

REPORT OF SECOND STATE FINANCE COMMISSION

VOLUME - I

CHAPTER - XIV

SUMMARY OF FINDINGS AND RECOMMENDATIONS

[\[Click here for the Tamil Version of the report\]](#)

Introduction

The Eleventh Central Finance Commission after going through the reports of first generation State Finance Commissions, among other things, has opined that many of these have not addressed the specific terms listed in Article 243-I and 243-Y nor did they clearly indicate the principles formulated for sharing. A copy of the observation is made available in annexure XIV-I.

2. Keeping the observations of Central Finance Commission in mind, the Second State Finance Commission has meticulously prepared the report with reference to our Terms of Reference. That we have duly covered the Terms of Reference could be seen from the correlation statement below which is arranged in the order of paras in the Governor's notification: -

Coverage of Terms of References

Para number and the clause in TOR	CHAPTER in which term of reference is covered.
2. The Commission shall review the financial position of the local bodies. 3. In reviewing the financial position of the local bodies, the Commission shall assess the financial position of each of the local bodies as on 31 st March 2000.	CHAPTER-IV CHAPTER-V -do-
2(a)(i) The Commission shall make distribution between the State and the said local bodies of the net proceeds of the taxes, duties tolls and fees leviable by Government, which may be divided between them and allocation between the said local bodies of their respective shares of such proceeds.	CHAPTER-XIII
2(a)(ii) Determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the said local bodies.	CHAPTER-IV

2(a)(iii) Grants-in-aid to the local bodies from the Consolidated Fund of the State.	CHAPTER-XIII
2(b) 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.	CHAPTER-VI CHAPTER-VII
4. In making its recommendations, the Commission shall have regard to the resources of the State Government the demand thereon, in particular the expenditure of the State on debt servicing including the debt servicing on behalf of local bodies/other committed expenditure or liabilities of the State Government and the need to generate adequate surplus on revenue account for State's commitments on capital account.	CHAPTER-VII CHAPTER-XIII
5. The Commission shall have regard to existing level of devolution and other resources transfer.	CHAPTER-XIII
5(i) Recommendations of XI CFC.	CHAPTER-XI
5(ii) Requirement of the local bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the need for generating surplus for capital investment.	CHAPTER-V
5(iii) Revenue resources of the local bodies for the five years commencing from 1 st April 2002 on the basis of level of taxation reached on 1999-2000 and the potential for increase in revenue.	CHAPTER-IV
5(iv) The status of implementation of the recommendations of the First State Finance Commission and utilization by the local bodies of the resources transferred.	CHAPTER-III CHAPTER-V CHAPTER-XIII
5(v) The scope for better fiscal management consistent with efficiency and economy in major components of recurring and non-recurring items of expenditure.	CHAPTER-VI
6. The Commission shall review the present system for assessing the accountability of the local bodies in utilizing the resources raised or received from the State and Central Governments and other agencies.	CHAPTER-VIII
7. The Commission may suggest changes, if any, on the basis of classification of local bodies as	CHAPTER-IX

rural and urban.	
8. The Commission shall also make suitable recommendations on the changes, if any, needed in the system for payment of pension to the retired employees of local bodies.	CHAPTER-X
9. The Commission can also make suitable recommendations regarding any other issues having bearing on the terms of reference above.	CHAPTER-XII

3. In keeping with the requirements in Article 243-I(4) and Article 243-Y(2) and corresponding State enactments, we are now summarizing the recommendations made by us in the order of chapters:

Resource Base

Property Tax

1. Levy of property tax may be done as enshrined in the Tamil Nadu Urban Local Bodies Act, 1998 now in abeyance, during the next revision. If for any reason, this Act could not be renotified prior to the revision, the provisions dealing with property tax as contemplated in the above act may be incorporated in the Acts in force at that time. In any case, the concept of annual rental (rateable) value has been upheld by Supreme Court (May 2001) in property tax cases relating to Hyderabad Corporation. The property tax as contemplated in the Act shall be general purpose tax.

A minimum property tax of Rs.25/- per half year shall be levied in Town Panchayats wherever it is less than this amount.

Levy of water tax and education tax may be done at the rates as suggested in Tamil Nadu Urban Local Bodies Act. The education tax may be continued towards maintenance of school buildings till the schools are taken over by Government.

