8.41	12.57	14.08
4	Conservancy	7.21	9.05	9.20	12.74	14.14
5	Roads	14.21	7.44	7.83	10.55	11.77
6	Storm water drains	3.58	4.75	3.64	4.07	4.98
7	Street lights	25.48	26.33	39.11	46.72	45.59
8	Sewerage	2.45	2.85	2.38	2.38	2.62
9	Discretionary Services and others	37.46	35.58	47.72	52.38	49.85
	Total (Operation and Maintenance)	197.47	203.66	249.42	288.28	294.57

**Table VI – 5
Municipal Corporations**

(Rupees in Crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Salaries	244.88	236.48	237.27	235.87	244.60
Operation and Maintenance						
1	General Administration	24.73	17.39	18.58	30.29	36.17
2	Water supply	25.32	23.78	31.49	32.63	42.22
3	Public Health	64.27	61.70	27.17	9.13	9.61
4	Conservancy	33.79	35.76	51.86	58.56	71.50
5	Roads	13.69	11.88	24.59	35.79	35.52
6	Storm water drains	0.81	0.95	3.39	4.54	4.12
7	Street lights	25.67	27.63	40.45	40.36	41.55
8	Sewerage	0.66	0.86	1.07	0.95	1.32
9	Library cess	1.76	3.83	4.09	5.51	6.22
10	Discretionary Services and others	81.77	75.80	84.60	77.44	73.27
11	School Building	1.83	4.48	6.52	1.98	2.74
	Total (Operation and Maintenance)	274..30	264.06	293.81	297.18	324.24

4) The details of expenditure on pension as furnished by Director of Local Fund Audit are given below for the years 2002-03 to 2004-05.

**Table VI – 6
Pension Expenditure**

(Rupees in Crores)

Sl No.	Local Body	2002-03	2003-04	2004-05
1	Panchayat Unions	50.44	33.00	30.75
2	Town Panchayats	27.04	23.79	23.08
3	Municipalities	71.76	66.12	78.96
4	Municipal Corporations	101.85	96.24	101.99
	Total	251.09	219.15	234.78

5) The sector-wise spending on capital creation is given below:

**Table VI – 7
Capital Expenditure
Village Panchayats**

(Rupees in Crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Roads & Bridges	21.92	30.33	18.53	22.64	21.66
2	Water Supply	35.62	32.61	44.03	39.32	45.51
3	Street lights	10.56	7.90	8.96	10.54	23.94
4	Buildings	5.14	4.43	4.45	5.40	6.70
5	Others	38.29	28.04	33.76	39.17	36.95
	Total	111.53	103.31	109.73	117.07	134.76

**Table VI – 8
Panchayat Unions**

(Rupees in Crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Roads & Bridges	45.16	37.51	32.53	40.85	66.19
2	Buildings including school buildings	21.76	18.36	24.19	24.67	30.33
3	Water Supply	16.63	17.95	35.64	49.04	45.64
4	Others	24.36	19.58	20.01	25.45	29.99
	Total	107.91	93.40	112.37	140.01	172.15

Table VI – 9
District Panchayats

(Rupees in Crores)

Sl. No.	Sector	2001-02	2002-03	2003-04	2004-05
1	Roads (SGRY)	25.83	60.60	69.87	62.79
2	State Finance Commission grant	14.18	40.27	53.85	56.29
	Total	40.01	100.87	123.72	119.08

Table VI – 10
Town Panchayats

(Rupees in Crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Roads	121.18	27.79	62.46	56.63	67.83
2	Culverts	61.34	8.41	8.46	8.29	10.06
3	Storm Water drains	6.90	10.63	21.58	20.00	17.96
4	Water Supply	11.96	6.46	12.06	9.20	10.97
5	Street lights	5.23	5.13	4.39	3.70	6.28
6	Public Health	9.15	6.45	19.48	8.38	14.11
7	Solid Waste Management	6.06	0.47	0.59	0.85	2.51
8	Others	17.24	25.38	32.09	29.06	31.73
	Total	239.06	90.72	161.11	136.11	161.45

Table VI – 11
Municipalities

(Rupees in Crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Water Supply	12.56	12.78	22.89	34.94	44.50
2	Sewerage	1.88	1.47	5.01	6.45	3.94
3	Roads	274.30	66.96	68.67	67.84	84.02
4	Storm Water drains	23.31	59.96	193.97	114.06	25.67
5	Street lights	4.44	3.73	2.90	5.97	10.45
6	Solid Waste Management	0.78	0.41	0.85	1.36	3.02
7	School Building	4.51	6.10	7.86	10.41	10.08
8	Others	59.10	111.00	136.13	74.54	70.90
	Total	380.88	262.41	438.28	315.57	252.58

**Table VI – 12
Municipal Corporations**

(Rupees in Crores)

Sl. No.	Sector	2000-01	2001-02	2002-03	2003-04	2004-05
1	Water Supply	2.65	2.61	4.85	8.93	9.88
2	Sewerage	8.21	3.8	0.69	13.11	6.42
3	Roads	121.78	96.63	75.27	158.50	123.74
4	Storm Water drains	23.08	37.66	11.47	37.94	27.79
5	Street lights	6.39	7.72	6.65	14.24	9.85
6	Public Health and Sanitation	1.99	5.83	1.87	10.4	4.57
7	Conservancy	0.81	0.78	0.01	0.08	0.86
8	Culverts	0.08	0.43	0.11	0	0.14
9	Others	44.83	38.70	29.42	47.64	58.51
	Total	209.82	194.16	130.34	290.84	241.76

6) The felt needs for core civic services after pruning it down to sustainability factor are given below:

**Table VI – 13
Felt needs for the period from 2007-12**

Rupees in Crores

S. No.	Name of the civic service	VPs	PUs	TPTs	Municipalities	Municipal Corporations	Total
1	Roads	1233	1360	475	437	305	3810
2	Culverts			102	61	267	430
3	Storm Water drains			183	236	171	590
4	Street lights	85		65	86	25	261
5	Water Supply	188		252	250	118	808
6	Underground Sewerage				217		217
7	Solid Waste Management			42	139	82	263
	Total	1506	1360	1119	1426	968	6379

7) The performance of the local bodies in the past five years reveals that the total expenditure incurred towards capital assets creation is Rs.5091.01 crores. But the total requirement under core civic services for the period from 2007-12 is Rs.6379 crores which is consistent with the past trends and expenditure.

8) Based on the actuals and the likely increase in expenditure, projections are made for the award period of 2007-12.

Table VI – 14
Village Panchayats
Projected Salary & Operation and Maintenance Expenditure for the period 2007-12
(Rupees in crores)

Items		2007-08	2008-09	2009-10	2010-11	2011-12	Total
Salary and Administration expenses		78.66	84.03	89.95	96.64	103.32	452.60
Operation and Maintenance Expenditure							
i)	Roads	71.23	71.23	71.23	71.23	71.23	356.15
ii)	Water Supply	62.40	65.52	68.80	72.24	75.86	344.82
iii)	Street lights	42.00	44.10	46.30	48.62	51.05	232.07
iv)	CC Charges	360.59	378.61	397.54	417.42	438.29	1992.45
v)	Conservancy	10.00	10.00	10.00	10.00	10.00	50.00
Total (O&M)		546.22	569.46	593.87	619.51	646.43	2975.49

Table VI – 15
Panchayat Unions
Projected Salary & Operation and Maintenance Expenditure for the period 2007-12
(Rupees in crores)

Items		2007-08	2008-09	2009-10	2010-11	2011-12	Total
Salary and other Administrative Expenses		121.25	133.37	146.71	161.38	177.52	740.23
Operation and Maintenance Expenditure							
i)	Roads	53.76	53.76	53.76	53.76	53.76	268.80
ii)	Buildings and other assets	115.50	127.05	139.75	153.72	169.10	705.12
Total (O&M)		169.26	180.81	193.51	207.48	222.86	973.92

Table VI – 16
Projections on Salary for Urban Local Bodies

(Rupees in Crores)

Sl. No.	ULB	2007-08	2008-09	2009-10	2010-11	2011-12	Total
1	Municipal Corporations	377.01	433.56	498.60	573.39	659.40	2541.96
2	Municipalities	377.44	434.05	499.16	574.03	660.14	2544.82
3	Town Panchayats	115.83	133.20	153.18	176.17	202.58	780.96
Total		870.28	1000.81	1150.94	1323.59	1522.12	5867.74

Table VI – 17
Projections on Operation and Maintenance Expenditure for Urban Local Bodies
(Rupees in Crores)

Sl. No.	ULB	2007-08	2008-09	2009-10	2010-11	2011-12	Total
1	Municipal Corporations	653.21	751.19	863.87	993.45	1142.46	4404.18
2	Municipalities	448.00	515.20	592.49	681.36	783.56	3020.61
3	Town Panchayats	296.38	340.84	391.97	450.76	518.38	1998.33
	Total	1397.59	1607.23	1848.33	2125.57	2444.40	9423.12

Table VI – 18
Projections on Loan Repayment for Urban Local Bodies
(Rupees in Crores)

Sl. No.	ULB	2007-08	2008-09	2009-10	2010-11	2011-12	Total
1	Municipal Corporations	111.96	123.15	135.47	149.02	163.98	683.58
2	Municipalities	77.32	85.05	93.55	102.91	113.20	472.03
3	Town Panchayats	26.23	28.85	31.74	34.91	38.40	160.13
	Total	215.51	237.05	260.76	286.84	315.58	1315.74

The detailed financial operating plan for Municipalities and Municipal Corporations for the period from 2000-05 and projections from 2007-08 to 2011-12 may be seen in Annexure VI – 2 and VI – 3 respectively.

Table VI – 19
Staffing pattern (Urban Local Bodies)

9) The following is the staff position as on 31.03.2005

Sl. No.	Local Body	Regular time scale	Consolidated pay	NMR	Vacant	Total
1	Municipal Corporations	28288	2984	2463	9404	43139
2	Municipalities	25827	2495	877	6621	35820
3	Town Panchayats	9153	3244	776	3446	16619
4	Panchayat Unions	6505	495	0	0	7000
	Total	69773	9218	4116	19471	102578

Rural Local Bodies

Village Panchayats

1	Full time assistants	-	1678
2	Part time clerks	-	10940
3	Scavengers and Over Head Tanks operators	-	50800
4	New appointment of Makkal Nala Paniyalargal	-	12618

10) Meanwhile, the Government in G.O. Ms. No.20 and 21, Municipal Administration and Water Supply Department, dated 23.02.2006, have ordered for regularisation of services of those on consolidated pay / NMR in Urban Local Bodies who were on the roll in 1996. Similarly the present Government have ordered for appointment of one Makkal Nala Paniyalar in each Village Panchayat on a consolidated pay of Rs.1000/- p.m. All these decisions may entail in additional expenditure in the coming years. The above and additional salary commitment has also to be built into the projection of expenditure commitment.

11) Moreover, there is need to prescribe staff norms for Municipal Corporations, Municipalities and Town Panchayats in view of the computerisation of the local body functions. It has also been brought to the notice of the Commission that there is need for employing accounts knowing personnel for handling accrual accounting system. Similarly there is dearth of supporting staff in engineering wing. This is noticeable in Town Panchayats and Grade-III Municipalities. In other Municipalities there is one Engineer with Technical Assistant whereas in Town Panchayats and Grade-III Municipalities, one Engineer is available for 4 Town Panchayats / Municipalities. Further there are no technical assistants to monitor the work at the spot.

12) Further, the Engineers for Town Panchayats are selected by Commissioner of Municipal Administration and allotted to Town Panchayats. But they continue to hold lien in Municipal wing and there are instances where the personnel charged with serious irregularities moving from Town Panchayats to Municipalities in the hope of getting away from their misdeeds. It is therefore necessary to have a separate Engineering wing for Town Panchayats as well with necessary supporting staff.

13) Similarly, in Rural Local Bodies too, the Engineering wing in Panchayat Unions have to be strengthened so that Village Panchayat works would not get suffered. At the same time, work norms and staff strength have to be fixed in tune with the computerisation now under way.

Distribution of work

PRIs

14) During field visits it has been brought to the notice that Extension-officer (P) is over burdened when compared to the work load of other E.Os (Extension Officers). The E.O.(P) is primarily attached to the scrutiny of tax collections, works etc of all Village Panchayats whereas other E.Os like Noon Meal, Agriculture have limited work. If the services of all E.Os are pooled by dividing the Village Panchayats for scrutiny and other related works, one may notice visible improvement. This appears to be a good approach in pooling the available man power.

Jawaharlal Nehru National Urban Renewal Mission

Mission's objectives

15) The Mission which will be in operation for 7 years from 2005-12 has the following objectives:

- a) Focussed attention to integrated development of infrastructural services in the cities covered under the Mission.
- b) Securing effective linkages between asset creation and asset management so that the infrastructural services created in the cities are not only maintained efficiently but also become self sustained over a time.
- c) Ensuring adequate investment of funds to fulfill deficiencies in the urban infrastructural services.

Admissible components

- a. Widening of streets
- b. Water supply
- c. Sewerage
- d. Storm water drains
- e. Solid waste management
- f. Parking lots
- g. Preservation of water bodies

In Tamil Nadu, three cities have been selected under the programme viz, Chennai, Madurai and Coimbatore. Under the programme, Mega cities like Chennai may get 35% Central assistance and Madurai and Coimbatore may get 50% Central assistance. The Tamil Nadu Government is understood to have signed Memorandum of Understanding with Central Government.

TNUDP-III Project

16) Under this programme, about 100 Municipalities and 3 Municipal Corporations are covered. The loan component of the scheme runs to Rs.404.47 crores and the grant portion works out to Rs.151.79 crores. Again under the scheme, core civic services are covered. The moratorium for repayment is 2 years for Solid Waste Management and Roads and 5 years for Water Supply and Sewerage Projects. The list of Municipalities and Municipal Corporations covered may be seen in Annexure VI-4.

Resource gap

17) The Revenue Expenditure including debt repayment for the award period of Third State Finance Commission i.e. 2007-12 are projected based on the normative approach and the same is given below:

The total requirement for the award period of Third State Finance Commission (2007-12) is given below:

Rural Local Bodies

Table VI – 20
(2007-2012)

(Rupees in crores)

Sl. No.	Sector	Village Panchayats	Panchayat Unions	Total
1	Salary Expenditure	452.60	740.23	1192.83
2	Operation and Maintenance	2975.49	973.92	3949.41
	Total	3428.09	1714.15	5142.24

District Panchayats

There is neither salary component nor Operation and Maintenance expenditure. The capital requirement is taken care of under felt needs.

Urban Local Bodies

Table VI – 21
(2007-2012)

(Rupees in crores)

Sl. No.	Sector	Town Panchayats	Municipalities	Municipal Corporations	Total
1	Salary & wages	780.96	2544.82	2541.96	5867.74
2	Operation and Maintenance	1998.33	3020.61	4404.18	9423.12
3	Debt Repayment	160.13	472.03	683.58	1315.74
	Total	2939.42	6037.46	7629.72	16606.60

Table VI – 22
(2007-2012)

(Rupees in crores)

Sl. No.	Local Bodies	Pension Expenditure	Capital needs
1	Panchayat Unions	407.54	1360.00
2	Town Panchayats	203.02	1119.00
3	Village Panchayats	-	1506.00
4	Municipalities	908.49	1426.00
5	Municipal Corporations	1125.47	968.00
	Total	2644.52	6379.00

Income

18) The income potential of all local bodies for the award period of Third State Finance Commission i.e. 2007-12 is given below:

Table VI – 23

(Rupees in crores)

Sl. No.	Local Body	Own Revenue	Assigned Revenue	State Finance Commission Devolution	TwFC grant	Total
1	Village Panchayats	479.58	984.62	4056.61	696.00	6216.81
2	Panchayat Unions	11.99	112.66	3883.99	174.00	4182.64
3	District Panchayats	-	-	690.49	0	690.49
4	Town Panchayats	1598.40	455.98	2187.53	200.20	4442.11
5	Municipalities	3879.51	685.91	2125.03	194.45	6884.90
6	Municipal Corporations	4787.74	909.54	1937.53	177.30	7812.11
	Grand Total	10757.22	3148.71	14881.18	1441.95	30229.06

Expenditure

(Rupees in crores)

PRIs

Salary and Operation and Maintenance 5142.24

Urban Local Bodies

Salary and Operation and Maintenance (including debt servicing) 16606.60

Pension Expenditure 2644.52

Capital Expenditure 6379.00

Outstanding loans 2464.46

TNUDP III loans 404.43

Loan component under National Urban Renewal Mission Not quantified

Total (PRIs & Urban Local Bodies) 33641.25

Total income expected 30229.06

Total Expenditure forecast 33641.25

The above estimate does not take into account the increase in staff expenditure due to recent decisions of Government and the likely impact of the Sixth Pay Commission's recommendations.

The resource gap and the need to augment resources and also to ensure increased flow of funds will be dealt with in the Chapter on devolution device.

Improvement in delivery of services

Roads

19) Major portion of the capital and operation and maintenance expenditure is spent on road improvement in local bodies. But there is a wide spread feeling that the quality of the road is below the standard owing to the non-observance of the norms and use of modern technology. Even though volume of traffic is one of the factors which determines the unit cost, the bus route roads should also have higher unit cost. But at the same time superior technology of using pavers and hot-mix plants in laying roads in local bodies should be resorted to. Further proper gradient and camber have to be provided in the roads laid in Rural Local Bodies. Although in Urban Local Bodies, use of superior technology is insisted, it is lacking in Town Panchayats. The Town Panchayats should also insist on using the superior technology.

20) Further there are pre-qualification bids in National and State Highways works. But in Urban Local Bodies such pre-qualification bids were introduced when World Bank assisted TUIFSL loans were provided in the year 2000. But in the case of other road works such pre-qualifications were not prescribed. At present no technical qualification is prescribed in Urban Local Bodies / PRIs for registering a person as a contractor. This leads to laying of poor quality roads. In the absence of qualified people in villages with necessary qualification for registering as a contractor, such contractors should be compelled to employ a B.E. / D.C.E. qualified person for executing the road work. He should be made accountable for the commissions and omissions noticed in the work. The quality of the road laid should be discussed in the grama sabha meetings.

Road cutting

21) The Second State Finance Commission observed about haphazard digging of roads in Urban Local Bodies / PRIs and suggested for a District level co-ordination Committee with District Collector as head to sort out the issues. In respect of Chennai City, the Second State Finance Commission felt that such a committee should be headed by the Chief Secretary to Government. The Government have also accepted the suggestion and issued orders. But the guidelines and the procedure for constituting such committees have not been evolved and the issue remains as ever before.

Formation and widening of roads

22) After demarcating the width of the road available for right of way in the proposed road, C.B.R. Test (California Baring Ratio) should be conducted with the help of Highways Research Station in Chennai and Regional laboratories in other areas. This can also be tested in Engineering Colleges / Polytechnics. On strengthening the existing road, the existing crust thickness of the road can be found out by conducting Benkelmen's Test. CBR test should be

conducted for deciding the proposed pavement design of the roads. This can be applied to the roads undertaken in Panchayat Unions and Town Panchayats and also in some Municipalities as per the standards of IRC and Ministry of Surface Transport. The estimates should be prepared with reference to the above standards.

23) Plastic wastes were used for laying roads. According to a rough estimate 1672 road works covering 1222 Kms have been laid by using plastic wastes at a cost of Rs.55.08 crores during 2004-05. By adopting this, 6694 tonnes of waste plastic were disposed and a 10% saving in bitumen was observed.

Water Supply

24) Normally Food, Clothing and Shelter are the most important requirements for mankind. Under Food, Water takes precedence even in religious scriptures. Even though 75% of the earth is covered by water, only 10% of the total is fit for human consumption. Among States in India, Tamil Nadu along with Rajasthan and Gujarat are water deficient. Albeit, it is the responsibility of the State to provide drinking water, that given the scarcity of this precious commodity and the high cost involved in making this water reaching the door steps of the people, it is not unreasonable to expect the public to pay user charges to cover the Operation and Maintenance requirements. This has been adequately brought out by Twelfth Central Finance Commission too.

25) The norms for water supply for various tiers of local bodies have been prescribed. But it is difficult to reach the norms. Tamil Nadu Water Supply and Drainage Board which is a monopolistic agency has been maintaining about 434 Combined Water Supply Schemes except Chennai Metropolitan Area. The cost pricing of the water appears to be high as brought out in the Chapter on line departments. There is a wide spread feeling that local bodies should be involved to a considerable extent in identifying the local sources and thereby reduce the need for Combined Water Supply Schemes.

26) One of the areas is the application of 'Reverse Osmosis' project. The Chennai Metropolitan Water Supply and Sewerage Board has put up Reverse Osmosis plants in Nochikuppam, Velachery and Ayodyakuppam. The capital cost for treating 4 lakhs litres of water with Iron Calcium Pottash content works out to Rs.75 lakhs and the recurring cost is around Rs.13.50 lakhs which would benefit 14,000 people. This is cheaper when compared to huge investment in Combined Water Supply Scheme. Many private builders have put up the above plants in residential complexes and the treated water is supplied directly to the kitchen.

27) Nayagara Water Solutions has brought into the market the machinery needed to treat the salt water and also water softener. Salt water process contains 4 stages, namely, Micron filter, Activated carbon filter, Reverse osmosis membrane and pest carbon filter. This

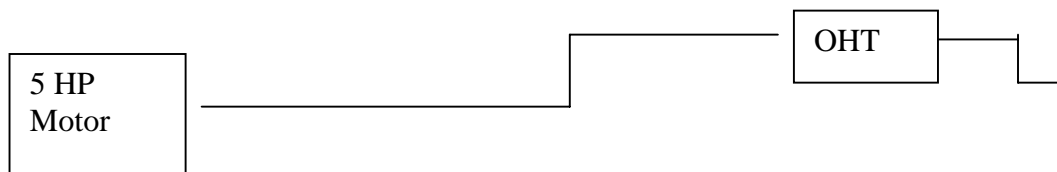
is available in various sizes according to the needs. The above like equipment may be tested and made use of treating the locally available hard water. Cost-wise also it is not high. Now with the implementation of rain water harvesting, there is every possibility of improving the ground water table. The electricity consumption is also less in the use of above plants.

Electricity charges for water pumping

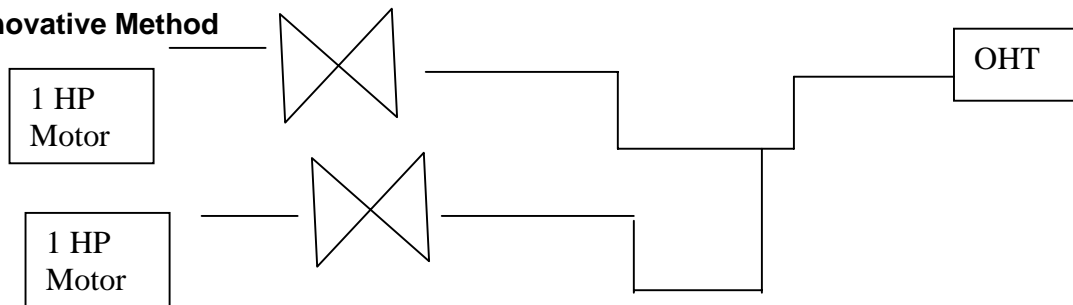
28) In Tamil Nadu Water Supply and Drainage Board operated water supply schemes, the electricity charges is one of the vital components that determines the cost pricing. It is time that Bio-diesel is extensively used to reduce the electricity consumption. Already a scheme for producing bio-diesel is in operation using Jatropha and Pungan oil etc. If it is extensively used, the electricity consumption charges may come down.

29) In Village Panchayats, use of 5HP Motors is in vogue. But it consumes more electricity during summer season. Kuthampakkam Village Panchayat attempted a novel method by which electricity during summer season is reported to have been reduced. The details of the scheme are:

Conventional Method



Innovative Method



Water Pumping 100% capacity

5HP sub mergible pump 18 hours a day consumes	3.7 to 4 KWts.
Monthly consumption of units	$4 \times 18 \times 30 = 2160$ units
Electricity charges	$2160 \times \text{Rs.}3.40$ =Rs.7344/-

Innovative Pumping

2 (1HP) Pumps	$2 \times 0.75 \times 18$ 27 Kwts or units
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Monthly consumption	810
Consumption charge	810 x Rs.3.40 =Rs.2754/-
Savings	Rs.4590/-

30) In the above process, water yield is the same. Other Village Panchayats may explore the possibility of using the above method or by improving the method to reduce electricity charges. Moreover public taps must be slowly discontinued except in slum areas and poor inhabited areas. Supply of water through house service connections would reduce wastage and lead to additional income as well.

Street lights

31) There is need to restrain the consumption of electricity in street lighting. Even though there are norms for spacing between 2 lights, upgradation of fluorescent lamps to sodium vapour lamps are taking place. With the increase in physical number, the consumption also goes high. Added to the misery is the hike in electricity rates from 2002. With all the factors contributing to the heavy electricity charges, there is one area where proper concentration is needed. It is the area of 'Energy Audit'. The Urban Local Bodies are aware of the consumption based on the number of lights and usage. But in the absence of proper metering, the charges levied could not be verified. In the case of Village Panchayats it is still worse. The Tamil Nadu Electricity Board with which the Third State Finance Commission interacted confirmed about the existence of meter and proper metering. But the interaction with the elected representatives reveals the other side, i.e excess metering of consumption by dividing the transmission loss. Moreover, unauthorised extraction of power supply from main lines by political people during their meetings escalate the consumption. It is time to detect the electricity theft by local bodies and Tamil Nadu Electricity Board. The Tamil Nadu Electricity Board has also promised to co-operate with the local bodies in detecting the theft.

32) Another method by which excess usage can be curbed is by way of putting timer / sensor device. The District Collector, Namakkal informed during interaction that after the installation of sensor devices, the consumption has come down. Moreover, man power can also be reduced. In this venture, the Residents' Welfare Association may be involved in monitoring the device and also on the feed back on it.

33) In Village Panchayats, the consumption can be reduced by switching off alternate lights during nights where volume of traffic and peoples' movement are less. Again Kuthampakkam Village Panchayat has attempted to reduce the street light electricity charges. It has replaced the 275 fluorescent lamps into CFL lamps.

The energy saving reported is : - 3948 KW

Illustration

Power per day	-	275 lights
	-	12 hour use
	-	Watt 58 watts
	-	$275 \times 58 \times 12$
	-	191 Kilo watt or unit
For a month	-	191×30
	-	5730
Consumption charges	-	5730×3.40
	-	Rs.19,482/-

After the installation of CFL lamp

Power per day	-	275 lights
	-	18 watts
	-	12 hours per day
	-	$275 \times 18 \times 12$
	-	59.4 KW
Monthly consumption	-	59.4×30
	-	1782 KW
Electricity consumption	-	1782×3.40
	-	Rs.6,059/-
Savings	-	Rs.13,423/-

34) Further Village Panchayats may also attempt for non-conventional energy production by way of tapping solar power, Bio-mass gasifier to reduce electricity consumption. Already some Village Panchayats like Odanthurai are in the fore front in making use of non-conventional energy and the Third State Finance Commission expects that at least 75% to 80% may switch over to energy saving device by the end of the award period for which Government should give encouragement.

35) Wherever possible solar powered street lights may be provided by availing the Government of India subsidy. The above solar powered systems may be attempted for a road width of less than 30 feet and low traffic density.

Energy Audit

36) Energy Audit is now experimentally undertaken by Anna University and Tamil Nadu Energy Development Agency is also involved in it. At present 13 Municipalities have been subjected to energy audit by availing funds from TUIFSL. In Karnataka State, Bangalore has made some head way in Energy Audit. The experiment undertaken by Anna University and Municipalities may be concretised and a workable Energy Audit System may be put in place in all the Municipalities and Municipal Corporations.

Solid Waste Management

37) Although National and International level NGOs have been preaching about disposal of garbages and for creating environment-friendly towns and villages, the momentum for the movement came after the Supreme Court of India constituted experts committee to go into the waste disposal and clean environment in the wake of plague disease in Gujarat and other areas. After the experts committee's guidelines are made available, Solid Waste Management Rules have been put into force.

38) Solid Waste Management is as much a necessity to the city as Rain-water Harvesting. It is not a waste to be associated with waste if one explores the wider aspects of segregation and its impact on society with the realisation that reuse and recycle are the best principles of life. BHEL township in Hyderabad is normally cited as an example for cost reduction in garbage disposal and resource recovery. In Tamil Nadu, Gandhi Nagar Town Panchayat is a role model to emulate. Under the scheme in operation, garbages collected and segregated from the residents and other generators are brought into composting yard. Inorganic waste is treated in two stages namely,

- a. Cattle dung Microbial decomposting manure
- b. Vermi composting to produce rich organic manure.

The organic waste is treated in different layers and at the end of the process, the whole manure are sieved, packed and sold for agricultural and afforestation activities. The above work is fully under taken by self help groups.

Sustainability

39) Under the scheme, Rs.20/- is collected from each family and Rs.50/- is collected from shops and other organisations. From the collected amount, wages are paid to Self-Help Groups. In fact the collection machinery is entrusted to Self-Help Groups. The balance amount is meant for material purchase and other expenses. Sale of organic manure and inorganic wastes is a source of income for the Town Panchayats. As a matter of fact the Gandhi Nagar Town Panchayat is not only involved in zero waste management but also generates income for the Town Panchayat besides meeting the working expenses of conservancy operations. More details may be seen in Annexure VI - 5.

40) Following the footsteps of small urban units, many big Municipalities and Municipal Corporations are privatising the conservancy operations. The Commission feels that Gandhi Nagar Town Panchayat model may be followed for making litter free towns and also to reduce the cost involved. Bigger Municipalities / Municipal Corporations may attempt Bio-methanation Projects. The above Bio-methanation is said to be successful in foreign countries and also in Vijayawada in Andhra Pradesh. Already in Chennai, Bio-methanation is done at Koyambedu market. In fact Mettupalayam and Ottanchatram where vegetable market wastes are heavy, the above project may be attempted for which Twelfth Central Finance Commission grants may be utilised. Further, the Ministry of Non-Conventional Energy is providing subsidy upto Rs.1 crore for Bio-methanation project if it could generate 1MW Electricity. The Government may allocate Twelfth Central Finance Commission grants meant for Solid Waste Management for the schemes as mentioned above to create wealth from wastes.

Sanitation

41) Under total sanitation campaign toilets are constructed in all villages with sufficient water facility. In fact, the scheme has picked up momentum and almost all villages are covered. This is one way of providing urban facilities in rural areas. What the country witnesses today in Government sponsored schemes is the lack of maintenance which leads to disuse of assets. This malaise should not spread to total sanitation campaign.

Privatisation of civic services

42) This has been dealt with later while discussing on Better Fiscal Management.

Involvement of Industrial Houses

43) In the interaction with NGOs and industrial houses, many were enthusiastic in involving themselves in the improvement of civic services. Dalmia Cements and TVS group are already involved in improving civic services. More industrial houses should come forward to interact with elected local bodies and their leaders who constituted governance in the vast rural sector and they should not try to solve problems through District Collectors. In fact adoption of one village by industry will go a long way in improving the economy of village and its all round improvement.

E-Governance

Urban Local Bodies

44 a) In Urban Local Bodies, e-governance has come into operation. The application modules currently in use are:

1) Birth and Death Registration, 2) Inventory Control, 3) Building Plan Approval, 4) Movable Property, 5) Census, 6) Non-Tax, 7) D & O Trade Licensing, 8) Personnel

Management System, 9) Electoral rolls, 10) Profession Tax, 11) Financial Accounting System, 12) Property Tax, 13) Family Enumeration, 14) Solid Waste Management, 15) Hospital Information, 16) Vehicles, 17) Immovable Properties, 18) Water Charges.

b) Besides additional areas have been identified and necessary application software has been developed.

1) Misc. collection, 2) File tracking, 3) Banker software, 4) E-Seva centre software, 5) Grievances, 6) DCB portal, 7) Litigation cases, 8) Monitoring of tender process, 9) Personal Register, 10) Under ground drainage, 11) A to Z analysis portal, 12) Self-Query portal

c) Apart from the above arrangement, Panruti Municipality on its own ventured into the e-governance besides the computerisation put forth by Commissioner of Municipal Administration. A field visit reveals that it is a paperless office with all activities computerised. A notable feature of the operations is the introduction of Mobile Collection through on line computer operations. Besides, people can seek details through mobile SMS in respect of Tax details. Then the e-governance has come to a full circle with the attendance of staff being watched by computer process.

Plans and Projects in the pipe line through TNUDP III assistance

- 1) Geographical Information System
- 2) Work Flow Management in Urban Local Bodies
- 3) Consultancy for Application System Software Audit
- 4) Introducing all e-governance facility in Grade-III Municipalities.
- 5) Payment through ATM centres using WAN.
- 6) Web based portal for Municipal administration
- 7) Capacity building of IT Professionals.

Rural Local Bodies

45) Computerisation has been in vogue in major areas of activities at District / Block level. At village level, computer hardwares / softwares have been provided in 6500 Village Panchayats and the rest of 6118 will be covered during the next 2 years. Self-Help Groups have been trained in the computer operations. Digital inclusion of the rural population and the connectivity were the key to empowering rural India. A connectivity back-bone at the Taluk / Block level Tamil Nadu is in the offing.

46) In Gujarat, financial reward of Rs.1 crore is given for small IT companies which set up ventures for rural development and which also aim at horizontal connectivity among villages and vertical connectivity at administrative level.

47) In the foregoing paragraphs, while analysing the needs and finances, the need for strengthening and restructuring the staff pattern, improving the civic services, involvement of

industrial houses and e-governance has been vividly brought out. In the light of the above analysis, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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

வாரி பெருக்கி வளம்படுத்து உற்றவை
ஆராய்வான் செய்க வினை

(எண்:512)

PART – (A) Fiscal Responsibility and Monitorable Fiscal Reforms

Para 2 (d) and para 5 (v) of Terms of Reference require the Commission to draw 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 and also to consider the scope for better fiscal management with efficiency and economy in major components of recurring and non-recurring items of expenditure. Based on the directive, the Commission has studied the issues with reference to the initiatives taken by the Government to improve the infrastructure facilities in Municipal areas by launching the TNUDP III project. In the light of 74th Constitutional Amendment Act, the Government has been given the responsibility to take care of financial health of city Governments. The State has formed Finance Commissions which have recommended a modified fiscal devolution to ensure horizontal and vertical equity in delivery of its responsibilities. States are now in the process of linking the fiscal transfers with the basic needs and performance.

Fiscal Responsibility of the Government

2) In 2003, the Government of Tamil Nadu has enacted the Tamil Nadu Fiscal Responsibility Act. It is in line with the Fiscal Responsibility Act of the Union Government enacted in 2000. Its objective is to ensure fiscal stability and sustainability and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on State Government's borrowings, debts and deficits, greater transparency in fiscal framework etc.

Fiscal Responsibility of the local Government

3) As in the case of Union and States, the fiscal responsibility of the local Government should be supported and be governed by the Legislative Act and it should focus on the following issues:

- a) increase the transparency of policy intentions and the economic and fiscal consequences of policy.

- b) bring a long term focus to budgeting.
- c) disclose the aggregate impact of a budget in advance of the detailed annual allocations.
- d) ensure independent assessment and reporting of fiscal policy.
- e) facilitate Council and public scrutiny of economic and fiscal information and plans.
- f) ensure recovery of direct expenditure on services like water supply provided.
- g) reduce debt financing without affecting the freedom to borrow.
- h) take measures to put in place automatic system to reduce deficit in a year.

4) In order to convey the fiscal responsibility and transparency, they need to do the following:

- lay down a plan for reducing the deficit, recover the expenditure on service and reduce the debt
- fully disclose the impact of their decisions over a three-year forecasting period
- present all financial information under accounting practice
- require the department to prepare forecasts based on its best judgement about the impact of policy, rather than relying on the judgement of the local governments and
- refer all reports required to a concerned council committee.

Details of the Legislation

5) The specifications of the Act can be grouped into four areas. They are the requirements to

- follow principles of responsible fiscal management
- publish fiscal intentions and objectives
- publish a range of reports resulting in a comprehensive set of fiscal information prepared under accounting practice and
- refer all reports required to a concerned council committee.

The details of these arrangements and the rationale behind them are explained in the following sections:

Principles of responsible fiscal management

6) The principles of responsible fiscal management as set out are:

a) Reduction of debt to manageable levels so as to provide a buffer against future adverse events, by achieving operating surplus every year until discreet levels of debt have been achieved i.e. the local government is to control expenditure till debts are reduced to manageable levels. Further where funding of services (debt) have been accessed, recovery through user charges must be closely monitored treating each item as a separate source. Maintaining debts at prudent levels by ensuring that, on an average, over a reasonable period of time, total operating expenses do not exceed total operating revenues i.e., the Urban Local Body is to keep debt at prudent levels by living within its means over a time. Achieving levels of high net worth provide a buffer against adverse future events i.e., to make sure that if the finances are hit by an adverse event, such as a major repairs due to floods or natural calamities, etc., the Urban Local Body should be able to borrow without undue risk of moving into an unsustainable net worth position.

b) The second principle acknowledges that the highest financial strength depends on its overall balance sheet position, not just debt. Other non-debt liabilities also count in their overall financial strength.

c) Thirdly, a comprehensive assessment of the assets of the local bodies, their revenue yielding potential and existing levels of utilisation of such potential should be undertaken to enhance the own resource base of the local body.

d) The fourth principle reflects the importance of stability in tax rates for private sector planning and hence growth. Pursuing policies that are consistent with a reasonable degree of predictability and the level and stability of tax rules for future years; i.e., to avoid surprises about future tax rates.

Budget Policy Statement

7) The Budget Policy Statement,

- provides a vehicle for ensuring that the fiscal intentions over a local body's immediate planning horizon are consistent with the longer-term principles specified, if not, provides the vehicle for explaining the departure.
- sets a base against which subsequent fiscal performance and decision-making can be judged
- separates debate on the overall fiscal strategy from questions of detailed budget allocations (essentially the patterns of expenditure and revenue in the upcoming year). This ensures some debate on the aggregate impact of the proposed Budget and helps make the trade-off between debt, taxes and expenses more explicit and

- is consistent with a more open budget process. It is also likely that there will be more debate on fiscal strategy, budget parameters and the priorities and thereby will provide a suitable vehicle for such a debate.

Reporting requirements

8) With the introduction of accrual accounting, it is possible for the lending agencies to look into the financial health of Urban Local Bodies. Local bodies' finances should be reported and made public to enhance the transparency and credibility of the fiscal forecasts.

This requirement also adds to the integrity and credibility of the local governments' financial statements. It also requires a statement of the significant assumptions underlying the economic forecasts, further improving their transparency.

The set of fiscal forecast that should be included in the updates are

- a statement of the forecast on financial position
- an operation statement reflecting the forecast on revenue and expenses of the highest
- a statement of cash flow
- a statement of borrowings and
- anything that is necessary to fairly reflect the financial position of the maximum.

A comparative budget and actual figures for each of these statements for the previous year are also to be included. The robustness of the financial position can be assessed further by the obligation of specific fiscal risks facing the local governments in relation to its decision and all significant accounting practices. Finally, all significant assumptions underlying the fiscal forecast must be included.

In the light of the analysis on fiscal updates and the need to have accountability and transparency and to keep the operating ratio within the available income, the Third State Finance Commission recommends that a Fiscal Responsibility and Budget Management legislations for Urban Local Bodies may be enacted to take the structural reforms down to the third tier of the Government.

Monitorable Fiscal Reforms

9) The Terms of Reference to Third State Finance Commission mandates to draw monitorable fiscal reforms programme aimed at providing an incentive to local bodies within the ambit of devolution. For enforcing fiscal Reforms, legislative power is necessary. As the local bodies have no legislative function and they are dependant on the State Government for amending the Act/Rules, it is difficult to enforce the fiscal reforms. However, within the

limited powers available there is scope for 'push-through' in certain areas without the legislative power. In the name of enforcing reforms the State Government is attempting to reduce the resource potential of the local bodies especially under Assigned Revenue. Even in the local bodies' exclusive domain of own-taxes and non-taxes, the Government have the leverage and thereby postponing the quinquennial revision of property tax under tax system and user charges under non-tax covertly.

Despite all hiccups, fiscal reforms need to be monitored to assess the performance of Urban Local Bodies. In order to monitor the fiscal reforms, a few of select indicators need to be developed and monitored on a periodic basis.

INDICATORS

Operating Ratio Revenue expenditure including interest payment should be less than the revenue income in all Municipalities. In other words the operating ratio of revenue expenditure divided by revenue income should be less than 1.

Debt Servicing Ratio The ratio of the debt servicing to annual revenue receipts should not cross 25%

Fiscal Transfer Revenue collection of different current taxes and non-taxes to the total current demand shall not be less than 90%

Fiscal discipline

Revenue Realisation
This should be realised with reference to the Budget projections and shortfall in realisation should be considered as a lapse. This should be checked up with the actuals at the end of the financial year.

Revenue Expenditure Control
Operation and Maintenance expenses and annuity on loans should not exceed 50% of the total revenue receipts.

Salary and Pension
This should be pegged down to 49% of the total revenue receipts.

Audit Objections
The number of audit objections received and answered during the financial year is also an indicator of the performance as fiscal discipline. At least 50% of the audit objections should have been settled.

Debt level Mumbai Municipal Corporation has a debt ceiling which is 7 times of its own revenue. A ceiling of 4 times on own income may be fixed for borrowing by Urban Local Bodies in the State.

**Performance and
Public responsiveness**

Water connection
Building licences

Adherence to the time frame as contemplated in the Municipal manual and executive instructions during the financial year is a factor for reckoning. At least 75% of the requests should have been considered for measuring the fiscal prudence of the Municipality and Municipal Corporations.

PART-B - BETTER FISCAL MANAGEMENT

Privatisation of core civic services

Privatisation is one of the policy packages of economic reforms and the experience shows that wherever there are monopolistic service providers, the quality of service is irregular and unimpressive. Realising this, the Government in G.O. Ms.No.69 Municipal Administration and Water Supply Department dated 4.4.98 have suggested certain guidelines for privatisation of the service rendered by the local bodies. Accordingly, some of the Municipal Corporations and Municipalities have partially privatised certain civic services. The following are some of them:

- a) Trichy Municipal Corporation has privatised the maintenance of Bus stands and vegetable markets in a novel method. The Corporation has constructed 8 toilets in and around Bus stand which generate Rs.20,000/- per day and these toilets have been handed over to a N.G.O. The said N.G.O employs 300 sweepers to clean the bus stands and the surrounding roads by utilising the funds generated from the toilets.
- b) In Tirunelveli Municipal Corporation, street lighting and garbage clearance have been privatised owing to lesser staff strength.
- c) In Coimbatore Municipal Corporation, solid waste management has been privatised in one zone. Street light maintenance has also been privatised. In Tirupur and Namakkal Municipalities, solid waste management activity has been privatised.
- d) Gandhi Nagar and Melpataravakkam Town Panchayats have engaged Self-Help Groups for conservancy work.

2) In all the above cases except Gandhi Nagar, it is not established clearly whether it resulted in savings. In Gandhi Nagar it resulted in saving which has been discussed in detail under Solid Waste Management.

Norms for Operation and Maintenance Expenditure

Urban Local Bodies

3) Norms have been evolved for incurring Operation and Maintenance expenditure for roads, water supply, streetlights, public health materials etc. But this could not be adhered to due to various factors including natural calamities. Besides, deliberate damaging by anti social elements in many parts of Urban Local Bodies have also resulted in non-observance of the norms. In 1998-99 centralised purchase of public health materials like bleaching powder, phenol and other chemicals based on the road length and number of public conveniences has been attempted resulting in economy in expenditure. In respect of street lights and water supply materials, Government orders have been issued for purchase of ISI/ISO 9001 marked products.

4) The Operation and Maintenance expenditure for core civic services are as under:
(excluding salary and wages)

(Rupees in crores)

Sl. No.	Local Body	2000-01	2001-02	2002-03	2003-04	2004-05
1	Erstwhile Town Panchayats / Special Village Panchayats	116.24	140.98	149.96	169.59	194.88
2	Municipalities	197.47	203.66	249.42	288.28	294.57
3	Municipal Corporations	274.30	264.06	293.81	297.18	324.24

Rural Local Bodies

5) The Second State Finance Commission has recommended the Operation and Maintenance charges to be incurred towards water supply spare parts, street light materials and also suggested a committee for fixing rates and norms for Operation and Maintenance for civic services once in two years. The Government have accepted the recommendations at the Secretaries' level meeting but orders are yet to be issued.

Arrears of Taxes and Non-Taxes under litigation

6) The arrears of taxes and non-taxes locked up in Court cases are furnished below:

Taxes and non-taxes arrears as on 31.03.2005	Amount involved
Special Village Panchayats now Town Panchayats -	Rs.4 crores
Municipalities -	Rs.22 crores
Municipal Corporations -	Rs.16 crores

At present the litigants file cases in District Courts / Subordinate Courts against the levy of taxes and non-taxes and refuse to pay the tax-dues by citing the filing of case. This is because there is no mandatory provision compelling them to pay taxes pending disposal of

the cases. As the cases drag on for years together, the Commission feels that as in the case of Income Tax and Sales Tax, there must be a stipulation for remittance of the full portion of the tax or 75% of the tax pending disposal of the case. This may obviate difficulties in collecting the arrears at a later date.

Maintenance of Assets

7) With the introduction of accrual accounting system, assets maintenance has become imperative. Unique numbering of assets and proper maintenance as contemplated under Section 79 of the suspended Tamil Nadu Urban Local Bodies Act, 1998 is of vital importance. Moreover, the written off assets should be removed from the Register and that no provision for Operation and Maintenance expenses for the above assets should be made. The value of the assets should be truly reflective of the operating assets. Instances have come where the unused and broken bore wells continue to be shown under assets even though in reality those assets do not possess any value or render any service. Such assets should be properly written off after observing the manual provisions.

Land availability and use

8) Almost all Municipalities have no land. Even private lands in Municipal areas have been put to use. The resultant effect is that the income of the Municipalities have become frozen. This has been realised by the Government some years back and they issued orders in G.O. Ms. No.116 Municipal Administration and Water Supply Department dated 14.05.1999 for consideration of annexing of rural areas abutting the Municipal limits for providing better amenities and service and at the same time acquiring precious land for Municipal purpose and also to improve the Municipal bodies' income. Now with 50% Twelfth Central Finance Commission grant for Urban Local Bodies going to Solid Waste Management, it is imperative for Municipal Corporation / Municipalities to have sufficient land for disposal of bio-degradable wastes and non bio degradable wastes. Recently, the Prime Minister has also spoken about improving urban infrastructure to create a right climate for cities to become liveable. In places suitable for harnessing wind power, identification of suitable lands for setting up of wind mill units for own consumption of local bodies should be explored.

9) In the light of the analysis on fiscal updates, the need to have accountability and transparency, the need to ensure fiscal reforms and better fiscal management, the Third State Finance Commission recommends the following:

- i ***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.***

- ii ***A programme as propounded above may be evolved which may serve as parameters for assessing and awarding the incentive fund set apart for Urban Local Bodies.***
- iii ***Norms prescribed for core civic services including quality purchase of materials must be strictly adhered to and the expenditure is contained.***
- iv ***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.***
- v ***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.***
- vi ***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

**அளவறிந்து வாளாதான் வாழ்க்கை உளபோல
இல்லாகித் தோன்றாக் கெடும்
(எண்:479)**

Para 2 (b) of the Terms of Reference requires the Commission to recommend the measures needed to improve the financial position of the local bodies taking into account, inter-alia their level of debt and their ability to service the debt. Again in para 4 of the Terms of Reference, the Commission has been asked to have regard to the resources of the State on debt servicing including the debt servicing on behalf of the local bodies. Based on the Terms of Reference, the Third State Finance Commission studied the issue in its entirety. The debt burden is primarily with Urban Local Bodies and in Rural Local Bodies it is very negligible as funding for Panchayats is almost by way of grants.

Debt position of Urban Local Bodies

**Table VIII – 1
Municipal Corporations
Agency-wise outstanding loans as on 31.03.2005**

(Rupees in Crores)

Sl. No.	Municipal Corporations	Govt. of Tamil Nadu and LIC	TUFIDCO	Others
1	Chennai	0	63.03	69.49
2	Madurai	86.03	11.46	98.39
3	Coimbatore	72.37	0	81.16
4	Trichy	31.42	14.36	45.78
5	Salem	23.28	20.07	43.35
6	Tirunelveli	28.69	63.37	92.19
	Total	241.79	172.29	430.36

**Table VIII - 2
Agency-wise outstanding loans as on 31.03.2005**

(Rupees in Crores)

Sl. No.	Local Body	Government	LIC	TUIFSL	TUFIDCO	Others	Total
1	Municipalities	442.68	@	355.62	506.89	540.53	1845.72
2	Town Panchayats	24.87	59.74	38.66	26.54	38.57	188.38

@ Combined figures of Government and LIC loans.

2) Of them, the Government of Tamil Nadu and LIC loans account for 30.90% of the total debt which was primarily utilised for Water Supply Schemes and Drainage Schemes. In 1998, the Government have rescheduled the loans taken from Government and LIC and fixed the interest at an uniform rate of 13.5% repayable in 20 years in half yearly instalments. However, reduced interest rate of 10.74% has been ordered from 1.4.2000 to 4 Municipalities viz Arakonam, Chidambaram, Arcot and Chinnamanur. Further, moratorium for principal has been given to 2 Municipal Corporations viz Madurai and Salem and for 19 Municipalities as noted below:

1) Palani, 2) Aruppukottai, 3) Madurantagam, 4) Ranipet, 5) Tiruppur, 6) Dindigul, 7) Edapadi, 8) Nagapattinam, 9) Tambaram, 10) Gudiyattam, 11) Thiruvottiyur, 12) Cumbum, 13) Mettur, 14) Rasipuram, 15) Walajapet, 16) Tiruvannamalai, 17) Kumbakonam, 18) Pudukottai, 19) Thanjavur.

3) In respect of Chennai Corporation, the functions relating to water supply and drainage are performed by Chennai Metropolitan Water Supply and Sewerage Board. As such, it has not been taken into account.

The details of outstanding loans as on 31.03.2000, agency-wise are as below:

Table VIII - 3

(Rupees in crores)

Sl. No.	Local Body	Government	MUDF	TNUDF	LIC	Others	Total
1	Municipal Corporations	271.94	76.38	45.49	7.96	195.74	597.51
2	Municipalities	159.80	49.80	21.89	93.69	41.13	366.31
3	Town Panchayats	14.98	0	10.75	31.48	33.12	90.33

The details of repayment of debt during 2000-05 are given below.

Table VIII - 4

(Rupees in crores)

Sl. No.	Local Body	2000-01	2001-02	2002-03	2003-04	2004-05	Total
1	Municipal Corporations	7.32	10.97	12.73	73.10	9.37	113.49
2	Municipalities	42.93	31.28	56.38	56.52	58.09	245.20
3	Town Panchayats	12.28	19.45	25.58	10.64	19.71	87.66

4) For Municipal Corporations / Municipalities and Town Panchayats the interest pending on Government / LIC loans as on 31.03.2005 are furnished below:

Municipal Corporations except Chennai	-	Rs.154.71 crores
Municipalities	-	Rs.179.09 crores
Town Panchayats	-	Rs.41.48 crores

In the last few years, the lending rates started coming down in India. At present it is in the range of 7.5% to 8%. While TUIFSL and TUFIDCO have consolidated the loans and applied 8% interest for the loans taken by Urban Local Bodies, the loans funded by Government and LIC continue to be at 13.5% for all except the relief ordered to some Municipalities as stated above. Even though Government has been making interest payments for the loans taken on behalf of local bodies on time to LIC as committed expenditure, the interest burden continues to be in the books of local bodies for repayment. The steep increase in the outstanding loans is a matter for concern. The general tendency has been to borrow to finance capital projects. The huge increase casts a heavy burden on the fragile resource base of the local bodies. Government have taken recourse to deduct the demand for principal and interest from the devolution which leaves very little for the local bodies. A comprehensive review of the capacity of the local body to support the borrowings, a relook at enhancing the support through grants for infrastructure activities is an urgent necessity. Government should immediately embark on this exercise lest the local bodies should fall in the debt trap. Before venturing into specific suggestions based on the previous Commission's recommendations and Sub-Committee's report on the recommendations, let us have a look at the State's debt position as on 31.3.2005.

Table VIII - 5
State's debt as on 31.03.2005

(Rupees in Crores)			
Sl. No.	Details	2003-2004	2004-2005
1)	Internal debt of the State-market loans	14923.37	16522.23
2)	Loans from financial institutions	3808.91	3125.32
3)	Loans and advances from Central Government	9426.90	8810.78
4)	National Small Savings fund loans	9773.93	9773.93
	Total	37933.11	38232.26

5) The debt burden of the State started showing an increasing trend from 1997-1998 onwards. But this debt burden is sought to be alleviated by way of relief packages recommended by Twelfth Central Finance Commission.

6) Under Twelfth Central Finance Commission, the debt relief package is available subject to the enactment of Fiscal Responsibility Act and elimination of revenue deficit by 2008-09. The relief packages suggested are:

- i) The Central loans to States contracted upto 31.03.2004 and outstanding as on 31.03.2005 have been suggested for consolidation and rescheduled for a fresh term of 20 years and the consolidated loan shall bear an interest of 7.5%.