(IV – 2.13)

2. The periodicity of revision will be quinquennial in respect of residential properties and in respect of non-residential properties the frequency will be once in two years. This may be effected in October 2003 after suitably amending the existing Act(s).

3. a. All assesseees shall be brought under database and an assessee card as suggested in Form 12 in Tamil Nadu Urban Local Bodies Rules, 2000 containing the tax and non-tax dues may be issued. The list of assesseees should be updated annually by ensuring co-ordination between Town Planning and Revenue wings of the respective local bodies.

(IV – 2.13)

b. Further, the Commission recommends that in Chennai city, a detailed tax mapping exercise can be given to a reputed consultancy firm which can give upto date data-base incorporating all the properties (commercial, industrial, residential etc.) in six months just prior to the property tax revision and this can be updated once in five years. On the basis of Chennai experience, it may be extended to all other Municipal Corporations and selectively for major Municipalities.

(IV – 2.13)

4. i) A property tax Guideline Committee may be immediately constituted for each Urban Local Body consisting of the officials as mentioned in Para 2-13 and it may classify the zones. The guideline Committee will adopt a combined index based on both general price inflation and the real estate value for the purpose of fixing rates of lands and buildings. It should be based on plinth area only. Owner occupation may be given 30% relief.

(IV – 2.13)

ii) Levy of fine at 2% per month on the value of tax amount for non-filing of returns and false returns.

(IV – 2.13)

iii) To bridge the gap between the pre-1998 assesseees and post-1998 assesseees, in the payment of property tax, the following approach is recommended. Commercial and industrial assessments belonging to pre-1998 period may be brought on par during next revision with effect from 01.10.2003. In the case of residential properties, this may be effected in two phases viz. during the general revisions in 2003 and 2008.

(IV – 2.13)

iv) All other eight recommendations made in the para may also be implemented.

(IV – 2.13)

5. Vacant Land Tax:

The levy as contemplated in the TNULB Act may be levied and collected without any slippage.

(IV – 2.13)

6. There should be no time limit to initiate legal proceedings for recovery of property tax except the provisions under the Limitation Act viz., 12 years. An amendment may be effected.

(IV – 2.11 and 2.12)

7. House Tax

i) The plinth area rental value will be more appropriate basis for house tax in Village Panchayats around urban areas vide para 3.2.2 above and classified plinth area tax will be the better basis for interior Village Panchayats for which options should be available in the Act.

(IV – 3.4 to 3.8)

ii) The rule enabling postponement of general revision may be deleted especially when the Government expects the Local Bodies to exploit and mobilize local resources to maximum extent.

(IV – 3.4 to 3.8)

iii) Plinth area rates as prescribed in Schedule-I under Section 172(i) of Tamil Nadu Panchayats Act 1994 may be adopted along with minimum flat rate of tax as explained in Table IV –11.

(IV – 3.4 to 3.8)

iv) All other five recommendations made under this Section may also be implemented.

8. Development Cess:

The Commission recommends that Panchayat Union councils may be authorized to levy 'Development cess' at the rate of Rs.5/- per annum on residential properties and Rs.10/- per annum for commercial properties and it should be collected by Village Panchayats and passed on to Panchayat Unions.

(IV – 3.4 to 3.8)

9. Profession Tax

i) The local bodies may continue to exercise the powers of levy. The present income limits may continue till 31.3.2002. Thereafter, triennial revision may be effected from 1.4.2002. The income slabs of the salaried class for levy and the rates of tax for the periods from April 2002 and April 2005 shall be as in para 4.8.

ii) In respect of industries registered under Industrial Regulations Act and Companies registered under Companies Act, 1956 the maximum amount of Rs.2500/- p.a. may be levied from April 2002 itself. But the individual employees working in that establishment shall be covered under the income brackets as aforesaid in (i)

iii) In respect of traders, the collection may be entrusted to the Commercial Taxes department, which will assess and intimate the derived income to the respective local body for levy of Profession Tax, by using the surplus staff with them. A nominal service charge not exceeding 5% of the tax demand reported by them may be deducted and the balance 95% remitted to local bodies by Commercial Taxes Department every quarter. A committee as envisaged in para 4.8 may be constituted to review the above process once in six months.

iv) In respect of self-employed professionals, the Karnataka pattern of profession and experience based system may be introduced, vide para 4.6 read with annexure V-3. This may be done with reference to study by a suitable committee as suggested in the chapter so as to enforce the new rates from 1.4.2002.