- ii) Under the Debt write off scheme, the repayments due from 2005-06 to 2009-10 on Central loans contracted upto 31.3.2004 will be eligible for write-off. The quantum of write off of repayment will be linked to the absolute amount by which revenue deficit is reduced in each successive year during its award period. In effect, if the revenue deficit is brought down to zero, the entire repayments during the period will be written off. The quantum of relief for repayment and interest for the period 2005-10 is Rs.1884.17 crores.

Not only Twelfth Central Finance Commission, the previous Central Finance Commissions viz Second, Seventh, Eighth, Tenth and Eleventh Commissions provided debt relief to States.

7) As far as Tamil Nadu State Finance Commissions are concerned, the First State Finance Commission did not suggest any debt-relief as it was not found in the Terms of Reference. The Second State Finance Commission which analysed the issue based on the Terms of Reference recommended relief measures as noted below:

- i) The Urban Local Bodies which were above the average per capita income as on March 2000 were considered for debt relief on Principal for loans taken on water supply and sewerage at the rate of 20% for Corporations, 25% for Municipalities and 30% for Town Panchayats.

- ii) It also recommended for scaling down of interest rate from 13.5% to 10.74% for the above Urban Local Bodies.

- iii) Besides, Second State Finance Commission recommended constitution of a committee to monitor the performance of Municipalities covered under debt relief package and for other high debt Municipalities.

8) But the Government constituted a sub-committee to study the recommendations on debt relief to local bodies. The sub-committee is reported to have given its report but no orders have been issued. It is needless to emphasise that, as like States availing debt relief through Central Finance Commissions, the urban local bodies also expect relief from States. Unlike the Rural Local Bodies, the Urban Local Bodies get only meagre grants but major portion for improving the civic services is met through borrowing. In the case of obligatory services like water supply, sewerage scheme, road work etc the cost recovery is minimum, in the sense, not even they meet Operation and Maintenance expenses, leave alone capital repayment. The Government loans / LIC loans were primarily provided for water supply improvement scheme with high interest rates. But the loans taken from TUFIDCO, TUIFSL for schemes and remunerative projects have been consolidated and the interest is charged at 8% from 1.4.2002. Hence, there is absolute necessity for the revision of interest rates by means of consolidation. Despite the fact that the debt-burden is heavy, the Municipalities /

Municipal Corporations have not initiated effective steps to reduce the staff component and also Operation and Maintenance to have surplus for working the debt repayment.

9) In the District hearing, many elected representatives pleaded for reducing the debt burden by citing the non-implementation of the debt-relief measures suggested by Second State Finance Commission. In the award period of Third State Finance Commission, TNUDP III Projects are being pushed through. Further, Jawaharlal Nehru National Urban Renewal Mission is also in operation for Mega cities. In Tamil Nadu, Chennai, Coimbatore and Madurai are covered. In the mission programme, only 35% comes by way of Central grants, 15% grants from the State and the balance 50% has to be mobilised by way of loan. This may also add burden to the already burdened Municipal Corporations.

10) Under TNUDP III, World Bank loan has been arranged for improving the civic services. The TNUDP III project which will be in operation for 6 years from 2005-11 consists of loan and grant. In the TNUDP III programme, 17 Town Panchayats, 72 Municipalities and 3 Municipal Corporations are covered. Under the programme the total loan commitment for water supply, roads and solid waste management work out to Rs.404.47 crores besides the grant portion of Rs.151.79 crores. The above loan component may add to the already debt-burdened Municipalities since no return / recovery can be expected from the road and solid waste management sector.

11) From an analysis of Financial Operating Plan of Urban Local Bodies, it appears that except some Municipal bodies / Town Panchayats all are in surplus in Revenue Account. But the surplus is meagre for investing in core civic services or in repayment of loan principal and hence they have to necessarily approach the lending agencies for loans to keep the services level partly though not fully.

12) Prior to 2004, all loans intended for improving water supply and drainage in Municipal areas other than Chennai were given to Tamil Nadu Water Supply and Drainage Board which resulted in time and cost over-run. This was the primary reason for the debt-burden as loan repayment commenced prior to the fructification of the scheme. Now the Municipal bodies have been permitted to approach the lending agencies for loans after getting the feasibility report. Moreover, in the Combined Water Supply Scheme, the loan amount i.e capital cost taken by Tamil Nadu Water Supply and Drainage Board was shared by Urban Local Bodies even though the beneficiaries include way-side Village Panchayats. For the way-side Village Panchayats, only maintenance charges for the water consumed has been collected. Now with the change in procedure, there is scope for monitoring the cost and time.

13) After studying the debt burden in the context of the relief provided by the Central Government to State loans and also the previous Second State Finance Commission's recommendations, the Third State Finance Commission feels that interest relief for loans

taken for water supply and sewerage has almost become a necessity. This is also gaining momentum after the write off of co-operative loans availed by farmers, even though it has no relevance to Urban Local Bodies. But the Urban Local Bodies have not got the entitled share in devolution in the last 9 years and the short fall in release amounts to Rs.299.50 crores for the period from 1997-2005. The year-wise short fall has been elaborately discussed in the Chapter on Devolution Device. The principal outstanding may be re-scheduled with fresh repayment period with an interest rate of 8%. The interest rate of 8% is arrived at on the basis of the interest charged by TUFIDCO, TUIFSL and also by Central Government for consolidated loan for the period from 2005-10.

14) Another issue which needs to be considered is the sustainability of the debt burden. In some Urban Local Bodies in other States, like Mumbai, there is a limit for borrowing. The Second State Finance Commission which studied the issue recommended that a ceiling of 4 times of own resources could be an ideal parameter for borrowing by Urban Local Body. The Government have also accepted the recommendation and issued orders in April 2003. But it is not known whether a workable mechanism is put in place to monitor the level. Unless sustainability of the debt is analysed, the problem would continue to haunt.

15) In the above back-drop, the Third State Finance Commission recommends the following:

- i ***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).***
- ii ***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.***
- iii ***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%.***
- iv ***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.***

- v ***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.***
- vi ***The Government may prescribe a ceiling for borrowing by Urban Local Bodies to prevent them from falling into debt-trap.***
- vii ***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.***
- viii ***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.***
- ix ***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

**இயற்றலும் ஈட்டலும் காத்தலும் காத்த
வகுத்தலும் வல்ல தரசு**

(எண்:385)

Para 2 (f) of the Terms of Reference requires Third State Finance Commission to review the present system for assessing the accountability of the local bodies in utilising the resources raised or received from State and Central Governments and other agencies and also the maintenance of local body accounts and creation of data base as mentioned by Central Finance Commission. In accordance with the Terms of Reference, the Commission studied the adequacy of audit and the auditing agencies in the wake of enormous flow of funds to Rural Local Bodies. The Commission has been informed that on an average a Village Panchayat gets Rs.20 to 25 lakhs per annum. from all sources including MLA/MP Scheme funds and District Rural Development Agency operated centrally sponsored funds. Similarly, a Panchayat Union gets Rs.4 to 5 crores on an average. In the absence of specific function, the flow of funds to District Panchayats is only marginal.

Audit in Rural Local Bodies

2) At present, the Audit of Village Panchayats is done by Deputy Block Development Officer. Test audit of Village Panchayat accounts is done by Director of Local Fund Audit as per Second State Finance Commission's recommendations. The Second State Finance Commission prescribed test audit of 22% Village Panchayat accounts including 2% of audit on specific complaints forwarded by Director of Rural Development. In the interaction with Director of Local Fund Audit, he has informed that 10% test audit alone was conducted upto 2004-05 and efforts will be made to cover 22% from 2005-06. He has also stated that in most Village Panchayats, accounts have not been closed resulting in delay in audit. In respect of Panchayat Unions and District Panchayats, the Director of Local Fund Audit has been auditing and the Comptroller and Auditor General of India is conducting random audit on works exceeding Rs.1 crore. The Director of Local Fund Audit issued audit reports in respect of Panchayat Unions and District Panchayats upto 2003-04 and in respect of 2004-05, it has been partially completed. The accounting formats prescribed by Comptroller and Auditor General of India has not been put to use as the Director of Local Fund Audit is still in discussion with higher authorities.

For compilation of accounts, the Second State Finance Commission recommended a time frame for all local bodies and the Government accepted the recommendation and issued orders. But field reports say that it is more in breach than in implementation.

Audit in Urban Local Bodies

3) The Government have introduced the accrual accounting system to all Municipal Corporations and Municipalities right from the financial year 2000-01. For Town Panchayats the accrual accounting system has been introduced from the financial year 2002-03. Tamil Nadu is the first State in India to have introduced accrual accounting system in all Urban Local Bodies much before Twelfth Central Finance Commission and Ministry of Urban Development suggested for such switch over. Even though much spade work has been done by way of training, yet the Commission finds that there has been delay in compilation. The audit wing of the Director of Local Fund Audit has not been able to rise up to the occasion consequent on the introduction of accrual accounting owing to poor knowledge in the field. This resulted in delay in compilation and audit of accounts. According to Director of Local Fund Audit, the following accounts of Urban Local Bodies for the previous financial years have not been audited. They are:

Table – IX-1

Sl. No.	Local Body	Audit of accounts	upto which completed	Balance
1	Panchayat Union	385	2003-04	---
2	Town Panchayats and Grade-III Municipalities	611	2001-02 2002-03 2003-04	1 42 315
3	Municipalities	102	2001-02 2002-03 2003-04	2 36 102
4	Municipal Corporations	6	2001-02 2002-03 2003-04	3 6 6

4) For the above apathetic condition, not only the municipal bodies but also the audit wing is responsible. The audit wing has not modernised its approach by way of e-mode resulting in more man-hours. In fact they should have developed a computer programme for routine checks, detailed scrutiny and major irregularities so that reply to audit slips can be answered by way of e-mode. The conventional method of taking notes, getting it typed and thereafter sending to the institution take most of the time. By adopting the computerised approach, the precious time will be saved. In fact the time slot given to each auditor has to be reduced after the mechanisation of auditing format and that the surplus time available may be properly put to use instead of seeking more additional staff.

5) Besides, the reasons adduced for delay in auditing the accounts of the Municipal Corporations and major Municipalities by Director of Local Fund Audit do not appear to be convincing. In fact there is a concurrent audit branch of Director of Local Fund Audit in all Municipal Corporations and major Municipalities. They should have been more alert in forcing the Municipalities to compile the accounts in time. But their inability or apathy has contributed to the delay. Keeping the inherent weakness in mind, Second State Finance Commission recommended for introduction of pre-audit to reduce the work load of the audit wing. But the Government have not accepted the recommendation.

6) In conducting scheme audit by Comptroller and Auditor General of India, the Second State Finance Commission recommended for raising the financial limits since it was fixed two decades ago. The Government accepted the recommendation and addressed the Comptroller and Auditor General of India, New Delhi and orders are awaited.

Audit Objections

7) The audit objections are stereo typed and it lacks proprietary. For instance, in the case of non-collection of taxes and non-taxes in a particular year, the responsibility should be fixed on the persons in office and the successor's failure to take follow up action can be an administrative lapse. But the entire loss is fixed on all of them thereby the loss is multiplied. The role of administrative machinery is now geared up with Act amendment and that the owner will be forced to pay taxes pending disposal of the dispute. But at the same time auditors should be watchful on the action taken on such irregularities so that the administrative machinery is brought to tenterhooks.

Management Audit

8) The Second State Finance Commission recommended for implementation of 'Management Audit' evolved by State Planning Commission to instill a sense of responsibility among the executing agencies. The Government accepted the recommendation and issued orders directing the administrative department to constitute a team. But so far the team has not been constituted.

Social Audit

9) One of the key accountability mechanisms is the continuous social auditing of the performance of the elected representatives. The Grama Sabha shall be the forum for conducting Social Audit of the Village Panchayats. The concept of social audit and the involvement of people have to be encouraged. Every member of a grama sabha has a right to know the rationale behind each decision of the Panchayat and also has a right to know on what a Panchayat has done about decisions taken earlier. At present the income and expenditure details are read out and the approval of the people is taken for granted. As a first

step, details of works done, estimated cost and final cost of the work and the time taken may be placed in the grama sabha. The income derived and the dues should also be highlighted.

Performance Audit

10) Meanwhile, Twelfth Central Finance Commission has suggested that a performance audit system be adopted under the best practices. This suggestion appears to be sound in the sense that many assets created from out of loan have not derived any return by way of lease/rental revenue. For instance, in 12 Municipalities, assets created did not fetch any income and it resulted in revenue loss of Rs.1.83 crores. In another 4 Municipalities viz Ranipet, Erode, Pallavaram and Sathur, assets created through TUIFSL and TUFIDCO loan did not fetch a single pie even though the investment runs to Rs.1.5 crores. To put an end to the frittering of money, there is need for proper assessment before execution and also by way of performance audit after execution.

11) In the above back drop, the Third State Finance Commission recommends the following:

- i 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.**
- ii 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.**
- iii 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.**
- iv 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.**
- v 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.**
- vi 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.

- vii ***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 relevant para may be the basis for the social audit.***

ACCOUNTABILITY (PRIs)

12) Normally in a democracy, the executive is accountable to the elected body and the elected body is accountable to the Legislature. At the local body level, Chairman or President is responsible to the respective Council and the Council is accountable to the public at large. Now with the enactment of 73rd and 74th Constitutional Amendment Act, the elected Councils are in office and continue to be in office and the number of elected representatives will be in large numbers. The provisions under Tamil Nadu Panchayats Act, 1994 ensure the accountability of the elected representatives in PRIs. Courts can also take cognisance of offence committed by President of Village Panchayat, Chairman of Panchayat Union Council and the Chairman of District Panchayats vide Section 230 of Tamil Nadu Panchayats Act. Besides, Section 205, 207 and 209 of Tamil Nadu Panchayats Act empower the Government to remove the elected President / Chairpersons of PRIs if they deliberately refuse to carry out or disobey the provisions of the Act or abuse any power vested with them.

13) During field visits, many of the elected representatives represented that the Government's powers / Inspector's powers to remove them are exercised indiscriminately and they need to be addressed. The Commission has also studied the functioning of Ombudsman in Kerala. Though the Institution of Ombudsman is welcome, it has got its own shortcomings. During the Kerala visit by the Commission, it was informed that many cases relating to misuse and abuse of funds by PRI functionaries were pending and the system needed to be streamlined.

14) In Tamil Nadu, the present elected Councils of PRIs have been in office from October 2001. During the period from 2001-2005, the number of Village Panchayat Presidents against whom surcharge proceedings issued is 307 and the number of Village Panchayat Presidents removed is 39. In a very few Village Panchayats, the elected body resigned soon after assumption of office owing to social disharmony. Despite all hiccups, the Ombudsman type of Institution is necessary to give fair deal to the elected representatives. The above type of Institution shall be required to complete the enquiry and give its findings within 6 months. The First and Second State Finance Commission recommended for creation of Ombudsman but it could not be given effect to for reasons best known to Government.

Involvement of NGOs and Self-Help Groups

15) There has been a tremendous response from NGOs and Self-help groups in grama sabha meetings. In fact the presence of these members gives a sense of credibility to the proceedings. The role of Self-Help Groups in improving the living conditions of Rural Women by availing Government assistance and Bank loan is astonishing. In the public interface like Grama Sabha they find a forum for marketing their products. It is roughly estimated that more than 2.5 lakhs Self-Help Groups with 25 lakhs women members are actively involved. Their functioning and growth are nurtured by a good number of NGOs. These people highlight the problems of the rural people in grama sabha meetings. In the above situation they need to be propped up.

Community Participation in Urban Local Bodies

16) There is a general perception that Municipal authorities do not function to the satisfaction of the citizens. The formation of City Managers' Association in the country in 1997 and in Tamil Nadu in 2000 is a right step in this direction, to bring Urban Local Bodies on one platform and facilitate learning and sharing among them and voice common concerns. But this has not percolated down to Municipal Councils. Even in Cities the existence of City Managers' Association is not known to many. After studying the functioning of City Managers' Association, the Ministry of Urban Development and Poverty Alleviation has in its newly drawn Jawaharlal Nehru National Urban Renewal Mission suggested reforms of which the enactment of community participation law to institutionalise citizen participation by way of forming Area Sabha in urban area is insisted. At present Ward Committees in Municipal Council with a population of over 3 lakhs are looking into the problems of their areas. Besides, the City Managers Association is involved in area development. Unlike grama sabha, public participation in the decision making of the municipal schemes is not available. The Second State Finance Commission which went into the issue has suggested for formation of Urban Sabha in Town Panchayats at the first instance for ultimate extension to other Municipal Councils.

17) Now with the Ministry of Urban Development suggesting 'Area' Sabha, the Commission feels that representatives of Residents Welfare Associations may be involved at the first instance instead of all the citizens in the area in the proposed 'Area Sabhas' to give representation to the public affairs besides the City Managers Association. This may be experimented in the existing Grade-II, Grade-III Municipalities and in Town Panchayats.

Citizens' charter and Right to Information

18) The citizens' charter on the model of U.K was put into operation in all Government departments and local bodies in late nineties. But this has not percolated down to field level and the citizens continued to be unaware of it. In 1997, the State Government

has enacted a law on Right to Information for the benefit of citizens. But the lack of machinery and enforcement resulted in the grounding of the implementation. Now with the enactment of Central law on Right to Information and the appointment of Chief Information Commissioner and other Members, it is possible to approach the Government departments and local bodies to part with their information on the stage of the development scheme or basic amenities in their respective areas. Mere law cannot solve the problem. It is the involvement of people which is necessary for which core groups have to be formed. This group may actively participate in Grama Sabha in rural areas and the proposed Area Sabha in urban areas. Organisations like 'Catalyst Trust' can play a vital role in educating the awareness among public.

Shelf of Projects

19) The Urban Local Bodies should prepare a shelf of projects for the award period of Third State Finance Commission i.e 2007-12 which incidentally coincides with Eleventh Five Year Plan. The felt needs for 2007-12 need to be discussed in the District Planning Committee and the same included in the District plan for the State. The State Planning Commission which has been preparing plans sectorwise should take into account the rural and urban needs and dovetail them into the respective sectors.

Data base

20) The computerisation of accounts is almost complete in Urban Local Bodies. In Rural Local Bodies almost all Village Panchayats have been provided with computers and training has also been given. The Eleventh Central Finance Commission has suggested formats and the Comptroller and Auditor General of India has prescribed account formats for loading the data on a monthly basis and also on yearly basis. All Urban Local Bodies have been instructed to feed the monthly data in the prescribed format which should be available to State / Central Finance Commissions. The Rural Local Bodies have also been instructed to adopt the formats for storing the data.

Committee for local bodies

21) The Second State Finance Commission recommended for constitution of Legislative Committees for local bodies on the lines of Public Accounts Committee and Committee on Public Undertakings to bring out the irregularities and procedural flaws. The Government have also issued orders for formation of such committee with Director of Local Fund Audit as the convener. The Legislative Assembly Department is now seized of the matter. The Third State Finance Commission also concurs with the view.

22) After studying the issues involved in the Accountability of the functionaries of the local bodies, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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.***
- iv ***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.***
- v ***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.***
- vi ***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.***

B) GRAMA SABHA

"True democracy cannot be worked by twenty men sitting at the Central Government. It has to be worked from below by the people of every village".

**Mahatma Gandhi
in Young India - 1948**

A well developed system of Village Panchayats and elections to these institutions were in vogue even before the Country attained its independence. In fact, grass root democracy and efficient village administration were the hall mark of Chozha period in Tamil Nadu. In the post independence period, the Indian Constitution in its Directive Principles of State Policy directed the States to take steps to organise Village Panchayats and endow such powers and authority as may be necessary to enable them to function as units of Self-Government. The 73rd Amendment to the Constitution provided for the new institutional arrangement to operationalise the concept of direct democracy called 'Grama Sabha' and defined 'Grama Sabha' as a body consisting of all voters in a village comprised within the area of the Panchayat at the village level. Concomitant State Legislations defined the role and responsibilities of Grama Sabha and the executive instructions followed by this stipulated the guidelines for the conduct of Grama Sabha. The Second State Finance Commission had entrusted studies on the strengthening of Grama Sabha to Director of Evaluation and Applied Research and Gandhigram Rural Institute and based on their report made certain recommendations. The Government have accepted those recommendations with certain modifications and issued orders.

2) Review of the functions of Grama Sabha, its linkages with Non-Governmental Organisations, line agencies / departments is one of the Terms of Reference. Commission has also been asked in this regard to study the system in other States and suggest measures / powers to strengthen grass root democracy. To study the various issues on Grama Sabhas, Grama Sabha meetings conducted in Panchayats at four different locations were attended and their proceedings observed by the officials of the Commission are as given below:

Sl No.	Date	Name of Village Panchayat	District	Nature of Panchayat
1)	22.05.2005 (Postponed due to Assembly by – election)	Ayapakkam	Tiruvallur	Semi-Urban with male President
2)	15.08.2005	i) Kunnathur ii) Kaduvancheri	Coimbatore Kancheepuram	Rural Panchayat with Woman President Active Participation of NGOs in Panchayat's activities
3)	02.10.2005	Mudichur	Kancheepuram	Semi-Urban Panchayat with Woman President
4)	26.01.2006	Thirumullaivasal	Nagapattinam	Coastal Panchayat

3) The various issues emerging on the functioning of Grama Sabha and its linkages with other agencies are discussed as under:

a) Frequency in the conduct of meetings

Tamil Nadu Panchayats Act, 1994 provides for the conduct of Grama Sabha twice a year. Subsequently, Government issued orders in 1998 to convene the meetings 4 times a year on the specific dates prescribed by the Government such as 26th January, 1st May, 15th August and 2nd October. There is only a gap of 1 ½ months at a minimum and 3 ½ months at the maximum between 2 Grama Sabha meetings. Panchayat Presidents, District Collectors and District level officials stated during the District sittings of the Commission that even a portion of the demands made and resolutions passed in the previous Grama Sabha meeting could not be implemented before the next meeting. Therefore, a general request for reducing the frequency of the meetings was raised. In States like Karnataka, Uttar Pradesh, Kerala, West Bengal, Punjab, Rajasthan and Haryana, Grama Sabha meetings are conducted only twice a year especially in Kerala where the practice is to conduct the first meeting in April / May after the close of the financial year and the second meeting in January to present the Budget and not sticking on to any specific date within the months specified. When the Grama Sabha meetings are conducted on specific dates of national importance, Panchayat Presidents and other members are fully engaged in official meetings and hence there is delay in commencement of meetings. Grama Sabha observations show that Village Administrative Officers, Revenue Inspectors, Assistant Agricultural Officers and Staff from Primary Health Centres attend the Grama Sabha meetings but not regularly. During the Commission's district sittings, the District Collectors opined that the line departments with their limited staff could not attend Grama Sabha meetings conducted at the same time in all the Panchayats of a District.

b) Notice for the meeting

As per the guidelines issued by the Government, notice for the conduct of Grama Sabha meeting, the date, time and venue etc. should be intimated to the public 7 days before the meeting. But that is not the case in 3 sample Panchayats where the Grama Sabha meetings were observed. This is due to the delay in the issue of instructions by the District Collectors on the conduct of Grama Sabha. For example, in Tiruvallur, instructions to conduct the Grama Sabha on a revised date viz: 22.05.2005 were issued only on 18.05.2005. It was also observed that the notices issued to the public contained only the bulky agenda recommended by the District Collector and an invitation to the public to participate in the meeting. Second State Finance Commission recommended that printed copies of Budget can be given in Grama Sabha meeting to all participants. As against this recommendation, the Government ordered that copies of budget or extract of the records shall be issued to the public on written request and on payment of certain fee. Another issue noticed is that only a

few copies of meeting notices are normally issued to resident welfare associations in Panchayats which may not reach all the members of Grama Sabha. Only the office bearers of associations and self-help groups were seen in the Grama Sabha visited by the Commission.

c) Quorum

Maintaining quorum is a major problem in conducting the Grama Sabha meetings due to the following circumstances:

- It is very difficult to gather the public in the ratio of one-tenth of the voters of the village on par with the tremendous and incomparable growth of voters over a decade.
- Notice inviting the public does not reach all voters.
- Badly delayed start of the meeting keeps the public away.
- Grama Sabha meeting takes a long duration on a number of officially sponsored items and there is no attractive feature for the public so as to retain them at the venue.

In West Bengal, the presence of 1/20th of the total electorate is prescribed as the quorum. Such a norm would suit the situation warranted by the growth in population.

The provisions in the Act / Rules and the instructions issued then and there by the Government necessitates the District Administration to arrange for the cultural programmes linking the various rural development schemes implemented by the Government and also involving the members of Grama Sabha so as to make social awareness among the public and to attract them towards Grama Sabha meetings.

d) Conduct of the meeting

The various issues influencing the conduct of the meeting are the following:

Since the entire agenda is mostly prescribed by the District Administration, there is no need for discussing the agenda in the Panchayat's Council meeting for finalisation. Moreover, the agenda prescribed by the District Administration is repetitive in nature for all the 4 meetings in a year seeking the Grama Sabha to resolve on the vigilance on AIDS, use of iodised salt, disaster management etc. again and again. The mindset of viewing the Panchayat / Grama Sabha as a subordinate institution of State Government and not as a representative body of the people is a barrier for the effective and efficient functioning of Grama Sabha. The documents of Panchayats are not usually placed for social audit during the meeting, as required in the guidelines issued by Rural Development Department. Fear of tampering / destruction of records by any miscreant is said to be the reason for this. In the Ayappakkam Grama Sabha meeting held on 22.05.2005, one member sought details on the contracts awarded during the year and the list of contractors to be placed in Grama Sabha.