(IV – 4.8)

10. Measures Common to both Panchayat Raj Institutions / Urban Local Bodies:

a. Advertisement Tax

i) The rates fixed by the Government may be adopted and the revision may be done once in three years.

ii) It may be ensured that all business establishments / trade licencees and industry assesseees covered under Profession Tax are brought under advertisement tax and the collection done along with the other tax and non-tax dues.

(IV –5)

b Pilgrim Tax

This tax may be levied on all vehicles as narrated in the section on non-tax receipts of Local Bodies. A similar provision may also be made in Tamil Nadu Panchayats Act or the rules framed thereunder.

(IV 6-3.2)

c. Cable Television:

The Commission recommends triennial revision of rates in respect of tax on Cable T.V.

(IV –6.5)

d. Bus stand fees:

This Commission recommends that Urban Local Bodies / Panchayat Raj Institutions may be given the powers to revise the bus stand fees once in three years with the minimum rates as suggested in the relevant para.

(IV –9.2 (e))

PANCHAYAT RAJ INSTITUTIONS

11. Surcharge component in Motor Vehicles Tax:

i) The Commission recommends that the amount entitled for apportionment and the actual amount adjusted may be reconciled and the dues at least for the period 1997-

2002 may be adjusted in the financial years 2002-2003 and 2003-2004 and used for road development schemes in rural areas.

(IV – 6.4)

ii. D& O Licence Fees

The Commission recommends that the Village Panchayats should be empowered to adopt the revised rates and collect the fees after due notification issued through the Collector of each district.

(IV –8.3)

iii. 2C Patta trees

This Commission recommends that the Panchayats should be given powers to initiate action to remove the fallen trees from the roads and sell them, ensuring quick disposal of the trees and realization of better revenues

(IV – 8.4)

iv. Water Tax

The Commission recommends that surcharge of 10% of house tax may be fixed as water tax in village panchayats where there is more or less assured supply of water all through the year.

(IV – 8.5)

v. Fisheries

The Commission recommends that a Committee as suggested in the relevant paras for sharing fishery rental on 50:50 basis between Panchayat Unions and Panchayats and also in respect of PWD tanks for sharing the proceeds as explained in the relevant para.

(IV – 8.6.2)

v. Social Forestry:

A Committee as suggested in the relevant para may be formed for fixing the upset price and for sharing the revenue in the ratio of 70:30 after deducting actual working expenses as explained in para 8.7.

(IV – 8.7)

12. Local Cess And Local Cess Surcharge

i) The Commission recommends that whenever land revenue is waived or ordered for remission by State Government, the Panchayats and Panchayat Unions may be fully compensated for the loss of LC/LCS and that the fixing of LC/LCS with reference to

the LR rounded to the nearest hundred rupee from April 2002, its collection and its apportioning may be implemented as explained in relevant paras.

(IV – 13.2.3)

ii) The LC/LCS dues to the Panchayat Raj Institutions for the period from 1997-2002 may be adjusted on the basis of the GO issued in 1982 as illustrated in the relevant para.

iii) The levy of enhanced rates by way of increase in LCS from Rs.5/- to Rs.7/- and Local Cess from Re.1/- to Rs.2/- on the rounded land revenue may be implemented. Half of this incremental revenue may be given to Panchayats and Panchayat Unions as assigned tax revenue and the remaining 50% may be given to water users' association. The relevant paras on this may be implemented.

iv) The adjustment of Local Cess Surcharge and Local Cess needs to be monitored both at district level and the State level as amplified in the relevant paras.

(IV - 13.2.4)

URBAN LOCAL BODIES

13. Congestion Tax in Chennai

The Commission recommends that in respect of 1 plus 3 (ground floor + 3 floors and above) buildings used for residential purposes a congestion tax at the rate of 10% of property tax may be levied. In respect of 1 + plus 2 (ground + 2 floors and above) constructions used for commercial / industrial purposes, a congestion tax at the rate of 20% of property tax may be levied in Chennai Corporation at the first instance and thereafter by other Municipal Corporations. Wherever buildings are subjected to service charges the congestion levy to the extent of 10% may be imposed for buildings with 1+ 3 (Ground + 3 floors) and above.