There exists the need for social audit. Grama Sabha observations also reveal that the Village Development Plan is prepared only by the Panchayat and is not discussed threadbare in Grama Sabha before adopting a resolution. The guidelines for MPLAD / MLACDS funds do not prescribe the approval of Grama Sabha on the schemes selected under those funds but stipulate that the funds should be used for creation of durable assets which shall always be available for public use at large. Hence, the actual needs and priorities of villages are not considered when MPLAD / MLACDS funds are utilised.

e) Linkages with NGOs

In general, the Non-Governmental Organisations appeared to have been involved actively in motivating the women in a village to form Self-Help Group, arranging for loan assistance from banks, training them in the production of various handmade items and its marketing etc. Actually the NGOs enlist the members for forming a Self-Help Group and the list is approved by Grama Sabha. Other than Self-Help Group activities, the NGOs are involved in various civic service activities like free water supply, operating motor pump sets, construction of buildings for the use of public etc. As such, there is a well established tripartite linkage between the Self-Help Groups, NGOs and Grama Sabha. There are also cases like Thirumullaivasal, Nagapattinam District, where it was reported that the NGOs present in this area involve themselves in all their activities with Self-Help Groups directly without consulting the Panchayat / Grama Sabha. However, the Village Plan of that Panchayat shows the involvement of NGOs in certain schemes covering Self-Help Groups.

f) Status of Grama Sabha

As explained by most of the District Collectors, the Grama Sabhas act only as a 'Grievance Redressal Forum'. This attitude can be admitted to certain limited extent since their grievances and redressal culminate in some sort of capital / maintenance activities under civic services. However, the public should realise that the Grama Sabhas are the powerful Constitutional bodies of which they are the members and they are empowered to approve the village plan, Panchayat's budget and to review the progress of implementation of all schemes entrusted to the Panchayats. Actually the Village Plan, Panchayat's Budget and list of beneficiaries under various schemes are prepared by the Panchayat and the members of Grama Sabhas usually don't mind the village plan or Budget and approve them unknowingly but discuss only on the list of beneficiaries. Such is the situation prevailing now.

g) Functions of Grama Sabha

The functions of Grama Sabha enumerated in the Tamilnadu Panchayats Act, 1994/Rules made thereunder are more or less similar to that of the functions given in other States except the powers given to Grama Sabhas in Maharashtra to have disciplinary control

over the Government / Semi-Government and Panchayat employees working in the village including the matters relating to their daily attendance.

4) Taking into account the observations aforesaid, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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.***
- iv ***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.***
- v ***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.***
- vi ***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.*
- vii 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.*
- viii 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.*
- ix 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.*
- x 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.*
- xi The needs and priorities of various schemes in the Village Development Plan should be decided by the members of Grama Sabha.*
- xii 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.

- xiii 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.***
- xiv 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.***
- xv Integration of the village level plan, approach by the Grama Sabha, with District plan must be ensured.***
- xvi Inclusion of the priorities identified in the Grama Sabha with the activities of line departments should be reviewed at the District Planning meeting.***
- xvii 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.***
- xviii 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

5) The Second State Finance Commission recommended for creation of urban sabha in Town Panchayats and City Managers' association in other Municipal areas, to enable the citizens in urban areas to have a sense of participation in the schemes implemented in their Municipal areas. It is learnt that the said recommendation is under consideration of the Government. Meanwhile in the Jawaharlal Nehru National Urban Renewal Mission Programme a set of mandatory reforms and optional reforms have been suggested for signing the Memorandum of Understanding. Under the reforms suggested, enactment of community participation law to institutionalise citizen participation and introducing the concept of Area Sabha in urban areas is insisted. The above reform is primarily intended for the people in urban areas to have their say in the planning and implementation process. The operational period of the Urban Renewal Mission is from 2005-12 which incidentally coincides with the award period of Third State Finance Commission.

6) The Third State Finance Commission therefore recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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.***
- iv ***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.***
- v ***The action taken on the issues decided shall be put up in the next meeting.***
- vi ***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

எண்ணித் துணிக கருமம் துணிந்தபின்
எண்ணுவம் என்பது இழுக்கு

(எண்:467)

Rural Local Bodies

Para 2 (g) and para 5 (vi) of our Terms of Reference requires the Third State Finance Commission to suggest reclassification of local bodies taking into account their present status and the reorganisation exercise already undertaken for the erstwhile Town Panchayats. Besides it also requires the Third State Finance Commission to look into the classification of rural and urban local bodies as per the Government of India guidelines and the consequences thereof. Article 243 (C) (1) of the Constitution of India empowers the State with respect to the composition of Panchayats. Even before the enactment of 73rd Constitutional Amendment Act, the Village Panchayats came into existence; in fact much before the Constitution of India came into force. Under the District Local Boards Act, 1920, the Panchayats were classified as major/minor Panchayat and as per the provisions of Madras Village Panchayats Act, 1950, they were classified as Class I and Class II. The Tamil Nadu Panchayats Act, 1958, however classified the Panchayats as Village / Town Panchayats. In the Tamil Nadu Panchayats Act, 1994, three tier set up was introduced and the Town Panchayats were classified under District Municipalities Act. As per the existing provisions, a minimum population of 500 is enough for constitution of Village Panchayat and no financial limit is necessary. Among the Village Panchayats there are two categories, viz. Grade I and Grade II on the basis of population and income. A Village Panchayat is termed as Grade I if the population exceeds 15,000 or the annual income exceeds Rs.4 lakhs or if the Town Panchayat is downgraded as Village Panchayat. Other Panchayats which do not fulfill the above norm are classified as Grade II. A Village Panchayat comprises of a revenue village or villages or any portion of a revenue village or contiguous portions of two or more revenue villages with a population estimated at not less than 500.

2) The number of Village Panchayats according to population range is

Table X-1
2001 Census

Sl. No.	Population	No. of Village Panchayats	Percentage
1	Upto 500	66	0.52%
2	501 – 3000	8418	66.72%
3	3001 – 10,000	3948	31.29%
4	10,001 – 25,000	174	1.37%
5	Above 25,000	12	0.10%

As already stated, there is no Constitutional provision prescribing a minimum population. But the minimum population fixed five decades ago still remains. In the sixties, the Santhanam Committee had recommended that the desirable population for a Panchayat should be in the range of 1500-2000 for satisfactory functioning. The First State Finance Commission had recommended for reconstitution of Village Panchayats on the basis of 2500 population. The Second State Finance Commission has recommended 3000 population for reconstituting Village Panchayats. The idea behind the reclassification is to economise the administrative expenses and optimise the cost of providing infrastructure services and civic amenities.

3) Although there are no specific Government of India guidelines, Census Act has its own classification. According to the Census of India 2001, the definition of urban area adopted is as follows:

- a) All places with a Municipality, Corporation, Cantonment Board or notified Town area committee / Town / Nagar Panchayat, etc.
- b) A place satisfying the following three criteria simultaneously:
 - i a minimum population of 5,000
 - ii at least 75 per cent of male working population engaged in non-agricultural pursuits and
 - iii a density of population of at least 400 per sq. km. (1,000 per sq. mile).
- c) For identification of places which would qualify to be classified as 'urban' all villages, which, as per the 1991 Census, had a population of 4,000 and above, a population density of 400 persons per sq. km. and having at least 75 per cent of male working population engaged in non-agricultural activity were considered. To work out the proportion of male working population referred to above, the data relating to main workers were taken into account.
- d) Apart from these, the outgrowths (OGs) of cities and towns have also been treated as urban under 'Urban Agglomerations'. Examples of out-growths are railway colonies, university campuses, port areas, military camps, etc. that may have come up near a statutory town or city but within the revenue limits of a village or villages contiguous to the town or city. Each such individual area by itself may not satisfy the demographic criteria laid down as above to qualify it to be treated as an independent urban unit but may deserve to be clubbed with the towns as a continuous urban spread. Thus, the town level data, wherever presented, includes the data for outgrowths separately of such towns and also town plus outgrowth population.

4) In Tamilnadu, the Census Department has identified 111 Village Panchayats as Census towns. In Chennai Metropolitan area alone there are about 19 Census towns which are classified under Village Panchayats. The people in the area are not engaged in

agricultural population. The service level is also similar to adjacent Municipal areas. Hence there is no logic in keeping them under rural. Besides, a comparative population in Town Panchayats and Village Panchayats have been studied. While the income potential in Town Panchayats has been tapped, owing to adoption of urban laws on taxes and user charges, the Village Panchayat's income potential has not been tapped.

5) The rural population in Tamil Nadu is 3.62 crores and the average population for Village Panchayat in the State is 2869. In this context a comparative analysis of population in some of the States reveals that reorganisation of Village Panchayats is essential. The following are the details:

Table X-2

Sl. No.	Name of the State	Population in Village Panchayats	No. of Village Panchayats
1	Karnataka	5500	5640
2	Kerala	21600	991
3	Orissa	5200	5255
4	West Bengal	14800	3329

6) While Kerala and West Bengal are extreme examples, Karnataka appears to be a comparable State with analogous population and area which can be an ideal model for emulation. The Second State Finance Commission commissioned studies to regroup Village Panchayats in two Districts viz Tiruvallur and Pudukottai. The report revealed that in Tiruvallur, the number of Village Panchayats could be brought down from 498 to 341 and in Pudukottai from 539 to 382.

7) It had also suggested for similar exercises in other districts so as to bring the number of Village Panchayats to manageable level to ensure better service delivery. The Government at the Secretaries' level meeting have accepted the recommendation in principle but no follow up action was taken.

Panchayat Union

8) The staffing pattern of Panchayat Unions remains the same irrespective of the area, population and Village Panchayats. The Second State Finance Commission which commissioned a study at Coimbatore had brought to light that there could be a total saving of Rs.1.40 crores in the District by reducing the number of Panchayat Unions from 19 to 15. The recommendation on reducing the Panchayat Unions in the State as a whole was accepted in principle at the Secretaries' level meeting but no further action was taken. The present classification of Panchayat Union in six grades based on land revenue does not serve any purpose as the devolution is based on population.

9) The exercise of reconstituting Village Panchayats and Panchayat Unions is not easy as it is fraught with political and social pressures. But considering the advantage that will accrue, evolution of consensus is desirable. In the District hearing, officials have supported the regrouping and reconstituting of Village Panchayats but the response from the elected Chairpersons is lukewarm as expected.

10) Now in Swajaldhara, (in previous Namakku Naame Thittam-25%) public contribution to the tune of 10% has been insisted. For such schemes and for other administrative measures, regrouping and reconstituting of Panchayat set up will be helpful. In the light of the above analysis, the Third State Finance Commission recommends the following:

- i *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.***
- ii *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.***
- iii *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

Concept and genesis of Town Panchayats

11) Tamil Nadu is the first State to have introduced the class of local body called Town Panchayat to be a transitional body between rural and urban local bodies much before the concept was realised in other parts of the Country. Even though the Town Panchayats were meant to be transitional bodies, they continued to be under Rural Local Bodies till 1994. After the enactment of 74th Constitutional Amendment Act and the conformity legislation, the Town Panchayats or Nagar Panchayats have been classified as urban and urban laws/rules were made applicable. This resulted in increased flow of money from its own sources. For instance, the own revenue which fetched around Rs.17 to 19 crores jumped to Rs.40 crores after the Town Panchayats switched over to urban status.

12) The Town Panchayats had a separate identity and had been functioning from 1958 onwards. The administrative set up, powers, functions, staff pattern, accounting and auditing methodology and delivery of service to the people living in the area are entirely different from other Panchayats. The Town Panchayats were under the administrative control of the Director of Rural Development till 1981. A separate Directorate exclusively for administering the affairs of Town Panchayats was created during 1981. Following the 74th amendment to the Constitution of India in 1992, all Town Panchayats in the State were reconstituted under Tamil Nadu District Municipalities Act, 1920 and treated as transitional area. A separate Act provision was inserted in the District Municipalities Act, 1920. The formation of Town Panchayats is also governed by Section 3 (B) of the Tamil Nadu District Municipalities Act which reads as follows:

"The Governor may, having regard to the revenue generated for local administration, the percentage of employment in non-agricultural activities, the economic importance or such other factor as he deems fit by notification, classify and declare every local area comprising a revenue village or villages or any portion of a revenue village or contiguous portion of two or more revenue villages and having a population estimated at not less than five thousand and an annual income of not less than one lakh rupees as a Panchayat Town for the purposes of this Act".

13) The Census definition of urban units is as follows:

All Municipal Corporations, Municipalities, Town / Nagar Panchayats Cantonment Board and notified Town area committee.

All other places satisfying the following three criteria simultaneously:

- i Minimum population of 5000
- ii At least 75% of male working population engaged in non-agricultural activities.
- iii A density of population of at least 400 per square Kilo metre.

Except the above mentioned areas, all others are treated as rural. As per Article 243 (Q) of the Constitution of India, there shall be constituted in every State,

(a) a Nagar Panchayat (or by whatever name it is called) for a transitional area, that is to say, an area in transition from a rural area to urban area.

14) In tune with the Constitutional directive, most of the States have created transitional areas or Nagar Panchayats. The following are the States which have Town Panchayats / Nagar Panchayats / Transitional area:

Andhra Pradesh	1
Assam	54
Bihar	117
Chattisgarh	71
Himachal Pradesh	28
Karnataka	93
Madhya Pradesh	236
Manipur	18
Punjab	32
Tripura	12
Uttar Pradesh	417
Uttranchal	31

Tamil Nadu which had 636 Town Panchayats as on 1.4.1996 got reduced to 611 Town Panchayats following the downgradation of 25 Town Panchayats into Village Panchayats in 1998. The First State Finance Commission suggested for reclassification of 98 Town Panchayats as Village Panchayats but 25 alone opted for downgradation and the downgradation was with the concurrence of the respective Council. The agony of re-deploying the personnel in the same Panchayat or to the other Town Panchayats was indescribable. In fact many of those who retired during the process of reclassification could not get the pensionary benefits, terminal benefits till 2005 bears testimony to the haphazard approach. The Second State Finance Commission which studied the issue from the viability angle adopted the following criteria for determining viability:

- i Where the operating ratio viz ratio of revenue expenditure to revenue income is more than 1.
- ii Where per capita income is less than Rs.200
- iii Where population is less than 10,000.

The study revealed that 178 Town Panchayats need to be downgraded as Village Panchayats and 26 Town Panchayats have to be merged with nearby Town Panchayats. Besides, the report suggested for upgradation of 18 Village Panchayats in Chennai Metropolitan area as Town Panchayats.

15) While recommending the measures, the Second State Finance Commission has cautioned that the exercise of reclassification has to be done before 2001 local body elections and also before 2001 Census Report. But the Government did not act on the report till 2004. Suddenly in June 2004, the Tamil Nadu Government at one stroke has down graded all Town Panchayats except 50 as Special Village Panchayats, thereby ignoring the Constitutional mandate for formation of Nagar Panchayats / Transitional areas in each State. The reason behind the decision was to enable them to access Central funding for Rural Development programmes. But it could not fructify as the Government of India proceeded on Below Poverty Line survey and also by the identification made out by the Planning Commission for the year 1999-2000 for the rural sector or as per the adjusted share computed by the Planning Commission whichever is higher. Further 10% was permitted for the transient poor. The adjusted share and 10% addition work out to 26.773 lakhs which deprived the reclassified Special Village Panchayats from getting any assistance from Government of India.

On the other hand, by remaining under urban, all the 561 erstwhile Town Panchayats stand to get assistance from National Slum Development Programme and Swarna Jayanthi Shahari Rozgar Yojana Schemes. Even though the Government have ordered that the existing arrangements would continue for the allocation of funds under NSDP and SJSRY Schemes for 2005-2006 to Special Village Panchayats, no money was passed on to these hapless Special Village Panchayats.

The Second State Finance Commission has also recommended for adoption of norms for classification of Town Panchayats based on average annual income as below:

Grade II	-	Above Rs.30 lakhs but below Rs.40 lakhs
Grade I	-	Above Rs.40 lakhs but below Rs.60 lakhs
Selection Grade	-	Above Rs.60 lakhs but below Rs.1 crore
Special Grade	-	Above Rs.1 crore but below Rs.2 crores.

Besides it has recommended for upgrading 18 Village Panchayats called Census Towns in Chennai Metropolitan area as independent Town Panchayats or they may be merged with nearby Town Panchayats so as to bring the entire Metropolitan area under urban. But the recommendations have been accepted at the Secretaries' level meeting but no orders have been issued.

16) The Third State Finance Commission which is seized of the issue had an indepth study on the reclassification of Town Panchayats and also the reluctance of the Government in reclassifying the Village Panchayats, Panchayat Unions and Municipalities and Municipal Corporations. The Government which should have studied the issue in totality, preferred to down grade Town Panchayats as Special Village Panchayats resulting in utter chaos. In the District hearing held at various centres, the elected representatives have focussed the

unfortunate situation in which the Special Village Panchayats have been placed. They also pointed out that the activities of Special Village Panchayats have almost come to a level of stand still with no elections for casual vacancies and no funds from urban related schemes. They also informed that funds received from rural share were not in proportion to the needs. In the same vein, the Director of Special Village Panchayats who participated in the interaction with Third State Finance Commission has stated that the department could get only Rs.7 crores under SGRY, Rs.3 crores under SGSY, Rs.3 crores under TSC and Rs.7 crores under Namadhu Gramam. She has also stated that funds were denied for reclassified Special Village Panchayats by TNUDP since the scheme fund is primarily meant for urban. Moreover, it has been brought to the notice of the Commission that when it was under urban, Town Panchayats got Rs.11 crores under NSDP and Rs.2.61 crores under SGSRY. The Director of Special Village Panchayats has also stated that wholesale downgradation led to the disappearance of transitional areas which the Constitution mandates for creation.

17) The Third State Finance Commission which analysed the issue threadbare feels that piecemeal approach will not solve the problem. Moreover the whole exercise appears to be haphazard. Further the reclassification suffers from legal infirmities. While the Special Village Panchayats are governed by Tamil Nadu Panchayats Act, for levy of taxes and user charges urban rates have been ordered to be adopted. In the 178 Town Panchayats identified by Second State Finance Commission for reclassification, the Commission studied the financial and demographic character. While the population is below 10,000 in respect of all, on the operating ratio and per capita revenue, only around 10 Town Panchayats fall below the norms. But it is necessary to identify the really rural characteristics in Special Village Panchayats for ultimate reclassification. Till such time the entire 561 Town Panchayats have to be classified as urban as Twelfth Central Finance Commission allocated funds for the entire 611 Town Panchayats under urban pool. (50 have become Grade III Municipalities). Moreover the four grade classification of Special Village Panchayats appears to be illogical. In fact the E.O. in Grade II Special Village Panchayat is in the clerical cadre. At least supervising level staff will be more acceptable. The Second State Finance Commission's classification of Grade II and Grade I on the basis of income is also marginal. As such all Grade II may be brought under Grade I. It has also been brought to the notice of the Commission that Government have ordered reclassification of Special Village Panchayats into Town Panchayats by an order dated 28.07.2006.

18) In the light of the above analysis, the Third State Finance Commission recommends the following:

- i ***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.

- ii 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.**
- iii 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.**
- iv 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.**
- v 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.**

Reclassification of Municipalities

19) Section 4 of Tamil Nadu District Municipalities Act, 1920 states that the Governor may having regard to the population of the area, the density of the population therein, the revenue generated for local administration, the percentage of employment in non-agricultural activities, the economic importance or such other factors as he may deem fit, by notification declare his intention to constitute as any town, village, hamlet etc as Municipality. As such there is no inhibition to constitute a Municipality in the absence of prescribed number of population. The First State Finance Commission while recommending classification / reclassification of Municipalities suggested income as the basis for grading the Municipalities. In the suspended Tamil Nadu Urban Local Bodies Act, 1998, for the first time population as a norm for constitution of a Municipality was introduced. In the said Act, a minimum population of 30,000 was insisted. With the suspension of the Act, the provisions did not come into force.

20) The Government issued orders in 1997, on the income norm for classification. The Government have subsequently issued orders in G.O. MS. No.85, Municipal Administration and Water Supply Department, dated 22.05.1998 notifying the list of Municipalities upgraded as per the norms. The Second State Finance Commission had recommended that the eligibility for upgrading the status of Town Panchayat to Municipality Grade-II, it should have a minimum population of 30000 and the minimum average annual income for the last three consecutive years should be Rs.2 crores and above. It had also

recommended downgrading of eleven Grade-II Municipalities as Town Panchayats. They are:

- | | | | |
|-----------------------|------------------|-------------------|------------------|
| 1) Padmanabhapuram, | 2) Kuzhithurai, | 3) Colachel, | 4) Senkottai, |
| 5) Puliangudi, | 6) Usilampatti, | 7) Kulithalai, | 8) Koothanallur, |
| 9) Thiruthuraipoondi, | 10) Nellikuppam, | 11) Maduranthagam | |

It has also recommended norms for constitution and upgradation of the Municipalities as noted below:

Grade II	-	Rs.2 crores but below Rs.4 crores
Grade I	-	Above Rs.4 crores but below Rs.6 crores
Selection Grade	-	Above Rs.6 crores but below Rs.10 crores
Special Grade	-	Above Rs.10 crores but below Rs.50 crores

But no orders have been issued on the above recommendations. Meanwhile the Government have upgraded 50 Town Panchayats with a population of more than 30000 as Grade-III Municipalities. All along grading of Municipalities is based on annual income. Now the population criterion has been introduced.

21) The introduction of Grade-III Municipalities with a minimum population of above 30,000 has led to opening of pandora's box. While 8 Municipalities out of 11 listed in para 20 plus Vandavasi and Walajapet having population ranging from 20,000 – 30,000, continue to be Grade-II as per the earlier classification. The elevation of 50 erstwhile Town Panchayats as Grade-III Municipalities is looked upon as a separate category as like transitional areas and they are not fully integrated with Municipal set-up. Further income level of some Grade-III is much more than some of the Grade-II Municipalities. Contrasting details of some Grade-II and Grade-III Municipalities are shown hereunder.

Table X-3

(Rupees in crores)

Sl. No.	Name of the Grade-II Municipality	Population as per 2001 Census	Annual Income (2004-05)
1	Madurantagam	29059	1.64
2	Walajapet	29475	4.82
3	Vandavasi	29610	1.72
4	Kulithalai	26161	1.94
5	Koothanallur	22995	1.22
6	Tiruthuraipoondi	22905	1.27
7	Shenkottai	26838	1.73
8	Colachel	23787	1.36
9	Kuzhithurai	20503	2.08
10	Padmanabhapuram	20075	1.22

Table X-4

(Rupees in crores)

Sl. No.	Name of the Grade-III Municipality	Population As per 2001 Census	Annual Income (2004-05)
1	Valasaravakkam	30978	4.04
2	Pammal	49999	4.17
3	Poonamallee	42604	3.49
4	Maraimalainagar	48463	7.82
5	Manali	28597	3.38
6	Velampalayam	45679	2.83
7	Valparai	54432	2.78
8	Kurichi	77853	4.22
9	Veerapanchatram	72073	3.50
10	Ambasamudram	32739	1.71

From the above details, one could find that Grade-III Municipalities have more population and income than Grade-II Municipalities. Hence, classifying them in Grade-III may amount to discrimination. The grading of Municipalities based on annual income till date is for the administrative convenience, promotional opportunities etc. Among the five grades, service level/ norms is the same. In the above scenario, the Third State Finance Commission has studied the issue. In the interaction with Commissioner of Municipal Administration he has been asked to state the logic behind grading and asked whether the 5 grades can be grouped and the number of grades brought down. The Commissioner of Municipal Administration on his part has promised to consider grouping of all Municipalities into 3 grades including the elevated Municipalities based on income and population. Moreover, it is found that the post of Municipal Commissioner carries one scale of pay notwithstanding too many grades created by the department. In the model Municipal Act circulated by the Government of India, the constitution of Municipal Council has been classified as

- a) Larger urban area where the population is more than 3 lakhs (i.e Municipal Corporation)
- b) Smaller urban area where the population is more than 25 thousand but below 3 lakhs.
- c) Transitional area where the population is less than twenty five thousand.

Among the smaller urban area, classification into three grades have been suggested by the Model Law, based on population. According to Section 7 of the Model Municipal Law,

Class 'A' Municipal area is one where the population is above 1.5 lakhs but below 3 lakhs

Class 'B' Municipal area must have population above 75000 but below 1.5 lakhs

Class 'C' Municipal area must have population above 25000 but below, 75000.

In the suspended Urban Local Bodies Act, 1998 and the Rules framed thereunder, income has been taken as the criterion and classification of Municipalities into 3 grades has been ordered. According to the above Act,

Special Grade	-	Income above Rs.10 crores
Selection Grade	-	Income above Rs.6 crores but below Rs.10 crores
Grade-I	-	Income above Rs.4 crores but below Rs.6 crores

From the above it is clear that there is consensus on restricting the grades to 3 but differs in yardstick for classification. In our State, Municipalities with lesser population have high income and Municipalities with higher population have less income. It all depends on the income potential. Hence, classification of Municipal Councils based on population may not be appropriate. Income based classification of Municipalities may be ideal.

In the above context the Commission has studied the issue in detail. Too many grades with one overlapping another may be logically not acceptable. In order to bring down the number of grades and at the same time not to break the apple cart, the Commission feels that it is enough to have 3 grades based on income.

22) Hence, the Third State Finance Commission recommends the following:

i *Reclassification / Regrouping of Municipalities into three grades with income as suggested below may be adopted to overcome many anomalies as discussed above.*

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

ii *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.*

iii *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.*

iv *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.***

Reclassification of Municipal Corporations

23) In our State there are six Municipal Corporations with population ranging from 4 lakhs to 66 lakhs. The Urban Local Bodies Act, 1998 (kept in abeyance) prescribed 5 lakhs population as the minimum for constitution / creation of Municipal Corporation. But as per the Model Municipal Law circulated by Ministry of Urban Development and Poverty Alleviation, the minimum population for larger urban area (Municipal Corporation) is 3 lakhs or more. At present, 2 Municipalities viz. Tiruppur and Ambattur have more than 3 lakhs population but their income is not sufficient. Moreover, the area is limited with appreciable growth in future. As such new creation is not warranted. At the same time on tapping the tax potential of these Municipal Corporations, it is necessary to devise guidelines for extension of Municipal limits to contiguous areas so that such extension is anticipated and achieved in time. Where rapid urbanisation takes outside the Municipal limits, the case for extension of Municipal limits is to be considered first and foremost before other alternatives are explored. Also for availing grants from the programme of Jawaharlal Nehru National Urban Renewal Mission, it is necessary to extend the Municipal area.

24) The Second State Finance Commission which went into the issue of reclassification picked up the case of Madurai Corporation which has only 52 square Km. Moreover, property stock has not increased because of growth in peripheral area. Also, there is restriction on height of the building under India Heritage Act. All this led to freezing of income from property tax. It has therefore recommended for merging 1 Municipality and 6 Village Panchayats for enlarging the functions of Municipal Corporations. But no orders have been issued by the Government.

25) Meanwhile under the Jawaharlal Nehru National Urban Renewal Mission, Chennai, Madurai and Coimbatore are covered. Under this programme, for urban infrastructure and E.Governance, Government of India grants are in the range of 35 to 50%. For urban poor scheme the grant from Government of India is 50% for the above three Municipal Corporations. In order to avail the grants from Government of India, the expansion of limits of Municipal Corporations of Chennai, Coimbatore and Madurai have to be considered. The peripheral areas surrounding Coimbatore are not available. Similarly in Chennai, all Village Panchayats in Chennai Metropolitan area have been suggested for upgradation as urban areas.

26) In view of the above facts, the Third State Finance Commission recommends the following:

- i ***The issue 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.***
- ii ***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.***
- iii ***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

**வினைக்குரிமை நாடிய பின்றை அவனை
அதற்குரிய னாகச் செயல்**

(எண்:518)

Para 2 (c) of the Terms of Reference requires the Third State Finance Commission to suggest a well-defined demarcation of functions of State Government vis-à-vis local bodies taking into account the prevailing level of delegation of administrative, functional, and financial powers to local bodies with reference to the functions enumerated in the Constitution of India. Based on the Terms of Reference, Third State Finance Commission constituted two sub-committees, one for Rural Local Bodies and another for Urban Local Bodies, as per the resolution adopted at the second meeting of the Commission held on 25.08.2005. The Committees consisted of the following members:

Urban Local Bodies

1. Thiru P.M. Basheer Ahamed, I.A.S., Member-Secretary, Third State Finance Commission, Chairman of the Sub-Committee
2. Thiru M. Rajkumar, Additional Director of Municipal Administration, Member of the Sub-Committee
3. Thiru V. Pitchai, Joint Director, O/o the Commissioner of Municipal Administration, Member of the Sub-Committee

Rural Local Bodies

1. Thiru P.M. Basheer Ahamed, I.A.S., Member Secretary, Third State Finance Commission, Chairman of the Sub-Committee
2. Thiru Gagandeep Singh Bedi, I.A.S., District Collector, Cuddalore and Member of the Sub-Committee
3. Dr. D. Karthikeyan, I.A.S., District Collector, Erode and Member of the Sub-Committee
4. Thiru M. Parameswaran, Additional Director of Rural Development, Member of the Sub-Committee

The above Committees have made many recommendations which are available in (Annexures II-5 & 6).

2) The Third State Finance Commission which discussed the recommendations threadbare is of the view that out of 29 subjects, in about 14 or 15, Panchayat Raj Institutions have some role but not exclusive role. In some subjects on which it has got de-facto legitimacy, they have not been entrusted. Of them, the following are identified by the Commission:

- i Public Distribution System
- ii Education including Primary and Secondary Schools
- iii Libraries.
- iv Issue of Birth and Death Certificate

A) Public Distribution System

3) On the Public Distribution System, the Sub-Committee has suggested to undertake the running of PDS shops by the local bodies and to ensure timely and correct supply of all items to the public. The present net work of Public Distribution System is run by State agency known as State Civil Supplies Corporation. Under PDS, about 28,174 fair price shops are run by various agencies viz Civil Supplies-1,149, Co-operatives-26,448, Woman fair price shops-541, Mobile shops-36. As at the end of January 2005, number of family cards in operation was around 1,85,33,000. Above 18,000-19,000 shops would be in rural areas and the balance in urban areas.

4) While procurement, stocking, indenting and distribution may continue to be with Civil Supplies Corporation for proper planning and implementation, PDS fair price shops which are run by two salesmen on contract basis with fixed wages may be entrusted to Village Panchayats. The above entrustment has some immeasurable advantages as below:

- Involvement of local people (i.e Village Panchayat President and ward members) will help in identifying bogus cards, if any.
- Identification and elimination of non-resident families getting the subsidised rice is possible.
- Hoarding and smuggling of rice from PDS shops can be eliminated if the shops and salesmen were brought under Village Panchayats.
- Village Panchayats can ensure that shops are compulsorily opened every day and that they distribute ration items at the prescribed rates.
- Above all, if there is shortage in supply or non-supply, people may take the elected representatives to task.
- Also a sense of responsibility may dawn on the elected representatives to do better service to the poor.

5) In the interaction with the District officials and elected representatives, the suggestion of transferring the function of Public Distribution System was well received. But in respect of urban areas, the entrustment of Public Distribution System function has not been contemplated in the XII Schedule of the Constitution. But nothing prevents the State from entrusting the function to Urban Local Bodies as per Article 243 W of the Constitution. In the wake of wide spread criticism of bogus cards, smuggling and illegal hoarding, involvement of locals may extenuate the problem.

6) After taking a holistic view, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***The Civil Supplies Department / Corporation shall continue to be the State agency for procuring and distribution of rice and other food articles.***
- iii ***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.***
- iv ***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.***
- v ***The functioning of Public Distribution System Shops shall be monitored at the District level on a monthly basis.***
- vi ***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.***

B) Issue of Birth and Death Certificates

7) In Tamil Nadu, in respect of issue of birth and death certificates, Urban Local Bodies are empowered for which they collect a fee. In rural areas, Tahsildar is issuing the certificate based on the field report of Village Administrative Officers. In Madhya Pradesh and in Southern States also, Village Panchayats are empowered to issue birth and death certificates with the help of village level officials. In the District hearings, many elected representatives pleaded that they be endowed with the powers like other States. There is merit in the case. People living in remote villages go all the way to Taluk Office to obtain the

certificate. They are also not sure of getting the certificates on the first visit. Instead of forcing them to go hither and thither, it would be fair to entrust the work to Village Panchayats and the Village Administrative Officers may certify about the veracity of the claim. In the above context, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***A consolidated monthly report may be sent to Taluk office for consolidation and statistical purposes.***
- iv ***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.***

C) Transfer of Primary Education

8) In the District hearing organised by Third State Finance Commission for interaction with District officials and elected representatives, many District Collectors favoured the transfer of Primary Education to Rural Local Bodies as was obtaining prior to 1981. Prior to 1981, only 2 tier Panchayat Raj Institutions set up was in vogue based on the Tamilnadu Panchayats Act, 1958 and the entire function relating to primary education was with Panchayat Unions. Prior to the enactment of 1958 Act, District Boards were in vogue running Middle, Secondary and High Schools. After the abolition of the District Boards, High Schools run by District Boards were taken over by Government by classifying them as B wing Schools and those which were under the control of Government were classified as A wing. The Primary and Middle-Secondary Schools were entrusted to Panchayat Unions. These Panchayat Unions were running the school by getting teaching grants and other grants for maintenance. A separate local fund account known as LFD III was operated.

9) From June 1981, all Primary and Middle Secondary Schools teaching wing and non-teaching wing employees have been declared as Government servants and salary payment has been routed through Assistant Educational Officers. But maintenance of school building continued to be with Panchayat Unions. This has reduced the role of Panchayat Unions.

10) After the enactment of 73rd Constitutional Amendment Act, Primary Education has been brought under PRI and listed as one of the 29 subjects in XI Schedule of the

Constitution. Hence, there is need to have a relook in consistent with Constitutional provisions governing the responsibility entrusted to Panchayat Raj Institutions.

11) The Second State Finance Commission which studied the issue in depth had recommended that

- i) a) personnel of Primary education can be transferred to work under the local bodies by protecting their existing privileges.
b) alternatively, they can be deputed to local bodies.
- ii) Education budget operated by the AEO may be credited to Panchayat Union Education fund Accounts which has been in operation. This may be in the form of grants to Panchayat Unions. AEOs may be authorized to operate the LF III Accounts by withdrawing the power from BDOs. The AEOs can draw the grant from Government. Simultaneously effective supervision by elected representatives of Panchayat Union and other officials needs to be organized.
- iii) the maintenance of Elementary School buildings and drawing salary for conductresses and other contingent staff, the grant received from Government may continue to be credited to Panchayat Union General Fund Account and the AEOs/BDOs will be co-signatories to operate the LFD III account currently operated by BDOs.

12) In the interaction with the Secretary to Government, School Education Department, it was informed that in the proposed Right to Education Bill which was before Parliament for adoption, the teacher in Primary / Secondary School would be considered as a school-based-cadre under the control of School Management Committee. She also informed that in the proposed legislation, the existing school teachers would also be brought under the School Management Committee and therefore suggested to wait for the outcome of the legislation.

13) The proper legislation would however take some time to come into force. There would also be changes based on discussions with different stakeholders. The Commission is of the view that change in the interim period can be considered for adoption. The issue is whether, as contemplated under 73rd Constitutional Amendment Act, Primary Education should be transferred to Panchayat Raj Institutions who should be the administering authority. In the interest of better monitoring of implementation of education, entrustment to local bodies is the desirable move. While at the village level, the Panchayat should be the monitoring agency, for the administrative purpose District Panchayat is preferable instead of Panchayat Union. One singular advantage is that district can form as a unit for administrative control. District Panchayat Chairpersons by virtue of being the Chairpersons for District

Planning Committee may look into the issue relating to primary education in a proper perspective for improving the quality and also to seek higher assistance.

Appointments

i) Teaching Wing:

Teachers Recruitment Board may continue with the task of selecting candidates for the teaching wing. But the selected candidates may be placed at the disposal of the District Panchayats for appointment. Salary payment may be through grants to District Panchayats under a separate LFD Account. Maintenance grant may be distributed to District Panchayat for maintenance of school buildings.

ii) Non-Teaching Wing:

Tamilnadu Public Service Commission may be the recruiting agency for regular appointments. For temporary appointments, candidates may be called for from District Employment exchange for appointment by District Panchayats. Salary payment may be made by way of grants to non-teaching staff under a separate LFD Account.

iii) Disciplinary authority:

The disciplinary authority for both teaching and non-teaching employees may be the District Panchayat Council.

iv) Appellate Authority:

District Collector may be the appellate authority for both teaching and non-teaching staff.

v) Curriculum:

The curriculum for primary education may continue to be with School Education Department for the State as a whole and no delegation on this is necessary.

vi) Status of existing employees:

The interest of existing employees including pensionary benefits may be safeguarded but for new recruits, the new pension policy as outlined by Government may be followed.

vii) New Recruits:

The Government guidelines for first level appointment on consolidated pay initially may be adopted for new recruits. Regularisation of services and bringing them on time scale of pay may be decided after getting Government instructions.

14) In the light of the above analysis, the Third State Finance Commission recommends the following:

- i. Primary Education may be entrusted to Panchayat Raj institutions and the procedure for administering the functions entrusted may be on the basis outlined in para 13 above.*

D) Entrusting the functions of Libraries to Local bodies

15) In the Brain Storming Session held on 23.11.2005, the Commissioner, Corporation of Chennai has advocated that the functions relating to running of libraries may be entrusted to Urban Local Bodies as they have all the capacity to run. His request has been examined. Under Article 243 (G) and as per XI Schedule (S.No.20) of the Constitution of India, the subject relating to libraries has been entrusted to Panchayat Raj Institutions. Further in respect of Urban Local Bodies, it has been mentioned indirectly under Article 243 (W) and XII schedule (S.No.13) of the Constitution of India.

16) At present the local bodies are collecting 10% of property tax as library cess and the same is passed on to Library Department. No collection charge is retained by the local bodies. In fact some of the Municipal Corporations like Salem are running libraries. The Central Government have, time and again, been pleading for transfer of functions as listed out in the Constitution while recommending grants to local bodies. In the above context the transfer of subject has been examined. This issue was discussed with the Director of Rural Development as well as Secretary, School Education Department who controls Public Libraries.

17) At present, the Director of Libraries is running District libraries and libraries at town/village level. In Chennai, the Local Library Authority is running the Central library and Connemara Public Library. The annual budget of the Library Department (i.e. Expenditure) is around Rs.15.71 crores as per Revised BE 2006-07. The estimated receipts from library cess from all local bodies is around Rs.50 crores per annum. But the income is not credited to Revenue Receipts of the State but under Deposit head. The receipts to the Consolidated Fund of the State for the year 2003-04 under "Library Funds" is only Rs.18.03 crores, as per the A.G's actuals. The local bodies are not regularly remitting the library cess collected into Government Account. If the entire money is pooled at District level it can be properly utilized. The District Panchayat may be entrusted with the function but the budget may be got approved in the District Planning Committee. In respect of Chennai, the responsibility may be entrusted to Chennai Corporation. The entire proceeds relating to library cess collected from local bodies may be credited with District Panchayat Account. In respect of Chennai Corporation, Commissioner may retain the proceeds of library cess collected at his disposal.

i) Existing employees

As far as employees are concerned, the salary burden should be borne by District Panchayat or by Chennai Corporation from out of the library cess collected. The rights of the existing employees may be protected and that the Director of Public Libraries may continue to be the disciplinary authority.

ii) Future recruitment

The District Panchayat / Chennai Corporation may be empowered to recruit personnel based on the guidelines issued by Government. Initially the appointment may be on contract basis with consolidated pay. The regularization of services and continuity may be decided by the Council after assessing the performance of the employees.

iii) Technical Support

The Director of Public Libraries may 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 Libraries.

18) In the above context, the Third State Finance Commission recommends the following:

- i *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.***
- ii *The library cess collected by both Rural Local Bodies / Urban Local Bodies shall be transferred to District Panchayat Account.***
- iii *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.***
- iv *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.***
- v *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.***
- vi *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.***

- vii ***Wherever Municipal Corporations / Municipalities are running the libraries on their own, those libraries shall continue to be run by them.***
- viii ***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.***

E) Delegation of functions / powers to Urban Local Bodies

19) The Sub-Committee on Urban Local Bodies has, in its report, stated that out of 18 functions listed in XII Schedule of the Constitution, Urban Local Bodies have role on 11 functions and the remaining 7 functions are performed by Government / Parastatal agencies. In the Chapter on Line departments and Parastatal agencies, the functions relating to urban planning and land use have been discussed and recommendations made. In respect of other functions, there is no urgent necessity to transfer the functions. However, in the functions now being administered, there is no adequate delegation to Municipal councils and to the Regional Director of Municipal Administration. In fact, the role of Regional Director of Municipal Administration has come to be looked upon as a stumbling block instead of a facilitator.

20) As regards unauthorised constructions, the Commission feels that at present the Municipal councils have no adequate powers to demolish them. This has emboldened many to resort to constructing without permission / approval from Municipal authorities. Further there is no harmony between the Chairperson and the Commissioner and it has been brought to the notice of the Commission that vital information has not been shared with Municipal Chairpersons. Similarly, works are chosen in a capricious manner without even an attempt to arrive at the genuine needs in a shelf of projects.

21) The Sub-Committee studied the issues relating to the above subject in depth and made recommendations. The full report of the Sub-Committee and recommendations may be seen in Annexure-II-6. The report of the Sub-Committee was discussed by the Commission at its meeting held on 22.06.2006. After discussing the issue of delegation of powers to Regional Director of Municipal Administration and Municipal council, the Third State Finance Commission recommends the following:

- i ***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.

- ii 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.***
- iii 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.***
- iv 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.

- v 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.***
- vi 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

**இதனை இதனால் இவன்முடிக்கும் என்றாய்ந்து
அதனை அவன்கண் விடல்
(எண்:517)**

Para 7 of our Terms of Reference empowers this Commission to make suitable recommendations regarding any other issues having a bearing on the Terms of Reference issued to Third State Finance Commission. Based on the reference, the Third State Finance Commission deals with a set of issues on which line departments / parastatal agencies have parallel control / function over local bodies.

A) Chennai Metropolitan Water Supply and Sewerage Board

2) Unlike other parastatal agencies, Chennai Metropolitan Water Supply and Sewerage Board has got legitimacy to be a local authority by virtue of a conformity law enacted under Section 415 of City Municipal Corporation Act following the enactment of 74th Constitutional Amendment Act. Even though it is technically a local authority it is not accountable to people's representatives except to the Minister concerned and to the State Government. As per Section 3 of Chennai Metropolitan Water Supply and Sewerage Board Act, the Board consists of officials and technical experts. After finding out the anomaly in the constitution of the Board, the Second State Finance Commission has put a rider for Chennai Metropolitan Water Supply and Sewerage Board for obtaining its share of devolution by stipulating that it should induct the elected representatives in the Board of Chennai Metropolitan Water Supply and Sewerage Board. In spite of the fact that the recommendation has been accepted at the Secretaries' level meeting, no orders have been issued. Similarly for utilising the devolution money, the Second State Finance Commission prescribed parameters, i.e for strengthening and improving the distribution net work. Again, despite its acceptance at the Secretaries' level meeting, no orders have been issued by the Government. This emboldened Chennai Metropolitan Water Supply and Sewerage Board to account for the devolution fund under its General Fund Account for utilisation at its will thereby negating the spirit of the recommendation. In the above scenario, the performance of the Chennai Metropolitan Water Supply and Sewerage Board was reviewed.

3) As per the norm prescribed, the Chennai City residents are expected to get 120 LPCD but the present level of supply is 60 LPCD on an average. Although the City's storage

capacity of water has been enhanced with the implementation of New Veeranam Project, yet in many existing storages, according to experts, Chennai Metropolitan Water Supply and Sewerage Board has not taken initiatives to improve the storage. A particular lapse which has been repeatedly pointed out by experts and media is letting into the sea of nearly 15tmc ft of water from Chennai's reservoirs viz, Satyamurthy Sagar at Poondi, Redhills and Chembarampakkam during the heavy spell of rains in November-December 2005. This is equivalent to 15 months water supply.

Breakup details:

Poondi	-	7.4 tmc ft
Chembarampakkam	-	6.0 tmc ft
Redhills	-	1.6 tmc ft

(Source: PWD figures)

4) A decade ago there was a proposal to increase the level of the tank along with Red Hills, Chembarampakkam and Poondi reservoirs. But it was given up citing the cost factor. But advocates of the proposal stress that the implementation of this scheme is easier than others. But no action seems to have been taken; nor does it find place in the pipeline projects furnished by Chennai Metropolitan Water Supply and Sewerage Board. But Chennai Metropolitan Water Supply and Sewerage Board is said to have asked the Public Works Department to examine the possibility of enhancing the storage of the Cholavaram tank. The present capacity is 881 million cubic feet. But according to experts it can be increased to 2500 tmcft by citing the available poromboke land nearby. Similarly, the proposals for creating two reservoirs at Thirukandalem and Ramanjeri did not take off. The above details are given only to drive home the point that water supply need to be at least on par with other Metropolitan cities.

5) Major projects such as New Veeranam and Krishna Water Supply Scheme have been fully funded by the Government. Hence, it has become necessary for Chennai Metropolitan Water Supply and Sewerage Board to enhance the existing storages or putting up additional reservoirs. Already a decade ago, 20 Municipal bodies in Chennai Metropolitan area have been brought under Chennai Metropolitan Water Supply and Sewerage Board. But supply of water for some Urban Local Bodies appear to be scanty and erratic. Further the much publicised desalination of 100 MLD per day which is yet to take off is about to be fully funded by the Government. But Chennai Metropolitan Water Supply and Sewerage Board has already embarked on mini desalination projects by way of 'Reverse osmosis' in Nochikuppam, Velachery, Ayodhyakuppam, Kasimedu and Kasimedukuppam and the capital cost and recurring cost of the above projects are not much.

6) The Chennai water supply and demand scenario is as below:

Million litres a day

Sl. No.	Details	As on 31.3.2005	As on 31.3.2012
1	Existing ground water	70	67
2	Existing surface water	100	229
3	Krishna Water Stage-I	105 *	200
4	New Veeranam Proje	180	180
5	Krishna Water Stage-II	--	100
6	* Yielded only	263.5	1076
	Total demand for Chennai	893	1074

(Source: Metro Water).

It appears from the above figures that Chennai Metropolitan Water Supply and Sewerage Board may meet the demand by the end of 2011-12 which incidentally the last year of the award period of Third State Finance Commission. To achieve the demand, Chennai Metropolitan Water Supply and Sewerage Board has to tap its resource base which is poor at present.

7) The Managing Director, Chennai Metropolitan Water Supply and Sewerage Board who interacted with Third State Finance Commission has informed that 7% of annual rental value is collected as water tax. Besides, for unmetered residents a flat rate of Rs.50/- p.m. is charged. For other users the water charge rates are

i	Commercial water-non-intensive	200 PM
ii	Commercial water-intensive	400 PM
iii	Partly commercial	150 PM
iv	Institutional	200 PM

But the above rates have been in force for more than 8 years, without any revision. But Managing Director by citing the Water Tax vis-à-vis Property tax has sought 23% of devolution from Chennai Corporation's share. It has also been impressed on Chennai Metropolitan Water Supply and Sewerage Board that Chennai Corporation has more civic services than Chennai Metropolitan Water Supply and Sewerage Board and therefore it lacks scientific approach. In fact, Section 34 of Chennai Metropolitan Water Supply and Sewerage Board empowers to levy water tax upto 35% of the property tax which if implemented, will fetch more revenue. Similarly, Sewerage tax can be levied upto 15% of the property tax. Besides the user charges i.e Water charges / Sewerage charges are too low and they need to be hiked to fetch more income. It has also to come out of dependency syndrome and self imposed quagmire. It is a positive sign that no exemption from levy of tax / user charges is

given by Chennai Metropolitan Water Supply and Sewerage Board Act but it resorts to on the basis of direction from Government for which the Chennai Metropolitan Water Supply and Sewerage Board has to seek assistance from Government.

8) The projected Revenue income, and Revenue expenditure of Chennai Metropolitan Water Supply and Sewerage Board for the award period of Third State Finance Commission i.e. 2007-12 are given below:

(Rupees in crores)

Sl. No.	Details	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
1	Revenue Income	417.31	497.91	564.59	604.28	660.98
2	Revenue Expenditure	517.49	659.90	684.12	730.47	745.06

(Source: Metro Water).

9) The capital expenditure may go down after the implementation of desalination projects. The revenue deficit can be wiped out easily if tax revision and user charges are revised once in 3 years. The Memorandum Of Understanding reached with Ministry of Urban Development and Poverty Alleviation by which the Government have committed for revision of rates periodically. Moreover, if the demand for water supply is fully met as proposed by Chennai Metropolitan Water Supply and Sewerage Board after the desalination project and additional storage capacities, it will be possible for Chennai Metropolitan Water Supply and Sewerage Board to generate more income.

10) As already stressed, all households / institutions should be metered and that Kilo litre rates need to be revised. In the desalination project, Chennai Metropolitan Water Supply and Sewerage Board has stated that it may incur loss of Rs.23 to Rs.28 per kilo litre when compared to pooled cost of water. Such loss has to be borne by Government if needed. The Second State Finance Commission has also suggested for taking over of water bodies in Chennai Metropolitan area and the Government have also issued orders. Based on the order, Chennai Metropolitan Water Supply and Sewerage Board has taken over 20 lakes, as per the deposition made by Managing Director, Chennai Metropolitan Water Supply and Sewerage Board. But further follow up action like desilting, maintenance and rain water harvesting has not been attempted as the issue is still to be sorted out with Public Works Department.

11) In the above backdrop, the Third State Finance Commission recommends the following:

- i ***As at present, 10% of the Chennai Corporation's share of devolution shall be passed on to Chennai Metropolitan Water Supply and Sewerage Board.***
- ii ***Water Tax shall be revised at the rates mentioned under Section 34 of Chennai Metropolitan Water Supply and Sewerage Board Act.***

- iii ***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.***
- iv ***The Government should consider the issue of compensation to Chennai Metropolitan Water Supply and Sewerage Board, for the higher cost of desalination.***
- v ***The devolution grants may be exclusively spent for development.***

B) Role of Directorate of Town and Country Planning in Planning and Licensing functions

12 b) The Town and Country Planning Act 1971 was enacted in 1972 when almost all the elected local bodies were either dissolved or ceased to function consequent on the expiry of their term. At that time it might have been felt that a body like Directorate of Town and Country Planning with regional power centres could draw master plan, detailed development plan, etc to improve the infrastructure in urban areas. But after the enactment of 73rd / 74th Constitutional Amendment Act, the functions relating to urban planning including Town Planning and regulation of land use and construction of buildings have been entrusted to Urban Local Bodies. But over the period, parastatal agencies have gained experience in the absence of elected bodies and hence they are reluctant to part with their functions. Wherever the local authority happens to be the local planning authority, the problem in land use and regulation of construction is not insurmountable.

13) But in the case of composite planning authorities, the problem in land use and construction continues to persist. As per the latest figures furnished by the Municipal authorities, five Municipal Corporations (except Chennai) have 1482 unapproved layouts (51,953 assessments) Municipalities have more than 2181 unapproved layouts (2,26,398 assessments) and Town Panchayats have 3401 unapproved layouts (41,178 assessments). Even though Municipal rule empowers taxing of all buildings whether it is in approved layout or unapproved layout, in practice it is not done for the reason that when the building itself has no licence, taxing seems to be odd. The resultant effect is that the income potential from the source is lost.

14) The Second State Finance Commission which analysed the issue in depth recommended that drawing Master Plan and detailed development plan might continue with Town and Country Planning Department and it should not involve itself in the routine task of issuing planning permission and building permission irrespective of the nature of construction as long as it satisfied the planning parameters. But the Government have not passed any orders on the above recommendation. The Director of Town and Country Planning with whom Third State Finance Commission's interacted has reacted that no

proposal on the basis of Second State Finance Commission's recommendation was sent. He mentioned about the delegation of powers issued in 1993 which practically outlived its utility.

15) Section 49 of Town and Country Planning Act empowers Directorate of Town and Country Planning or the planning authority to accord planning permission but while deciding to grant or refuse permission it should have regard to the following matters viz.

- a) the purpose for which the permission is required.
- b) the suitability of the place for such purpose.
- c) the future development and maintenance of the planning area

But it has not specified the time limit for granting permission by planning authorities which resulted in undue delay thereby enabling mushrooming of unauthorised constructions.

16) Therefore, there is need to have a time limit for according planning permission. The Third State Finance Commission also feels that the planning wing and the Building licence wing need to be under one umbrella to eliminate such problem in future. In fact Section 91 and 91A of the Town and Country Planning Act empowers the Government / Directorate of Town and Country Planning for delegating the functions to any authority. The Parliamentary Standing Committee on implementation of Part IX A of the Constitution of India has observed that the committee are perturbed to note that with the presence of various other Governmental / non-Governmental bodies, there is considerable encroachment upon the functional domain of the Municipalities. The committee therefore strongly recommended that the functional domain of the Municipalities must be exclusive and clearly demarcated to check any kind of encroachment and confusion.

17) The second issue on which urban local bodies have strong reservation is on collection of 1% of the total revenue to the kitty of planning authority fund as per Section 65 of Town and Country Planning Act, when the function itself rightfully belongs to Urban Local Bodies. The Commission also feels that the levy appears to be an anachronism.

18) The third issue before us is the sharing of development charges / Open Space Regulation charges. The Second State Finance Commission has recommended for transfer of 75% of Development Charges and Open Space Regulation charges to local bodies. But the Government in G.O. MS.No.115, Municipal Administration and Water Supply Department, dated 2.8.2005 have ordered the transfer of 75% of Development Charges and Open Space Regulation charges collected by the local planning authority to the concerned local body subject to the condition that the Urban Local Bodies should utilise the money for the projects within the ambit of Master Plan and detailed development plan. But this is not found acceptable to many as the projects mentioned by the planning authority may not be for immediate relief.

19) Another issue which has cropped up is that the Directorate of Town and Country Planning is under the administrative control of Housing and Urban Development Department, whereas Municipalities / Municipal Corporations are under Municipal Administration and Water Supply Department. The Commission feels that urban development wing is part and parcel of Municipal Administration and as such it should be under the control of Municipal Administration and Water Supply Department.

20) In the back drop of the above analysis, the Commission recommends the following:

- i ***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 above.***
- ii ***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.***
- iii ***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.***
- iv ***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.***

C) Role of Chennai Metropolitan Development Authority and Local Bodies

21) As like Directorate of Town and Country Planning, Chennai Metropolitan Development Authority is also a creation in the early seventies on the basis of the Town and Country Planning Act when most of the elected local bodies were either dissolved or on the verge of exit on the expiry of their tenure. At that time it was felt that civic bodies alone could not provide the basic amenities and that to give boost to the development of infrastructure and planning, expert bodies like Chennai Metropolitan Development Authority was thought of. The elected council was non-existent for nearly 23 years in Chennai Corporation and in the peripheral Urban Local Bodies/Rural Local Bodies, the elected councils came into existence in late eighties nearly after 12 years. During this period, the parastatal agencies including Chennai Metropolitan Development Authority almost assumed

the role and functions which would have normally been discharged by the civic bodies, but for the absence of elected bodies.

22) After the enactment of 74th Constitutional Amendment Act, the urban planning including town planning and regulation of land use and construction of buildings have been conferred on the Urban Local Bodies. But the conformity law amending the Town and Country Planning Act by restricting the role and function of Chennai Metropolitan Development Authority has not been enacted as mandated under Article 243 (ZF) of the Constitution. Moreover in the absence of a separate law on Metropolitan Planning Committee which would have made Chennai Metropolitan Development Authority defunct has also not been enacted even after 14 years since the incorporation of 74th Constitutional Amendment Act in the Constitution.

23) In the last 34 years of its existence, the Chennai Metropolitan Development Authority has brought out only one Master Plan in 1975 and the second draft Master Plan which was said to have been prepared and circulated to Government in 1995 has not seen the light of the day. On issuing planning permission, the Chennai Metropolitan Development Authority issues permissions for multi storeyed / special buildings exceeding 4 floor or 15 metre height in the Chennai Corporation area and for other Urban Local Bodies / Rural Local Bodies the entire planning permission rests with Chennai Metropolitan Development Authority. But over the years, the number of violations of planning permission has assumed monstrous proportion and the Government/Chennai Metropolitan Development Authority had to step in with the regularisation scheme. At present, the Chennai Metropolitan Development Authority and Urban Local Bodies are working on parallel lines instead of in a co-ordinated manner.

24) The Chennai Metropolitan Development Authority with whom the Third State Finance Commission interacted has pointed out that local bodies can stop the unauthorised constructions including demolition. But as per urban law no Urban Local Body has the powers of demolishing the unauthorised constructions. The local bodies can at best bring to the notice of Chennai Metropolitan Development Authority on violation of planning permission and unauthorised construction. The Chennai Metropolitan Development Authority which possesses the powers of demolition did not exercise the power as seen from the amendment (Insertion of Section 113A of Town and Country Planning Act) enacted in the Town and Country Planning Act, in 1998, 2000 and 2002. The regularisation of violations in building rules fetched a sum of Rs.226 crores till June 2005 which was remitted to Government account.

25) When the issue of sharing the regularisation fee with local bodies was taken up with Chennai Metropolitan Development Authority, it pointed out that no sharing could be

thought of as the issue was still under subjudice. When pointed out that the Supreme Court has upheld Section 113A (i.e Regularisation of violation and exemption from planning and Building rules) as early as in 1998, the Chennai Metropolitan Development Authority has stated that the subsequent scheme is under challenge in the Madras High Court and hence no sharing was done.

26) The Second State Finance Commission which studied the role and function had recommended that

- a) Chennai Metropolitan Development Authority should not take upon itself any regulatory role or the task of line agency or dissipate its energy and expertise and to confine itself to goal setting, determination of priorities, resource allocation and capital budgeting etc.
- b) All planning permissions and building licences should be vested with Urban Local Bodies for which technical personnel from Chennai Metropolitan Development Authority may be deputed.
- c) The Development charges / Open Space Regulation charges collected by Chennai Metropolitan Development Authority should be shared with Urban Local Bodies (75% for Urban Local Bodies and 25% for Chennai Metropolitan Development Authority).
- d) The Chennai Metropolitan Development Authority may be the Secretariat for the Metropolitan Planning Committee.

27) In the interaction with the Secretary to Government, Housing and Urban Development Department, it was revealed that no order was passed on the recommendations except on Development charges / Open Space Regulation charges by Municipal Administration and Water Supply Department. Even in the sharing of Development charges / Open Space Regulation charges, Municipal Administration and Water Supply Department issued orders in August 2005 for sharing in respect of areas under Directorate of Town and Country Planning control and did not pass orders on sharing in respect of Chennai Metropolitan Development Authority areas. Moreover, it was pointed out that Chennai Metropolitan Development Authority and Directorate of Town and Country Planning were under the dual control of Municipal Administration and Water Supply Department and Housing and Urban Development Department. Also, the Chennai Metropolitan Development Authority collects 0.25% of the Urban Local Body revenue for its existence by citing the Town and Country Planning Act, in addition to the Development charges and Open Space Regulation charges.

28) Time and again, the planning body came under attack from Institution of Valuers and Town Planners. It has been argued that flooding in Chennai was due to the delay in finalisation of Second Master Plan by Chennai Metropolitan Development Authority. The

experts allege that the Chennai Metropolitan Development Authority which has got embroiled in regularisation scheme has lopsided priorities. As a matter of fact the Institution of Valuers wants constant and continuous review of Development control rules to suit the changing circumstances. The Rule 19(b) of Development Control Rules which exempts construction in the second floor as an addition to an existing ground and first floor which is 3 years old shall not be construed as a special building. The 'Auto DCR' Software now used by Pune Municipal Corporation and Surat Development Authority has been suggested by the above experts for adoption by Chennai Metropolitan Development Authority.

29) In the light of the above facts and study, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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.***
- iv ***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.***
- v ***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.***
- vi ***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.***

D) Constitution of Chennai Metropolitan Planning Committee

30) As in Districts, where constitution of District Planning Committees have been envisaged, in Metropolitan area the Constitution of India mandates for the formation of Metropolitan Planning Committee under Article 243ZE. Even though the provisions came

into existence 14 years ago, no follow up action has been taken. The Second State Finance Commission which studied the issue has recommended constitution of 30 Member Committee with special invitees from parastatal agencies and Secretariat departments. It has also suggested amendment of City Corporation Act, District Municipalities Act and Tamil Nadu Panchayats Act. Orders from the Government are awaited.

31) The above issue came for discussion in the interaction with Member-Secretary, Chennai Metropolitan Development Authority and the Secretary to Government, Housing and Urban Development Department. The officials of Chennai Metropolitan Development Authority have informed that Chennai Corporation Act has been amended for constituting Metropolitan Planning Committee but other Municipal and Panchayats Acts remain to be amended. They also informed that they got the High Court order to enable Chennai Metropolitan Development Authority to perform the functions of Metropolitan Planning Committee.

32) Even though in the absence of the Metropolitan Planning Committee, the Chennai Metropolitan Development Authority has been functioning, the Third State Finance Commission feels that it is against the spirit of Articles 243(N) and 243 ZF which invalidate the Acts if they are not brought in conformity with the Constitutional provisions conferred on the local bodies. It is also worth mentioning that the Village Panchayats in Chennai Metropolitan Area have been classified as Census Towns by Census department and the population in the Village Panchayats has been shown under urban. The number of Village Panchayats which fall under the category may be around 21 and the population in the Village Panchayats is more than 3 lakhs.

33) In view of the Census classification, it has become necessary to bring them under Municipalities or Transitional areas with the Urban Act provisions so as to devise a comprehensive programme for the entire Chennai Metropolitan area. The reclassification of the above 20 odd Panchayats is dealt with in the Chapter on Reclassification. Once the above Village Panchayats are brought under urban category, amendment to Municipalities Act, for the Constitution of Metropolitan Planning Committee may be thought of. Meanwhile to push through, separate law will be of help.

34) Taking into account all the relevant views on this issue, the Third State Finance Commission recommends the following:

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

- ii ***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.***
- iii ***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.***
- iv ***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.***

E) Role of Tamil Nadu State Pollution Control Board

35) The Tamil Nadu State Pollution Control Board has been in existence from 1982 and it has been looking after many functions including Water (Prevention and Control of Pollution) Act 1974 and Water Cess Act 1977 as amended in 1991. Its role as sole agency in protecting the environment from pollution was undoubtful till 1992. After the advent of 74th Constitutional Amendment Act, Urban Local Bodies have been given the responsibility in respect of Protection of Environment and Promotion of Ecological aspects (vide S.No.9 of XII Schedule of the Constitution. In the absence of conformity legislation as mandated under Article 243ZF, the parastatal agencies continue to exercise powers over Urban Local Bodies.

36) For instance, the Tamil Nadu State Pollution Control Board insists on payment of water cess from Urban Local Bodies under Water Cess Act. But there is no logic or reason in claiming the cess under Water Cess Act 1977. Infact Water Supply is a subject allocated to local bodies by the Constitution of India as well as by State Acts. The Urban Local Bodies have necessary technical personnel to look into the pollution aspects. Moreover, Tamil Nadu Water Supply and Drainage Board, Chennai Metropolitan Water Supply and Sewerage Board are also operating water supply schemes with necessary technical expertise. Levying of cess would have been relevant in the initial stages of the enactment of the law. But it has outlived its utility.

37) At the same time, the Commission acknowledges the expertise acquired by Tamil Nadu State Pollution Control Board in controlling pollution of all kinds. But this expertise has to be shared with the Urban Local Bodies through training for both officials and non-officials. The Second State Finance Commission which studied the role of Tamil Nadu State Pollution Control Board has recommended District level committees in all Districts (except Chennai) with the District Collector as the head and Urban Local Body and Tamil Nadu State Pollution Control Board representatives as members. The Second State Finance Commission has recommended for a Committee with Chennai Mayor as Chairman and Chairman of Tamil Nadu State Pollution Control Board and Commissioner, Corporation of Chennai as members but no orders have been issued by the Government.

38) In the above background, the Third State Finance Commission recommends the following:

- i ***The Urban Local Bodies shall be exempted from the levy of water cess by amending the Water Cess Act, 1977.***
- ii ***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.***
- iii ***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.**

F) AREA PLANNING AND TAMIL NADU HOUSING BOARD

39) The Tamil Nadu Housing Board, which had been in existence for more than four decades had developed the habit of forcing the local bodies by invoking the over riding provisions in the Tamil Nadu Housing Board Act, under Section 35, 37,38,39,40,44,45,64 and 152 etc. There has also been no coordination between the local bodies and Tamil Nadu Housing Board. After attaining Constitutional Status, the local bodies have to be necessarily consulted on land acquisition for Tamil Nadu Housing Board Schemes and notification. Similarly for ownership tenements, the Tamil Nadu Housing Board has to furnish the details of beneficiaries to local bodies for taxing their properties. The Commission came to know during interaction with elected representatives that in respect of outright sale and hire purchase sale, no details were received. In the absence of the details, levy of property tax and collections could not be carried out.

40) Another grey area is the inordinate delay in acquisition of land and that the schemes are in the notification stage only. About 20 such schemes are in the list. The Valasaravakkam Housing Scheme notified as early as in 1971 has not taken off owing to various factors including legal tangles. In view of the over riding provisions under Section 152 of the Tamil Nadu Housing Board Act, the local bodies were reluctant to levy tax in the area notified by Tamil Nadu Housing Board, even though houses had come up in the land where ownership was still with pattadars. According to this provision, local body will have no say in the matter of layout, building fees, levy of vacant land tax, provision of open space, adoption of standards for roads and drains etc. This Section and other similar Sections mentioned above might be valid till 1992 but after the 73rd and 74th Constitutional Amendment Act, it should have lost its validity. But in the absence of conformity legislation

for amending the Sections despite specific direction under Article 243ZF of the Constitution led to many problems. The Second State Finance Commission highlighted the issue in its report but the issue is alive even after 5 years.

41) The above difficulty arises out of the delay in land assessment. In the interaction with the Managing Director, Tamil Nadu Housing Board and Secretary to Government Housing and Urban Development Department, it was agreed to have a time frame for land assessment to overcome the above problems.

42) In the light of the above facts, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***The local bodies should be empowered to levy property tax in the Housing Board notified area.***
- iii ***There should be proper coordination between Tamil Nadu Housing Board and local bodies before notifying a scheme and a coordination committee may be constituted.***
- iv ***There should be a specific time limit say 1 year for land assessment to avoid difficulties in acquisition of land and other related activities.***
- v ***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 out right sale or by hire purchase scheme, to enable local bodies to levy property tax.***
- vi ***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.***
- vii ***In respect of rental housing schemes, the present practice of Housing Board paying the property tax by obtaining funds from Government shall be continued.***

G) Tamil Nadu Slum Clearance Board and Urban Local Bodies

43) The Tamil Nadu Slum Clearance Board has been in existence from 1972 after the enactment of Tamil Nadu Slum Areas (Improvement and clearance) Act. The primary function of the Board is to identify the slums and to provide tenements. According to Census 2001, the urban slum population in Tamil Nadu is roughly 24%. Tamil Nadu Slum Clearance

Board has 1202 notified slums out of 1989 slums. However, for the above slums, basic amenities are provided by Urban Local Bodies.

44) After the enactment of 74th Constitutional Amendment Act, the subject of Slum improvement has been conferred on Urban Local Bodies. But in the absence of delegation of power, the Tamil Nadu Slum Clearance Board continues to exist by virtue of having expertise in the field for more than 3 decades. But the Tamil Nadu Slum Clearance Board Act should not have any over riding powers on Urban Local Bodies as it may go against the spirit of the Constitution. Hence, there is need to have proper coordination between Tamil Nadu Slum Clearance Board and Urban Local Bodies.

45) The Second State Finance Commission which went into the issue on equation between Tamil Nadu Slum Clearance Board and Urban Local Bodies has recommended for induction of elected representatives of the Urban Local Bodies in Tamil Nadu Slum Clearance Board. Besides, it has recommended for payment of property tax for the tenements sold on out-right-sale basis. In respect of rental apartments, the Second State Finance Commission has recommended that the practice of Tamil Nadu Slum Clearance Board initially paying the property tax and getting the same reimbursed may be continued. But no orders have been passed by the Government.

46) During interaction with Managing Director, Tamil Nadu Slum Clearance Board, he has stated that proposal for inducting elected representatives will be sent to Government. On advising and coordinating with the local bodies on payment of property tax by the beneficiaries of out right sale scheme, he promised to send the details of beneficiaries to the concerned local body.

47) In the above context, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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.***

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

H) Tamil Nadu Electricity Board and Local Bodies

48) Tamil Nadu Electricity Board is another line agency whose action in revising the tariff or other charges directly affects the local bodies. Till 30th November 2001, Rural Local Bodies were paying electricity charges at Rs.1.60 per unit for street light consumption and water supply and Urban Local Bodies were paying at Rs.1.75 per unit. From 1st December 2001, the E.B. tariff has been enhanced to Rs.3.40 per unit for Rural Local Bodies and 3.50 per unit for Urban Local Bodies so as to bring the tariff rates closer to cost of supply at low-tension end. The tariff increase notified in March 2003 by SERC (State Electricity Regulatory Commission) did not touch local bodies consumption. The Tamil Nadu Electricity Board has also informed that the tariff now charged is less than the low tension end cost. The above version was checked up with the rates in neighbouring States.

49) In Andhra Pradesh, there are two different rates one for street lights and another for water supply. For street lights the Minor and Major Panchayats are paying at the rate of Rs.1.56 per unit and Rs.2.08 per unit respectively. In respect of Urban Local Bodies, different rates are levied from Rs.2.74 per unit to Rs.3.79 per unit according to the classification viz Municipalities Grade I, Special Grade and Municipal Corporation. In Karnataka, tariff is at the rate of Rs.3.10 per unit for both rural and urban local bodies. In Kerala, for rural it is around Re.1/- per unit with fixed charges per meter while the rates for Urban Local Bodies are not available. In Maharashtra, street light tariff for Grama Panchayats is Re.1/- with fixed charge per Kilo Watt per month and for others it is at the rate of Rs.2.10 to Rs.2.40 per unit with fixed charges of Rs.30 per Kilo Watt per month. For water supply too, the rates are the same.

50) From the above rates, it is clear that though the State Electricity Regulatory Commission fixes the tariff, the Government of the respective States have reduced the rates by cross subsidy. Even though the present rates have come to stay, for future revision there need to be some relief for local bodies as the end users are ultimately the public and there is no cost recovery as far as street lights are concerned. The Second State Finance Commission which studied the role of Tamil Nadu Electricity Board recommended on the following issues.

- a) Levy of Tract rent by local bodies at Rs.1000/-
- b) Fixing of pole shifting charges at Rs.1000/-
- c) Formation of District level co-ordination Committee to sort out field level problems.
- d) Insisting of NOC from Village Panchayats for houses constructed on poromboke lands.

- e) Fixing of service charges payable to Electricians (line man) by Village Panchayats.

51) The Government have taken the following decisions on the above issues.

- a) For levy of Tract Rent, the Government have decided to wait for the notification of the Electricity Act, 2003.
- b) For pole shifting charges, the Government have exempted Village Panchayats from payment and for others the charges have been fixed at 7.5% as Centage and other charges. In respect of other issues, the recommendations have been accepted but no orders have been issued.

52) In the interaction with the Chairman, Tamil Nadu Electricity Board, he has informed that metering is done and consumption cards have also been issued. He has also informed that district level meetings have been arranged between Divisional Engineers and Assistant Director of Panchayats to sort out the field level problem. On levying track rent by local bodies, he has stated that if State Electricity Regulatory Commission and Government agreed for levy, the Tamil Nadu Electricity Board will be willing to pay the amount. Similarly, for levying a cess, the Tamil Nadu Electricity Board has informed that already an Electricity Tax at 5% is levied on all consumers except local bodies and therefore it is upto the SERC and Government to take a decision on the issue.

53) The above views of the Chairman, Tamil Nadu Electricity Board have been checked up with Electricity Act, 2003 (Central Act). According to the Act, there is no bar for levy of tract rent by local bodies, as the transmission and distribution have to be handled by the Company registered under Companies Act, 1956. Similarly for levy of cess, Section 42 prescribes for elimination of Surcharge levy for cross subsidy. But in practice it has been in operation in all the States. In the interaction with District officials and elected Chairpersons of the local bodies they pleaded for freezing the rates or for Government subsidy as the electricity consumption charge for street lights and water supply eat away almost the entire revenue. As the electricity arrears of Rural Local Bodies mounted to nearly Rs.200 crores, the Government stepped in and released special grant for Rural Local Bodies for adjustment of the electricity arrears. The situation in Urban Local Bodies on this is also pathetic and they have sizeable arrears to pay. But the payment of arrears through centralized pattern resulted in difficulties in deducting the amount paid to Tamil Nadu Electricity Board. If it is done at District level with Panchayat wise break up or at the Village Panchayat level and in respect of Urban Local Bodies at Regional level with Unit wise break up or at the institution level, it may lead to proper accounting at local bodies level and also at Divisional Engineer, Tamil Nadu Electricity Board level too. In the use of other non-conventional energy, the issue will be discussed in the respective Chapter on core civic services.

54) In the light of the above analysis, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***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.***
- iv ***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.***
- v ***Tamil Nadu Electricity Board should insist on No Objection Certificate from Revenue department for houses constructed on poromboke lands before giving service connections.***
- vi ***In respect of Patta lands, No Objection Certificate should be obtained from the respective local body to avoid mushrooming of unapproved layouts.***
- vii ***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.***
- viii ***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.***
- ix ***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 waiving the stipulation for use by HT industries. If necessary, Act / Rule provisions of the Electricity Act may be amended.***

I) Tamil Nadu Water Supply and Drainage Board and Local Bodies

55) Tamil Nadu Water Supply and Drainage Board as like other parastatal agency was created in the early seventies when elected local bodies ceased to function. In the absence of elected local bodies during 1975-1986, Tamil Nadu Water Supply and Drainage Board assumed the role of monopolistic agency by designing and executing water supply and drainage schemes on its own without consultations. As per the Tamil Nadu Water Supply and Drainage Board Act, it is only an agency executing water supply and drainage schemes. But in practice the agency itself obtained loan and scheme fund for the above schemes on behalf of the local bodies. The local bodies have to pass resolution for the schemes and to pay loan annuities irrespective of the fact whether the scheme is implemented or not. Many Urban Local Bodies suffered in the process and this had been highlighted in Second State Finance Commission's report.

56) Till the year 2004-05, Tamil Nadu Water Supply and Drainage Board was obtaining loan for Combined Water Supply Schemes. From 2005-06, the Urban Local Bodies have been advised to approach the lending agencies on their own in the wake of fall in interest rates. Prior to 1999, the projects were divided into numerous works and awarded to many contractors which resulted in delay and inefficiency. After 1st April '99, Turn Key System has been introduced and it is said to have saved the time and cost over run. In the course of interaction with Managing Director, Tamil Nadu Water Supply and Drainage Board by Third State Finance Commission, the Managing Director, Tamil Nadu Water Supply and Drainage Board has stated that 6 water supply schemes viz.,

- i Nagercoil Water Supply Improvement Scheme
- ii Combined Water Supply to 133 Coastal habitations in Nagapattinam District.
- iii Perundurai – KC Palayam Combined Water Supply Scheme
- iv Kayatharu – Kazhugamalai Combined Water Supply Scheme
- v Kovilpatti and wayside villages Combined Water Supply Scheme
- vi Rajapalayam Water Supply Improvement Scheme

have been delayed owing to denial of permission by National Highways or by Forest Department or by land litigation. This has resulted in payment of loan annuities to lending agencies without availing the scheme benefits. Similarly 2 WSIS Schemes, viz Sathur Municipality WSIS and Srivilliputhur Municipality WSIS were abandoned as like Salem drainage projects owing to inherent deficiency in assessing the public cooperation and improper assessment of water yield. All these have added to the debt burden of the Urban Local Bodies.

57) On Water Supply, the Managing Director has stated that 40,000 rural habitations are covered under 40 LPCD norm and 20000 are within the range of 20-30 LPCD and the rest are less than 10 LPCD. He has also stated that all habitations have to be covered under 40 LPCD norms by 2010. A push can be given for augmenting water supply under

SWAJALDHARA but many are reluctant to part with 10% public contribution. In water pricing under combined water supply scheme, Managing Director has stated that it was fixed by Government after obtaining proposal from Tamil Nadu Water Supply and Drainage Board. But the demand under 434 CWS Schemes and the expenditure incurred for staff, materials and labour give a different picture. In 1998-99 the demand for combined water supply scheme was Rs.85.92 crores whereas the expenditure incurred was only Rs.66.11 crores. Similarly for 2000-01 and 2001-02 the demand was 86.36 crores and 83.85 crores, whereas expenditure for salary and Operation and Maintenance was of the order of Rs.72.43 crores and Rs.76.67 crores. It does not appear to reason that for an identical quantity of water supplied in 1999-2000 and 2000-2001 the expenditure has gone up but the demand is less. Similarly in 2001-02 the quantum of supply has increased by 26 Million litres but the expenditure has gone up by Rs.11 crores; In 2002-03 the quantum of supply was 213106 Million litres for which the demand is Rs.74.14 crores and the expenditure is Rs.91.64 crores. In 2003-04 and 2004-05 the quantum of supply had come down, i.e. 211650 Million litres and 210679 Million litres respectively whereas the demand had gone up to Rs.84.87 crores and Rs.99.57 crores respectively. The expenditure had also gone up viz to Rs.100.34 crores and Rs.117.15 crores respectively. The revision of rates for water supply took effect from October 2002 and the rate is continuing till to day. When such is the position, the demand for lesser quantity supplied cannot be more than the previous year. This proves that the pricing is not scientific and the demand raised also is questionable. The Managing Director, Tamil Nadu Water Supply and Drainage Board was advised to look into the correctness of the figures. In taking over water bodies, Tamil Nadu Water Supply and Drainage Board has informed that it has not identified the water bodies for take over. On centage, it was brought to the notice of the Commission that it was 13% in Turnkey System which appeared to be high and it should be brought down. The Tamil Nadu Water Supply and Drainage Board has also informed that no attempt has been made to privatise the maintenance of combined water supply scheme.

58) On the allegation that resolutions of Municipal Council are obtained to suit Tamil Nadu Water Supply and Drainage Board requirements, the Managing Director, Tamil Nadu Water Supply and Drainage Board has informed that Municipal Engineers have been consulted before drawing the project. Another suggestion which has come up during interaction with the District officials and elected Chairpersons of local bodies, is that, instead of venturing into combined water supply scheme which in most cases resulted in delay in execution or in certain cases abandoning for want of clearance from other agencies, it would be prudent to treat the local water potential by way of 'Reverse osmosis'. There are reputed institutions like 'Nayagara Water Solution' which treat all kinds of water by 'Reverse osmosis'. Moreover, low cost desalination equipments have also landed in market. In fact, the Town Planners and Institution of Valuers suggest that local water potential has to be

tapped and treated instead of bringing it from far off places which ultimately lead to illegal tapping etc. The Tamil Nadu Water Supply and Drainage Board has brought to the notice the pending water charges from all local bodies which run to several crores of rupees and pleaded for early settlement. The details of water charges pending (as on 31.8.2005) are:

As on 31.8-05

	(Rupees in crores)
Municipal Corporation	112.24
Municipalities upto Grade-II	22.59
Municipalities – Grade III	6.91
Town Panchayats	16.24
Village Panchayats	79.24
	237.22

59) The Second State Finance Commission which looked into the functioning has recommended for inducting certain elected representatives of the local bodies in the Tamil Nadu Water Supply and Drainage Board. It also recommended that District level Committee should be constituted to sort out the field level problems. Government orders have been issued on both the recommendations. Effective implementation of those orders should be watched by Municipal Administration and Water Supply Department.

60) Tamil Nadu Water Supply and Drainage Board has also not ventured into new initiatives to reduce the maintenance cost. For instance the use of bio-diesel for operating water pump motors was not thought of in the wake of raising power tariff. The Government have already embarked upon a massive plan for cultivating Jatropha to produce bio-diesel. This has been dealt with in core civic services. The Commission is also aware that Tamil Nadu Water Supply and Drainage Board Act contains over riding powers on local bodies which need to be deleted or modified so as to be in consonance with the Constitutional provisions.

61) In the above back ground, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***The centage charge in Turn key system has to be brought down from the present level of 13% to 5%***

- iii ***Government may also explore the possibilities of privatising maintenance of Combined Water Supply Scheme after determining the norms on maintenance.***
- iv ***Extensive use of bio-diesel for operating water pumps may be given thought to reduce recurring expenses.***
- v ***All Over Head Tanks may be fitted with water meter and the water charges levied on the basis of the meter reading.***
- vi ***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.***
- vii ***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.***
- viii ***As explained in para 57 above, 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.***

J) Equation between District Planning Committee and District Rural Development Agency

62) Article 243ZD stipulates the formation of District Planning Committees for local bodies, to consolidate the plans prepared by the Panchayats and the Municipalities in the district and also to draft development plan for the district as a whole. Accordingly, in Tamil Nadu, the conformity law was enacted under Section 241 of Tamilnadu Panchayats Act. In some States like Andhra Pradesh, a separate Act for District Planning Committee has been enacted by prescribing total membership for all the Districts irrespective of the size. In our State, the Government in their order No.278, Rural Development Department, dated, 24.10.2000 have specified the number of persons to be elected for District Planning Committee at 4/5 of the total membership. In five districts viz Salem, Trichy, Madurai, Tirunelveli and Coimbatore the total membership is 15 of which 12 are elected members. In other districts, the total membership is 10 of which 8 are elected members. In 23 districts where the total strength is 10, the other two members are District Panchayat President who happens to be the Chairperson and the District Collector is the Vice-Chairman. In the other 5 districts where Municipal Corporations are existent, the Mayor of the Municipal Corporation is the other member besides the above two. As stipulated in the Act, the State Election Commission conducted the elections and District Planning Committees came into existence.

63) The elections to District Planning Committee were conducted on the basis of 1991 population when Town Panchayats were shown under Rural. In 2001, Town Panchayats have been shown under urban and elections to Town Panchayats were conducted on the basis of Tamil Nadu District Municipalities Act. Now the composition of the committee needs to be changed in view of the 2001 census.

64) Even though the District Planning Committees have been constituted in the districts, the functioning leaves much to be desired. In the interaction with District Panchayats during district hearing, almost all of them have categorically stated that the objectives of the committee have not been fulfilled and the committees remained only on paper. In fact, line department representatives and other programme implementing agencies like District Rural Development Agency hardly attended the meeting. Even in cases where decisions have been taken, no follow up action was taken. It has also been brought to our notice that in the case of District Rural Development Agency meeting where the District Collector is the Chairman, prompt follow up action is taken. Hence, they pleaded for strengthening the District Planning Committee.

65) Unlike our State District Planning Committee, Andhra Pradesh District Planning Committee has been conferred with more powers and it is a body subordinate to the Government and will exercise powers on behalf of the Government. Moreover, Andhra Pradesh District Planning Committee can constitute sub committees consisting of committee members and permanent special invitees to discharge one or more of the functions entrusted to it under the Act. In the above context, the vociferous voice for making the District Planning Committee functional is understandable. But the District Panchayat President who happens to be the Chairman of the District Planning Committee is elected through indirect election while the other members/invitees viz Mayor of Municipal Corporation and M.L.A.s are elected directly by the people. Hence, they look upon the entire organization disparagingly. One of the suggestions made during interaction is for the direct election of District Panchayat which can be accomplished through Amendment to the Constitution and also to Tamil Nadu Panchayats Act/Rules. Another issue which has been brought to our notice is the lack of administrative office for District Planning Committee. The Secretary to District Panchayat is the Secretary to District Planning Committee who is in the cadre of Assistant Director. Hence, he could not effectively monitor the follow up action from the line departments/agencies who are higher in the official hierarchy.

66) The other area on which the elected Chairpersons and officials focussed their attention is the dovetailing of District plans with State Planning Commission's plan proposals. Fortunately the Eleventh Plan of the Country coincides with the award period of Third State Finance Commission. Hence, the missing linkage can be established if the District plans are

integrated with the State plans along with the centrally sponsored schemes now operated by District Rural Development Agency.

67) Considering all the issues, the Third State Finance Commission recommends the following:

- i *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.***
- ii *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.***
- iii *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.***
- iv *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.***
- v *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.***

K) Equation with Chief Engineer (HW & RW)

68) The Second State Finance Commission has recommended that all rural local body works should be executed through their Rural Engineering wing of Rural Development Department. The Second State Finance Commission further recommended that all Other District Roads may be handed over to District Panchayats for maintenance from out of the devolution and central scheme grants. It has further suggested that if any local body road works are to be taken up and executed by Rural Development wing of Highways Department under NABARD or under any other programme, such works should be taken as deposit works only.

69) At the Secretaries' level meeting, the recommendations have been accepted in principle. But while issuing the orders on the decisions, the Government in Rural Development Department has agreed for transfer of Other District Roads emanating from one Panchayat Union and ending in the same Panchayat Union to respective Panchayat Union for maintenance. The Highways Department which concurred with the view during the Secretaries meeting has subsequently informed the Third State Finance Commission in May 2006 that Government have taken a policy decision to entrust the scheme of improving Panchayat Union Roads / Panchayat roads, PMGSY Schemes and other schemes to Highways Department by citing the G.O issued in December 2004. It has also stated that in view of the above decision the question of transferring Other District Roads to Rural Development Department does not arise. This goes against the spirit of decentralisation and delegation of powers. The present Government have decided to rescind the order of entrusting the rural road works to Highways Department. But no decision has been taken on entrusting the Other District Roads to PRIs.

70) On utilisation of Rural Road Fund, the Chief Engineer (Highways) during interaction has stated that no specific works were earmarked for Rural Road Development Fund and that the Rural Road Development Fund is built into the total works undertaken by the department. The following are the details of funds received by Chief Engineer (Highways) under Rural Road Development Fund.

	(Rupees in crores)
1997-98 to 2001-02	25.22*
2002-03	72.95
2003-04	50.04
2004-05	61.17
* per annum	

Source: Budget documents

71) Even though the Government have fixed 7.5% of the receipts under Motor Vehicle Tax for Rural Road Development Fund, in practice it was restricted to fixed amount till 2001-02. After the tabling of Second State Finance Commission's Report in the Assembly, the transfers to Rural Road Development Fund shot up as per the percentage fixed. But there has been no co-ordination between Highways Department and rural local bodies on choosing works.

72) The above issues were also discussed with Director of Rural Development. In the light of the discussion, Third State Finance Commission feels that there should be a shelf of projects on rural roads and that priority should be given to bus route roads.

73) According to Highways Department, the total length of Other District Roads at the end of 2004-05 is 41,192 Kms of which 30,397 Kms have been taken up for improvement. The above length of roads taken up has not attained the level of Major District Roads. In the interaction with the District officials it has been brought to our notice that there are unclassified roads with sizeable length which rightfully belong to Rural Local Bodies and which need improvement. But owing to paucity of funds, many road works could not be undertaken.

74) In the above background, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***There shall be a shelf of projects on rural roads and that priority should be given to Bus route roads.***
- iii ***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.***
- iv ***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.***

L) Collectors' Development Fund

75) The Second State Finance Commission recommended for creation of Collectors' Development Fund after the abolition of District Development Programme and the advent of MLA Constituency Development Fund programme. The reason behind the creation of the fund was on the basis of the District Collectors' deposition that they had no fund for attending to the really needy Panchayats / Urban Local Bodies which have been neglected owing to political reasons. Moreover rain water harvesting programme was also on the main agenda of Second State Finance Commission. The Second State Finance Commission therefore recommended for setting apart 1% of devolution for Collectors' Development Fund and 1% for Rain Water Harvesting Fund under the over all scheme of Reserve Fund.

76) The Third State Finance Commission which studied the operation of the scheme found that the Collectors' Development Fund was mostly utilised on the basis of the orders issued by Director of Rural Development / Government and only in few cases it really went to the needy. In respect of rain-water harvesting scheme, it has served its purpose.

Moreover, it has become mandatory to put up rain water harvesting structures in all existing and new buildings. Hence there is no need for separate allocation.

77) In the District sittings, many elected representatives opposed the tied fund as it defeats the purpose of self-governance. It is true that Central Finance Commission does not prescribe any tying of fund but Government of India prescribes conditionalities for utilisation and subsequent release. The Twelfth Central Finance Commission while recommending grants has made it clear that the grants are untied except prescribing a percentage for Solid Waste Management and priority for Water Supply. Similar approach is needed in respect of State devolution.

78) In 2003-04, a sum of Rs.12.55 crores and in 2004-05 a sum of Rs.13.92 crores have been released but details of works undertaken are made available for Rural Local Bodies only. The details of works may be seen in Annexure XII-1. From the works undertaken it is observed that the fund has been primarily utilised for providing new street lights and thereby the recurring expenses of the local bodies have substantially increased. This is based on a circular from Director of Rural Development / Government. As a matter of fact, no portion of devolution should be earmarked for a Government functionary as the devolution legitimately belongs to the local bodies. It is also a matter of concern that needy and weak Panchayats do not get a share. As the District Collector is approached for resolution of urgent needs, a fund at the disposal of the District Collector is also desirable. The practice of discretionary fund available with the Collector a decade ago had served good purpose.

79) Therefore, the Commission feels that earmarking a portion for Collectors' Development Fund from out of devolution which legitimately belongs to the local bodies should be discontinued. Government may however place at the disposal of the district, a fund from out of the plan fund. In the above context, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***

M) MLA Constituency Development Fund

80) Following the footsteps of Central Government, the Tamil Nadu Government launched the MLA Constituency Development Scheme from 1997-98 by which each MLA got Rs.77 lakhs initially, thereafter at Rs.82 lakhs and from 2005-06 Rs.1 crore for

development works in the Constituency which need urgent intervention. In the latest MLA Constituency Development Scheme for 2005-06, the Government have outlined the sectors to which the fund has to be utilised in G.O. MS. No.116, Rural Development Department, dated 18.8.2005. Under the Scheme 60% of the fund is tied and 40% is untied in respect of rural sector. Under the tied fund, the following allocation is made for Rural Local Bodies:

	(Rupees in lakhs)
Water Supply	5.00
Namadhu Gramam	10.00
Hostel for students	5.00
Cement concrete roads in Village Panchayats	10.00
Street lights in Village Panchayats	5.00
Group houses repair	25.00
Total	60.00

81) The remaining Rs.40 lakhs available with a MLA is meant for his discretionary work. Recently Government have enhanced the quantum earmarked to Rs.1.25 crores, thereby the total allocation available to this scheme becomes higher than allocation from the States to any other Rural Development Scheme. As the works taken up are mostly those falling within the purview of the local bodies, the trend of greater allocation squeezes out the share of local bodies. This may be taken note of by the Government by enhancing the allocation to local bodies also.

82) In the above G.O. cited, works have been suggested for urban related Constituencies with no specific allocations. Moreover the works suggested for choosing mainly centre round Government sponsored / Government oriented assets. No specific allocation has been made for core civic services. For instance, Chennai Metropolitan Water Supply and Sewerage Board could get only Rs.52.71 lakhs in the last 5 years whereas as per the yardstick suggested for rural, implemented, should have got Rs.3.60 crores. The above mentioned sum received also came from 5 Assembly Constituencies out of 18 in Chennai Metropolitan Area.

83) In the above circumstances, the Third State Finance Commission feels that there should be specific earmarking of MLAs Constituency Development Fund for urban Assembly Constituencies. It may be on the lines of rural, say 30% for core civic services. Hence, the Third State Finance Commission recommends the following:

- i 30% of MLAs Constituency Development Fund falling in urban areas shall be earmarked for improving core civic services.**
- ii 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.

- iii** *The urban local bodies should also be prepared to meet the recurring costs for the assets created from out of the above fund.*
- iv** *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

**தள்ளா விளையுளும் தக்காரும் தாழ்விலாச்
செல்வரும் சேர்வது நாடு**

(எண்:731)

As per Para 4 of the Terms of Reference issued to the Third State Finance Commission, the Commission has to take into account the resources of the State Government and its various commitments including the commitment made under the Tamil Nadu Fiscal Responsibility Act, 2003 before making its recommendations. Hence, there is a need to have a look at the State Finances and their likely growth during the award period of the Commission.

2) The following position emerges from our analysis on the past trend in State Finances:

State's Own Tax Revenue

i) The State's Own Tax Revenue shows a trend growth rate ranging from 6% in 2001-02 to 21%, in 2004-05. Sales Tax and State Excise accounts for 67% and 13% respectively (2004-05) of Own Tax Revenue. Land Revenue decreased in 2002-03 and 2003-04 owing to the drought and the resultant remission of Land Revenue. Receipts from State Excise show a remarkable growth of 54% in 2004-05 because of the new Excise policy involving TASMAL in the retail selling of liquor. Receipts under Stamps and Registration constitute 8% of State's Own Tax Revenue. Despite the reduction in the rates of Stamp Duty and surcharge with effect from 21.11.2003, Stamp Duty fetched more revenue in 2004-05 owing to the revision of guideline value of properties. Transfer of Entertainment Tax has been made as 'Deduct Entries' in 2004-'05 as recommended by Second State Finance Commission. Agricultural Income Tax has been abolished with effect from 1.4.2004 taking into account the need to revive the plantation industry and also the precarious position in which the cost of collection exceeds the actual collections.

ii) The State's Own Tax Revenue for the base year 2004-'05 accounted for 16.78% of the Total Receipts under Consolidated Fund (Revenue + Capital including loans, Contingency Fund and Public Account) and 68% of Revenue Receipts. State's Own Tax Revenue as a percentage of GSDP for 2002-03 is 9.33 which was acknowledged to be the highest in the Country by the Twelfth Central Finance Commission. The tax-GSDP ratio for 2004-05 is 10.25. Despite the reduction in the rates of Stamp Duty, abolition of Agricultural

Income Tax and changed pattern of Entertainment Tax, the Revised Budget Estimate for 2006-07 shows an increase of 16% over 2005-06 pre-actuals because of the higher level of buoyancy estimated under State's Own Tax Revenue, by the Government. Further, owing to the reduction in the percentage of share in Central taxes from 6.637 to 5.385 by the Eleventh Central Finance Commission, Tamil Nadu is reported to have suffered an overall loss of Rs.1293 crores. This major fiscal setback also added for the worrisome Revenue Deficit in the past years since 2000-01. However, this deteriorating Revenue Deficit had been revived to a tolerable level through various fiscal reform measures taken by the State Government. Pre-actuals 2005-06 show a surplus of Rs.309 crores under Revenue Account.

Revenue Expenditure

iii) The overall Revenue Expenditure of the State shows a fluctuating trend in growth since 2000-'01. The ratio of revenue expenditure to total expenditure for 2004-'05 was 75.21%; in other words 75.21% of total expenditure of the State was in the nature of expenditure on salary, pension, interest payments, subsidies and other operation and maintenance expenditure. However, this position is an improvement over the previous year (84.60%). Salary expenditure shows a spurt in 2005-06 owing to the merger of 50% of DA and other concessions given to the State Government employees and its full effect in 2006-2007 costs the exchequer about Rs.2500 crores. It is reflected in Pension expenditure also. Joining hands with these expenditure, interest payments and high subsidies gobbled up a major portion of the revenue receipts in the past 5 years.

Conceptually, the Revenue Account surplus as a result of saving in Revenue expenditure should normally be invested in capital works. Contrary to this situation, the common occurrence of revenue account deficit and capital account surplus shows that the current consumption requirements are being met from borrowings.

Fiscal Plan

iv) Owing to the precarious financial situation and the unsustainable revenue deficit position prevailed in the past years since 2000-'01, the Medium Term Fiscal Plan was drawn up through the Tamil Nadu Fiscal Responsibility Act, 2003 which anticipated revenue surplus in 2008-'09 in the State Budget. The State's objective as envisaged in MTFP to reduce the ratio of revenue deficit to revenue receipts to a level below 5% by the end of 2007-'08 has been achieved significantly in 2004-'05 itself, because of several fiscal correction measures like withdrawal of perquisites of State Government employees, corrections in pension entitlements, restructuring of outstanding high cost debt, cost recovery for services provided etc. Revenue Deficit as a percentage of Fiscal Deficit has been progressively reduced to below 35% well in advance before the targeted, 2006-'07 so as to avail the facility of borrowing for generating useful assets.

v) The Revised Budget Estimate for 2006-'07 exhibits almost a five fold increase in the Revenue Deficit over Interim Budget for 2006-'07. It is to be noted that the State's Own Tax Revenue increases by Rs.3600 crores in Revised Budget Estimate 2006-'07 over the pre-actuals 2005-06 when there are no new taxes and no higher revision of existing tax rates besides not to mention reduction in the rates of Sales Tax on certain commodities and abolition of Resale Tax. However, the growth in Sales Tax receipts assumed for 2006-07 (16%) is less than the growth rate prevailing in the previous 2 year actuals (21%) showing that the buoyancy in State's Own Tax Revenue takes credit for the increase. It is reported that the introduction of VAT would cause the State to lose about Rs.2400 crores per annum. As projected in the Budget, compensation has to be obtained from Government of India as per the scheme worked out by the State Government. While State Excise shows an increase by more than Rs.400 crores in RBE 2006-'07, Sales Tax receipts increase by more than Rs.2500 crores. The Government have to strive hard to achieve this estimated revenue by making it more buoyant and through better tax administration so that bringing down the ratio of Revenue Deficit to Total Revenue Receipts to 1.4% by 2007-'08 and to maintain the tax – GSDP ratio at the highest level and to make the State Revenue surplus by 2008-'09 as envisaged in the revised MTFP would be possible. The total fund requirements of the State to meet the growing expenditure needs is higher by Rs.2000 crores in RBE 2006-07 thereby increasing the indebtedness of the State Government to that extent. The ratio of Revenue Deficit to Fiscal Deficit is 14% in RBE 2006-'07 which indicates that 14% of the borrowings are transferred to Revenue Expenditure and the debt obtained would affect the repayment capacity of the Government to that extent for the year 2006-'07. As per the MTFP and also observed by Twelfth Central Finance Commission, the interest payments as a percentage of Revenue Receipts should be brought down to 15% and this has been achieved in 2005-06 (pre-actuals) and estimated so in 2006-07 RBE. This could be possible through correction measures like swapping / foreclosing of high cost loans and good management of debt, as are being done now. The actuals for 2006-07 and further will show a real picture.

Forecast

3) The forecast on State Finances for the award period of Third State Finance Commission furnished by the State Government during April 2006 has not covered the cost of several concessions to the various sections of the public as well the Government employees. The MTFP Projections for State income furnished by the Government and the Compounded Annual Growth worked out by the Commission based on the actuals for the years from 2000-2005 for 4 major tax earning heads viz. Sales Tax, Motor Vehicle Tax, State Excise and Stamp duty have been analysed. In view of the enormous growth in the service sector (Tertiary Sector) in the past 5 years and the possibility of growth in the years to come, the Compounded Growth appears to be very nearer to projections for the award period. The Compounded Annual Growth Rate (CARG) based projections have been assessed to be

consistent with the commitments of the State Government. Hence, the CARG based projections for 4 major tax income and MTFP for other taxes are adopted for State's Own Resources and MTFP projections were adopted for Revenue Expenditure except 'Pension' for which CARG was taken up for projections. (Annexure – XIII-1). This forecast has been taken into account to decide the share in taxes to be devolved to local bodies during the award period of Third State Finance Commission.

Issues related to Central Finance Commission

4) The Twelfth Central Finance Commission has recommended in Chapter 8 of its report that the State Finance Commissions must clearly identify and list out the issues which require action on the part of the Central Government to augment the Consolidated Fund of the State for consideration of the Central Finance Commission. The Third State Finance Commission put forth the following issues for consideration of future Central Finance Commissions:

i) Article 276 (2) of the Constitution of India stipulates a levying of Profession Tax upto a ceiling of Rs.2500/- per annum payable by the assesseees to the local bodies. The Eleventh Central Finance Commission had recommended that the ceiling should be suitably enhanced so that States could go up in revising the rates atleast nearer to the Constitutional provisions. State Government had also addressed Government of India in this regard.

The Second State Finance Commission analysed the issue and recommended various income based slabs of rates but could not go beyond the ceiling prescribed in the Constitution. Such is the problem faced by Third State Finance Commission too.

i Hence, 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.

ii) The Central Finance Commission grants to local bodies in Tamil Nadu as recommended by Twelfth Central Finance Commission work out to Rs.46.1 per capita per annum. The maintenance of local body assets as well as the level of civic services cost heavily on the exchequer of local bodies. Such situations warrant a higher quantum of Central Finance Commission grants.

ii Hence, the Third State Finance Commission recommends that the plea for a 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.

iii) The Eleventh Central Finance Commission recommended for levy of service charges on Central Government buildings / properties in place of Property Tax. But the Government of India circular has been quashed by the Supreme Court of India on the ground that any levy be it Tax or service charge shall be on the basis of an amendment to the Constitution (Vide 6532 / 2002 delivered in 2004).

iii In the above context, the Third State Finance Commission recommends that the State Government shall take up the issue 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

சமன்செய்து சீர்தூக்குங் கோல்போல் அமைந்தொருபால்
கோடாமை சான்றோர்க் கணி
(எண்:118)

Para 2 (a) (i) to (iii) of the Terms of Reference require the Third State Finance Commission to review the financial position of rural and urban local bodies and to make recommendations on 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.

Further, Para 4 of the Terms of Reference mandates the Commission to 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 for meeting the capital expenditure and the commitments of the State under the Tamil Nadu Fiscal Responsibility Act, 2003.

State Finances

2) State Finances are almost continuously under scanner and studies made by Central Finance Commission, Union Planning Commission and other International Agencies bear testimony to the constant review. The economy of the State Government has turned round in 2004-05 after the slump in late nineties. During 2004-05, primary sector recovered from its fall and contributed to 13.96% to Gross State Domestic Product, secondary sector at 30% and tertiary sector at 56.04%. The rapid growth of service sector can be attributable to the metamorphosis of the economy owing to structural reforms from a primary sector led economy to service sector. Select economic indicators point out that the State average is higher than the National average. The economic growth of Tamil Nadu among 15 major States adopting growth in per capita income during the decade from 1993-94 to 2004-05 indicates that our State stands fifth in terms of real per capita income next only to Gujarat, Maharashtra, Punjab and Haryana. Among District wise comparison in Tamil Nadu except Chennai, estimates of income generation for the period from 1993-1994 to 2003-04 indicate

that per capita wise, Coimbatore stands first and Villupuram stands last. About 11 Districts are above average in terms of per capita income. The Twelfth Central Finance Commission dealt with the public finances of States and Centre to effect fiscal corrections during its award period. The tax wise analysis of income from major sources and the potential for tapping by adopting compound growth rate are discussed in the Chapter on State Finances.

3) According to the revised MTFP projections, State may have to be revenue surplus by 2008-09. In fact the State had revenue surplus in 2005-06 as per the provisional actuals. Despite the concessions announced in 2006-07, the State is expected to achieve revenue surplus by 2008-09. The expenditure on capital outlay which was of the order of Rs.1546.88 crores in 2000-01 stood at Rs.4563.96 crores in 2004-05. The increase in internal debt and loans and advances is a matter for concern.

Transfer of Plan and Non-Plan grants

4) The Non-plan grant transfer to local bodies besides salary payment to all local bodies teachers and non-teaching staff, for the period from 2000-01 to 2004-05 is as noted below:

(Rupees in crores)

Sl. No.	Year	Amount
1	2000-2001	77.85
2	2001-2002	130.46
3	2002-2003	540.29
4	2003-2004	260.35
5	2004-2005	100.47

A small portion of the grant is meant for school conductresses and menials in primary health centres in Rural Local Bodies. But major component is for payment of loan annuities to LIC for Water Supply Schemes.

Plan grant Transfer

5) The discretionary plan grant transfer continues to rise year after year. Year-wise details of transfer from 2000-01 to 2004-05 are as below:

(Rupees in crores)

Sl. No.	Year	Amount
1	2000-2001	594.78
2	2001-2002	569.54
3	2002-2003	983.67
4	2003-2004	1033.67
5	2004-2005	1317.53

The details of plan and non-plan grants may be seen in Annexure XIV – 1.

The above discretionary grants work out to nearly 75% of the devolution but it is prevalent in all States.

6) In Andhra Pradesh, the quantum of transfer to local bodies as recommended by Second State Finance Commission for the award period 2000-05 is Rs.7069.73 crores which works out to 40.92% of the tax and non-tax revenues of the Government including the share in Central Taxes.

7) In Kerala for 2004-05, the quantum of devolution to local bodies is Rs.1350 crores of Plan grants plus 5 ½% of State's Own Tax Revenue for maintenance of assets and 3 ½% for general purpose grant. This roughly works out to 37% of the tax and non-tax revenues of the State and grants from Central Government allotted to local bodies.

8) In our State, the quantum of devolution transfer in 2004-05 is as given below:

(Rupees in crores)

Sl. No.	Details	Amount
1	Devolution	1766.73
2	Non plan grant	100.47
3	Assigned Revenue	394.19
4	Plan grant	1317.53
	Total	3578.92

This roughly works out to 16.8% of the own tax revenue which does not include the salary payment to teachers and non-teaching staff of local body schools. If this is taken into account, the transfer of grants to local bodies may cross 24.44%. Further District Rural Development Agency operated Central schemes and MPLAD / MLACD Schemes have not been taken into account.

Interaction with Elected Representatives

9) In the District hearings, the elected representatives of both rural and urban local bodies pleaded for higher devolution by citing the increase in percentage of Central devolution to States under Twelfth Central Finance Commission. This may be fair from their angle. But functions and functionaries continue to be with the State Government. At the same time we should not shut our eyes on the ground reality of increasing trend in salary and operation and maintenance expenditure and additional operation and maintenance costs for the newly created assets. Further, the assigned revenue base is slowly eroding resulting in decreased income from this source. This has to be necessarily taken note of by the Commission. For instance, the Entertainment Tax which was fetching Rs.60 crores some years back dwindled to just Rs.3.90 crores in 2006-07 Revised Budget Estimates. When the

assigned revenue base is shrinking, it is but natural that it should be compensated by way of higher devolution.

Purpose and utilisation of Non-Plan grant

10) There is a view that the non-plan grant is out dated in view of the fact that the beneficiaries under the grant are negligible and that the salary / wages can be met by local bodies if increased allocation is made. In respect of repayment of loan annuities, there is a general perception that had there been a debt relief scheme for local bodies, the question of making repayment by Government would not have arisen. This has been revealed in the BE for 2005-06 where there is no provision for loan repayment even though no debt relief scheme has been announced. From this, there emerges a view that the local bodies should bear the burden of repayment of loans if they are provided with necessary funds.

Needs of the local bodies and Resource gap

11) In the Chapter on Needs and Finances, the expected income of the local bodies and the anticipatory expenditure of all local bodies for the award period of Third State Finance Commission has been focussed. The projected income takes into account the likely increase in own revenue based on Finance Commission's recommendations, the likely income from assigned revenue and also the devolution that may accrue to the local bodies based on the Revenue projections of the State upto 2011-12 on the basis of CARG of State income at the present percentage. This works out to Rs.30229.06 crores.

12) The anticipated expenditure after taking into account the revenue expenditure, loan repayment and capital need works out to Rs.33641.25 crores as highlighted in the Chapter on Needs and Finances. The resource gap in income and expenditure has been analysed and the Commission feels that the gap will definitely be widening in view of the recent decisions of the Government in ordering for regularisation of employees on daily wages and on consolidated pay. Moreover, the Entertainment Tax under Assigned Revenue has lost its relevance with meagre income. The income from Surcharge on Stamp Duty may also undergo change if the Government of India insists on reduction.

13) The Second State Finance Commission while taking into account the resource gap recommended for a share of 5% in Central devolution as a cushion for erosion in resource base. But the Government did not accept the recommendation.

Plan grants Transfer

14) The discretionary Plan grant transfer needs to be regulated. Under the scheme, projects and works recommended by District Planning Committee need to be accommodated. Besides, the programmes under Jawaharlal Nehru National Urban Renewal Mission, TNUDP III Projects and Collectors' Development Fund may be included.

Specific Purpose grant

15) The First two State Finance Commissions did not recommend any grants from the Consolidated Fund of the State owing to the discretionary transfers effected by the State. But Third State Finance Commission after assessing the poor resource base of many Urban Local Bodies is of the view that over burdening the Municipalities with loans for core civic services may push them to the point of no return. For them, specific purpose projects like underground drainage, purification of hard water by Reverse Osmosis and development of alternate sources of energy discussed in the Needs and Finances Chapter need to be encouraged for which grants have to be provided. This may be decided by a committee after screening the entire project and its benefits including the income that may be derived. This may form part of Pool 'C'.

State's Own Tax Revenue

16) The Commission studied the MTFP presented by Government upto 2008-09 under the Tamil Nadu Fiscal Responsibility Act, 2003. It also studied the Compounded Annual Growth Rate based on the growth in the past 5 years. As discussed in the Chapter on State Finances, Compounded Growth Rate has many advantages as the growth in GSDP and the behaviour of Tertiary Sector are remarkable. Moreover, in the absence of projections beyond 2008-09, any adhoc projections for the years 2009-10 to 2011-12 may not be sound. As decided in the Chapter on State Finances, the CARG has been adopted for arriving at the income projections for Sales Tax, Motor Vehicle Tax, Stamp Duty and State Excise. For other taxes, MTFP projections have been taken into account. The total State's Own Tax Revenue as arrived at is given below:

Table XIV - 1

(Rupees in crores)

Sl. No.	Year	Amount
1	2007-2008	30131.60
2	2008-2009	34262.34
3	2009-2010	35526.32
4	2010-2011	40320.74
5	2011-2012	45773.65

The details of State's Own Tax Revenue projections for the period from 2007-12 are given in Annexure XIII-1.

17) As explained in the foregoing paragraphs, the devolution to local bodies will be in the form of 3 way package. They are Pool A, Pool B and Pool C. Pool A deals with the Assigned Revenue part, Pool B deals with the sharing of State's Own Tax Revenue and Pool C deals with Specific Purpose Grants.

Pool A

18) The distribution of Entertainment Tax, Surcharge on Stamp Duty, Local Cess / Local Cess Surcharge and other income assigned to local bodies has been outlined in the Chapter on Resource Base. There is no need for further amplification.

Pool B

19) The global sharing of State's Own Tax Revenue has come to stay. But the working of State's Own Tax Revenue and the percentage of share need to be gone into in the context of resource gap. The Government has been arriving at the State's Own Tax Revenue after deducting the Entertainment Tax, Rural Road Development Fund, Infrastructure Development Fund and other surcharges etc. Under the above heads sizeable revenue is deducted. Now after Entertainment Tax is shown as 'deduct entry' in the Budget document itself, there is no need for any deduction. Similarly the 'Raison detre' behind deduction of Infrastructure Development Fund, Surcharges is non-understandable. The income from State's Own Tax Revenue includes tax and surcharge. Prior to State Finance Commission, surcharge on sales tax was shared with the local bodies. After State Finance Commission devolution, surcharge was considered as part of tax. As such, deductions need to be discontinued. The net proceeds of Taxes, Duties and Tolls as understood by all is the income derived after deduction of collection charges and the Rural Road Development Fund set apart from Motor Vehicle Tax. Hence, the Commission feels that only collection charges for realisation of the tax revenue that comes under State's Own Tax Revenue and the Rural Road Development Fund only should be deducted from the Gross State's Own Tax Revenue.

Resource gap and fixing of percentage

Income

20) The total anticipated income of all local bodies from all sources is as below for the period of 2007-2012:

Table XIV - 2

(Rupees in Crores)

Sl. No.	Source	Amount
1	Own Revenue	10757.22
2	Assigned Revenue	3148.71
3	State Finance Commission devolution on the basis of projections under CARG at the present stage level (i.e 8%) and Twelfth Central Finance Commission grants extended upto 2011-12)	16323.13
	Total	30229.06

Anticipated Expenditure of Local Bodies for the period 2007-2012

Table XIV - 3

(Rupees in Crores)

Sl No.	Sector	Amount
1	Salary requirements of RLBs excluding the recent decisions on regularisation of temporary employees and Operation and Maintenance expenditure.	5142.24
2	Salary and Operation and Maintenance expenses of ULBs and Loan annuity repayment during the award period of Third State Finance Commission.	16606.60
3	Felt Needs	6379.00
4	Pension Expenditure of retired local body employees	2644.52
5	New loans under TNUDP III and National Urban Renewal Mission	2868.89
	Total	33641.25
	Resource gap	3412.19

There is every possibility of the gap widening after taking into account the salary component of temporary employees when they get regularised and also the hike in salary in the coming years. The debt burden of Urban Local Bodies is also raising under various schemes. Unless there is a step up in the percentage of sharing, local bodies may suffer and consequentially the living conditions of the people may also get affected.

21) Before any step up is considered, the situation obtaining in other States and also our State's resource position have to be taken into account. The State's Revenue expenditure is also on the increase in the wake of recent announcements under various programmes. But the local bodies position is also pathetic. The limited scope for raising resources by them has also to be kept in view. The Commission has also taken note of the increase effected by successive Central Finance Commissions for increasing the States income. In the above back ground, the Commission considers that at least 2% increase over the present level i.e. 10% of State's Own Tax Revenue will definitely give relief to the local bodies which are reeling under resource crunch, since 8% sharing has been in operation for the past 10 years. The above increase may not place them in a surplus situation but may provide some relief. This devolution does not take into account, the transfer of functions which have been recommended in Chapter XI. Along with the functions, the present allocation in State budget will have to be transferred to the local bodies.

Distribution of Pool B

Vertical Sharing between Rural and Urban Local Bodies

22) The Second State Finance Commission recommended for vertical sharing between Rural and Urban Local Bodies on the basis of population-50%, needs-25% and

resource potential 25%. But the Government adopted population only as the criterion for vertical sharing and retained the percentage recommended by Second State Finance Commission. Similarly the criteria recommended for horizontal sharing and inter-se-distribution by Second State Finance Commission did not find favour with the Government. They adopted population, SC/ST population and women population (in other words population only). The Third State Finance Commission took note of the above decisions. The Commission also heard the views of the elected representatives for including 'Area' as one of the criterion. It is true that suggesting too many criteria may not be workable and that criteria which is acceptable to most of them may be adopted. On the above basis the Commission analysed the issue and feels that population may be the ideal criterion. While adopting the population as the criterion, the population in Census Towns which is now included in the urban has to be added to Rural Local Bodies since, they are Village Panchayats at present. Under this working, the sharing among Rural Local Bodies and Urban Local Bodies will be 58:42 respectively.

Horizontal Sharing

PRIs – District Panchayats

23) At present, the District Panchayats have no functional role except being an advisory body. This Commission has recommended some additional functions such as running of District libraries / branch libraries, primary education etc for which fund flow has also been suggested. Under the present scheme of things, 8% of the rural share is given to District Panchayats for administrative expenses and road works. But there is a feeling among officials and elected representatives that road works need not be undertaken by District Panchayats and that the schemes approved by District Planning Committee may be entrusted to Village Panchayats or Panchayat Unions which have jurisdictional control. The previous Second State Finance Commission recommended for District Panchayats only the working expenses and the balance to be shared among Village Panchayats and Panchayat Unions. But the Government adopted the old sharing formula of 8% of the rural share to District Panchayats. Considering the fact that district level items need to be tackled by District Panchayats and there is no other resource for them, the Commission feels that 8% of the share as at present may be retained. The above fund may be utilised for specific schemes for which the approval of the District Planning Committee is obtained. It may however be stipulated that at least 50% of the allocation should be on development works of importance to at least two or more unions.

Panchayat Unions

24) During the Second State Finance Commission award period, the flow of funds for Panchayat Unions from all sources is as below:

Table XIV - 4

(Rupees in Crores)

Sl. No.	Details	2002-2003	2003-2004	2004-2005
	Income			
1)	Assigned Revenue	40.47	18.55	2.16
2)	Non-Tax	1.30	1.85	3.37
3)	State Finance Commission Devolution and others	278.73	266.89	400.43
	Total	320.50	287.29	405.96
	Expenditure			
1)	Administration	115.65	117.98	120.74
2)	Roads	28.73	38.21	61.20
3)	Water Supply	12.20	12.24	42.39
4)	School buildings and dispensaries	24.35	25.71	31.40
	Total	180.93	194.14	255.73

Source: Director of Rural Development

From this, it is observed that there is sufficient surplus left with Panchayat Unions. In fact, Panchayat Unions are assisting Village Panchayats in respect of Electricity consumption payment. Moreover, with the increased percentage consequent on the increase in sharing of State's Own Tax revenue, surplus would go up. At the same time Village Panchayats are in need of funds. In the above circumstances, the Commission after working out the requirements of Panchayat Unions feels that 32% from out of Rural Local Bodies share is sufficient for Panchayat Unions.

Village Panchayats

25) After allocating the share to District Panchayats and Panchayat Unions, the balance works out to 60%. Even though this may not be enough to meet the operation and maintenance expenses and capital needs considering the areas under their control, yet the Commission feels that by adopting norms for operation and maintenance and with the flow of discretionary grants from State and Central Governments, it is possible for Village Panchayats to manage the affairs with 60% of the rural share. From out of the share of Village Panchayats, 3% may be reserved for incentive fund and the balance 57% would be general devolution.

Inter-se-distribution (Horizontal) PRIs

District Panchayats

26) Inter-se-distribution may be decided by first allocating a district level share for all the three tiers. The Commission considered the existing formula. While it is a simple and easily implementable formula, it suffers from two deficiencies. The spread of the Panchayat Raj Institution has direct impact on the services and the requirement of funds. Another factor to be taken note of is the capacity of the Panchayat Raj Institution to generate own revenue.

27) In order to cover these two factors, it is suggested that area of the district and percapita of the district income (NSDP) of the district as a proxy for capacity may be included. Departments of Statistics has compiled data on district level income till 2002-03 which can be used. In order to ensure that no district is left out of allocation on this criteria, shares are determined on inverse proportion to the maximum district income. If D_j is the income of the j th District and D_{max} is the highest income, the share of D_j will be D_{max}/D_j . The working is explained in the table below:

Table XIV - 5

District	Per Capita 2002-03	Highest Percapita/Dt	Share
Kancheepuram	15815	1.107619349	2.43%
Thiruvallur	15203	1.152206801	2.53%
Cuddalore	9369	1.869676593	4.10%
Villupuram	6923	2.530261447	5.55%
Vellore	10697	1.637561933	3.59%
Thiruvannamalai	7906	2.215658993	4.86%
Salem	11379	1.539414711	3.38%
Namakkal	13006	1.34683992	2.96%
Dharmapuri	8602	2.036386887	4.47%
Erode	14144	1.238475679	2.72%
Coimbatore	17517	1	2.19%
The Nilgiris	12258	1.429025942	3.14%
Tiruchirappalli	11333	1.545663108	3.39%
Karur	11174	1.567657061	3.44%
Perambalur	11241	1.558313317	3.42%
Ariyalur	11241	1.558313317	3.42%
Thanjavur	7608	2.302444795	5.05%
Nagapattinam	10004	1.7509996	3.84%
Thiruvarur	9263	1.891072007	4.15%
Pudukottai	9243	1.895163908	4.16%
Madurai	13227	1.324336584	2.91%
Theni	15442	1.134373786	2.49%
Dindigul	12594	1.390900429	3.05%
Ramanathapuram	10879	1.610166376	3.53%
Virudhunagar	16772	1.04441927	2.29%
Sivagangai	10033	1.745938403	3.83%
Tirunelveli	12986	1.348914215	2.96%
Thoothukudi	14783	1.184942163	2.60%
Kanyakumari	10840	1.61595941	3.55%
	12696	45.57270601	100.00%
	17517		

Share = District Deviation / Total Deviation

Considering the fact that the present formula gives weightage to gender and disadvantaged group with weight for women population and population for SC/ST, it is proposed to determine the share giving weightage of 80% to the existing formula and 10% to the area and 10% to district income. 80% component will be determined as follows:

32%	Total Population
32%	Population for Women
16%	Population for SC/ST

Area allocation will be in proportion to the area of the districts to the total area of the State excluding the area of Chennai. 10% allocation based on the district income and 10% for area will be as follows:

Table XIV - 6
Table for 80:10:10

District	Present Formula	Dt Income	Area	Combined
Kancheepuram	3.84%	2.43%	3.42%	3.56%
Thiruvallur	3.58%	2.53%	2.64%	3.28%
Cuddalore	4.38%	4.10%	2.83%	4.10%
Villupuram	7.24%	5.55%	5.56%	6.74%
Vellore	6.21%	3.59%	4.68%	5.59%
Thiruvannamalai	5.11%	4.86%	4.77%	5.02%
Salem	4.56%	3.38%	4.02%	4.30%
Namakkal	2.70%	2.96%	2.64%	2.73%
Dharmapuri @	6.78%	4.47%	7.41%	6.53%
Erode	3.95%	2.72%	6.33%	4.12%
Coimbatore	4.14%	2.19%	5.76%	4.09%
The Nilgiris	0.89%	3.14%	1.96%	1.39%
Tiruchirappalli	3.67%	3.39%	3.39%	3.59%
Karur	1.80%	3.44%	2.23%	2.11%
Perambalur	1.19%	3.42%	1.35%	1.55%
Ariyalur	1.77%	3.42%	1.49%	1.98%
Thanjavur	4.23%	5.05%	2.62%	4.11%
Nagapattinam	3.33%	3.84%	2.09%	3.22%
Thiruvarur	2.68%	4.15%	1.67%	2.75%
Pudukottai	3.49%	4.16%	3.58%	3.60%
Madurai	3.24%	2.91%	3.07%	3.16%
Theni	1.43%	2.49%	1.99%	1.67%
Dindigul	3.57%	3.05%	4.67%	3.66%
Ramanathapuram	2.56%	3.53%	3.26%	2.81%
Virudhunagar	2.81%	2.29%	3.30%	2.80%
Sivagangai	2.41%	3.83%	3.15%	2.74%
Tirunelveli	4.11%	2.96%	5.25%	4.11%
Thoothukudi	2.64%	2.60%	3.56%	2.77%
Kanyakumari	1.67%	3.55%	1.30%	1.90%
	100.00%	100.00%	100.00%	100.00%

@ Includes Krishnagiri also.

28) Once the district allocation is determined, the share of the three tiers will be in the ratio suggested earlier namely 8:32:60, i.e. for District Panchayats / Panchayat Unions / Village Panchayats respectively. From among the Village Panchayats share 3% may be set apart for incentive and the balance 57% would be on general devolution as mentioned in para 25 above.

Inter-se-allocation among Panchayat Unions and Village Panchayats may be decided on the basis of 80% population (as followed now) and 20% area, as noted below:

a) Panchayat Unions & Village Panchayats

Population	-	80% (32% Total Population, 32% Women Population, 16% SC/ST Population)
Area	-	20%

Urban Local Bodies

29) As per the formula evolved by Government after modifying the Second State Finance Commission's recommendation, the pattern of sharing among Urban Local Bodies was 31:34:35 in respect of Municipal Corporations, Municipalities and Town Panchayats respectively. Consequent on reclassification of 50 Town Panchayats into Grade-III Municipalities, population of the Municipalities has gone up by 19.39 lakhs. The Director of Town Panchayats transferred the share of the 50 Municipalities computed as if they were Town Panchayats to Municipalities. Consequently the share of the three tiers changed significantly. After studying the present formula Commission feels that besides population, as in the case of Panchayat Raj Institutions, 'Area' as a criterion has also to be considered. Further, in view of the large burden contracted by the Urban Local Bodies a weightage for debt is also a factor to be considered. After analysing the present formula, the Commission feels that the vertical sharing among Urban Local Bodies may be on the following criteria:

Present criteria of population	-	80% (32% Total Population, 32% Women Population, 16% SC/ST & Slum Population)
Area	-	10%
Debt burden	-	10%

Based on the above factors the sharing may be in the range of Municipal Corporations 29.48% for Municipal Corporations, 41.32% for Municipalities and 29.19% for Town Panchayats. However, this percentage is rounded with slight variation and the sharing is arrived at

Town Panchayats	-	29%
Municipalities	-	41%
Municipal Corporations	-	30%

From out of above share, 5% may be set apart for incentive fund and the balance released as above.

Urban Local Bodies (Horizontal)

Inter-se-distribution

30) The Commission feels that the following distribution formula may be adopted for inter-se-distribution among Municipal Corporations, Municipalities and Town Panchayats.

Population	-	80% (32% Total Population, 32% Women Population, 16% SC/ST Population)
Area	-	20%

Deductions from Devolutions

31) Deduction from devolution, per-se is not desirable. But the apathy shown by Urban Local Bodies in repayment of loans where penal provisions have been incorporated forces the HOD/Government to effect deduction at source. More over pension disbursement is done by Director of Local Fund Audit in respect of local body pensioners. Since pension payment is the first charge, deduction has to be made from devolution. After taking into account various factors, the Third State Finance Commission feels that pension expenditure as in the past be deducted from the devolution share of Municipalities, Town Panchayats and Panchayat Unions based on the demand raised by Director of Local Fund Audit. In respect of loans, deduction may be made upto 25% of the entitled devolution. In addition, the election fund for Urban Local Bodies may be deducted and maintained separately for utilisation later when elections take place.

Periodicity of release of funds

32) As at present monthly release of funds may be continued. But timely release is essential since the flow of funds from State to local bodies is constitutionally guaranteed. The usual cry of 'Resource crunch' should not come in the way of release of funds as had happened in 2001-02.

Arrears of Devolution

33) As the devolution to local bodies is based on the actuals of State's Own Tax Revenue, there may be difference in the entitlement and the actual transfer. The details of entitlement and the actual transfer from 1997-98 to 2005-06 may be seen in Annexure XIV-2. It is found from the details that still a sum of Rs.285.30 crores (reckoned upto 2006-07 RBE) relating to Urban Local Bodies is yet to be transferred. But in respect of PRIs, a sum of Rs.14.16 crores (reckoned upto 2006-07 RBE) has been transferred in excess of the entitlement. The balance amount yet to be shared should be transferred in 2007-2008.

Equalisation Fund

34) Equalisation as a concept to make up short falls arising out in post devolution situation is desirable. But over the years this has been distributed to all and sundry based on criteria fixed by HOD and the really needy did not get the benefit. Yet there is need to set apart a sum for election expenses of Urban Local Bodies. The Second State Finance Commission recommended Election Fund under Equalisation Fund and this took care of the expenses relating to elections to Urban Local Bodies slated in October 2006. The balance was distributed to UGD at 75%, low density and geographical disadvantage 12 1/2% and low per capita base 12 1/2%. This does not appear to have worked out well. Moreover, UGD is covered under specific purpose grant. Hence, the Commission is not inclined to set apart any percentage for equalisation. However, the election fund may be apportioned from the SFC devolution as at present.

Incentive Fund (RLBs)

35) At present the incentive fund is deducted from the gross devolution and the same is distributed to Rural Local Bodies / Urban Local Bodies at 58:42 respectively as like general devolution. In the amount allocated for rural local bodies, the entire sum goes to Village Panchayats. In case of Urban Local Bodies, it is divided among Town Panchayats / Municipalities / Municipal Corporations at 35:34:31 respectively as like general devolution. From out of the amount intended for Town Panchayat, 6.93 goes to Grade III Municipalities.

The Commission studied the entire system of incentive payment and decided to devise a new formula for achieving the desired goal. Accordingly, Village Panchayats, would get incentive fund at 3% from out of its own share as already explained in para 25 and 28 above. For the first two years, the share of Village Panchayats may be in the same proportion as the general allocation as recommended in para 27 with the conditions for payment attached as at present. For the next three years, the incentive may be worked out on the basis of increase in own revenue generated by the local bodies in the second year. Local Bodies who have registered the growth below 5% are to be excluded from the incentive schemes. Those registered upto 15% growth may be given single share (i.e. 100%) and above 15% double share (200%).

Incentive Fund (ULBs)

36) The Commission has earlier recommended revision of Property Tax in Urban Local Bodies immediately. As this would significantly raise the tax revenue to Urban Local Bodies, the criteria of growth suggested for PRIs will not be suitable. After considering the existing formula adopted by Government, the Commission considers that 5% incentive fund may be retained and the distribution formula may be as mentioned for general devolution among Municipal Corporations / Municipalities and Town Panchayats i.e at 30:41:29

respectively and the allocation inter-se among each of the three tiers may be as per the formula presently adopted.

37) In the light of the above analysis the Third State Finance Commission recommends the following:

- i ***Based on the State's Own Tax Revenue as arrived at by the Commission by adopting Compounded Annual Rate of Growth 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.***
- ii ***The Pool A transfer (Assigned Revenue) shall be on the lines indicated in the Chapter on Resource Base.***
- iii ***Specific purpose grant under Pool C shall be at 0.5% to 1% of the State's Own Tax Revenue.***
- iv ***While arriving at the Net proceeds of taxes, only the collection charges for the staff employed in the departments concerned with the State's Own Tax Revenue and the transfer to Rural Road Development Fund alone should be deducted.***
- v ***Vertical sharing of Pool B devolution between RLBs and ULBs shall be at 58:42 respectively.***
- vi ***Horizontal sharing among PRIs shall be at 8% for District Panchayats, 32% for Panchayat Unions and 60% for Village Panchayats.***
- vii ***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 Corporation, 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.***
- viii ***Inter-se-distribution among the tiers of local bodies shall be on the basis of the criteria suggested at paras 26 to 30 above.***
- ix ***The devolution shall be released monthly as at present on the first day of the month.***
- x ***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 the release of the balance.***
- xi ***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 paras 35 and 36.

- xii ***The distribution pattern for the release of incentive shall be as outlined in paras 35 and 36 above. 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.***
- xiii ***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.***
- xiv ***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.***
- xv ***The loan deductions from devolution in respect of Urban Local Bodies shall not exceed 25% of the gross devolution.***

Monitoring Mechanism

38) The First and Second State Finance Commissions made recommendations of which some of them were partially implemented, some have not been implemented and the remaining were under consideration of the Government. Even though Second State Finance Commission pointed out the delay on the part of the implementing authority yet its recommendations met with the same fate. As observed by the previous Commission, the recommendations of State Finance Commissions shall be treated on par with Central Finance Commissions in as much as the provisions under the Constitution are the same. It is a reflection of the general view that the local bodies are still looked upon as the appendage of the State Government and not as Constitutionally recognised bodies. In the above context, the Third State Finance Commission analysed the scenario. The Commission recommends that decision on all the recommendations of Third State Finance Commission shall be taken within 6 months from the date of commencement of the award period. The follow up action on ATR needs to be monitored on quarterly basis by the High Level Committee constituted for this purpose.

39) The Eleventh and Twelfth Central Finance Commissions too recommended for the creation of a permanent cell with enough officials to act as a nucleus for the future Commissions. Government may constitute any exclusive cell in the Department of Finance dealing with the work of the State Finance Commission. It should be the monitoring cell for

watching the implementation of the recommendations of Third State Finance Commission. It should also take up specific studies on the issues raised in the report.

The Commission would like to reiterate the recommendations of the Second State Finance Commission with reference to the Constitution of a Council for Local Bodies. The Constitution of the council can be as follows:

Hon'ble Chief Minister	-	Chairman
Hon'ble Minister for Local Administration	-	Member
Hon'ble Minister for Law	-	Member
2 Mayors of Municipal Corporations	-	Members
3 Chairmen from Municipalities and Town Panchayats		Members
5 Chairmen of District Panchayats	-	Members
5 Chairmen of Panchayat Unions	-	Members
5 Presidents of Village Panchayats	-	Members

The representatives of the local bodies may hold office for one year and fresh members inducted every year. The Council may meet once in 6 months to discuss the implementation of the recommendations of Third State Finance Commission, issues relating to the sharing of taxes, their modifications particularly those assigned to local bodies. The monitoring cell with the Finance Department should service the Council. Reports on specific studies on the resources Debt of the local bodies and implementation of the schemes should be placed in the Council for discussion and debate. Government would benefit by the feed back of the stake holders before finalising the decision.

Other issues

40) Article 243 (I) empowers the State Finance Commission to frame its own procedure for its functioning. But in practice the Government continue to treat the Commission as like any other department forgetting that it is a Constitutional body. This is especially visible when it sought the required man power; out of the 44 sanctioned posts only 20 posts could be filled up. However, the Third State Finance Commission was able to complete its task with the reduced staff but this should not be a precedent for future Commission. In this context, the Commission suggests that as mandated in the Constitution of India, the Government should empower the State Finance Commission to adopt its own procedure for recruitment of staff on contract basis in the absence of departmental support, engaging consultancy for analysis and for other functional activities for which specific sum may be provided. This has been emphasised by the Twelfth Central Finance Commission too. This needs to be taken up by High Level Committee along with the recommendation on monitoring mechanism.

41) In the above back ground, the Third State Finance Commission recommends the following:

- i ***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.***
- ii ***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.***
- iii ***Along with the policy note of the Rural Development and Panchayat Raj Department and Municipal Administration and Water Supply Department, the progression on the issue of orders should be placed.***
- iv ***Government may consider constituting a separate committee of the Assembly to review the implementation on the decision taken by the Government.***
- v ***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.***
- vi ***The Local Body Council shall be constituted as explained in para 39 above and its effective functioning is ensured.***
- vii ***As suggested in para 39 above, the monitoring cell shall assist the Local Body Council in its policy perception, change in tax structure and other issues.***

Conclusion

The Third State Finance Commission feels happy that it has been able to cover all the issues focussed in the Terms of Reference issued to it. The Commission was also conscious of the State's commitments and the resource position vis-à-vis the local bodies dire needs. It hopes that it has been able to address the issue in a manner fair to both the State Government and Local Bodies. The Commission feels proud that it took upon itself the job of task force committee for analysing the needs, finances and the capacity to raise resources which resulted in a saving of Rs.10 lakhs. The austerity adhered by us in all our activities including man power, materials etc speaks volume of our commitment to simplicity and frugal spending.

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 out right 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.