(IV – 9.2(b))

14. Measures applicable to all Urban Local Bodies

i) The Commission recommends that both development charges and the OSR collected within the local area be transferred to the local bodies concerned at 75% of total collection

(IV - 9.2)

ii) The Commission recommends that the lanes which are not required for public purposes as mentioned in para 9.3 may be sold to the willing owners at market rate in one lump-sum.

(IV – 9.3)

iii) Library Cess:

The Second State Finance Commission recommends that 10% of such collected amount under library cess may be retained by local bodies as collection charges

(IV –9.4)

iv. Construction Workers Welfare Fund:

SFC recommends that 10% from out of the amount due to this fund may be retained by local bodies as collection charges.

(IV –9.5)

v. Lease Revenue:

Auctioning of Municipal shops may be done on the lines of IMFL auction to realize the one year rental in advance as explained in the paras concerned.

(IV – 9.6.1)

vi. Marketing Committee:

The Commission recommends for fixing lease amount wherever the Municipal land is taken as explained in the relevant paras.

We also recommend that service charge as contemplated under Section 88 of Tamil Nadu Urban Local Bodies Act 1998 may be levied on Agricultural Marketing Committees for the civic services rendered by the local bodies for which the Agricultural Marketing Committees' Act may be amended suitably.

(IV – 9.6.2)

vii. Unused Shopping Complex constructed by TAHDCO:

The Commission recommends that properties constructed by any Government Department / Agency on local bodies lands and remaining idle may be handed over to the local bodies for proper utilization.

(IV – 9.6 .3)

viii. Unapproved Lay Outs:

The Commission recommends that wherever Housing Board acquisition notification (e.g., Valasaravakkam), has been issued but the scheme has not been taken up for five years such notifications may be cancelled so as to realize the revenue as suggested in the relevant paras.

(IV–9.7.3)

ASSIGNED REVENUE

15. Entertainment Tax:

i) The Commission recommends that the statutory transfer of revenue from Entertainment Tax as already ordered by Government, the sharing formula for Panchayat Raj Institutions and the monitoring mechanism as discussed in the relevant paras may be implemented.

(IV-10.4)

ii) The unadjusted amount may be passed on to the local bodies within the period recommended in the relevant para.

(IV –10.5)

16. Surcharge on Stamp Duty:

i) The Commission recommends that the surcharge on stamp duty be levied on the 11 items relating to property at the same rate with effect from April 2002 as per Annexure IV –7.

(IV-11.2)

ii) The existing system of pooling may be allowed to continue but the distribution formula may be modified in respect of Panchayats by according 50% weightage to population and 50% weightage to collection.

(IV-11.5.1)

iii) The collection charges for the surcharge collected may be restricted to 5% for Urban Local Bodies and 3% for Panchayats.

(IV-11.5.2)

iv) The transfer mechanism indicated in para 11.5.1 may be given effect to.

(IV – 11.5.1)

v) The dues to local bodies may be adjusted as indicated in the relevant para.

vi) Monitoring mechanism may be instituted as indicated in the connected para.

(IV –11.9 to11.11)

17. Mines And Minerals:

i) The Commission recommends that the dues pending as on date may be cleared by issuing suitable guidelines.

ii) The Government Order No.5 Industries Department dated 3.1.98 may be given effect after getting the stay thereon vacated.

iii) Further, the Commission recommends that revenue from the granites may be shared with PRIs as narrated in the relevant para.

(IV-12)

18. Self reliance index

The Commission recommends that during its award period increased degree of self-reliance as explained in the relevant paras may be achieved by local bodies.

(IV – 15.2)

ASSESSMENT OF CIVIC NEEDS AND FINANCES

19. a) The Commission recommends that all works relating to village panchayats should be placed in the grama sabha and for urgent works post-facto approval may be obtained.

b). This Commission recommends that a Committee may be constituted with Collector as Chairman at district level to decide on water supply schemes.

(V-7.2)

20. This Commission recommends that when the major tanks are going to be handed over to Water Users' Association as contemplated in the Tamil Nadu Farmers Management of Irrigation System Act 2001, M.I. Tanks can also be handed over to Water Users' Association. Till such time and as this is an agency function, grants to cover not less than 50% of the expenditure may be given outside the devolution.

Similarly this Commission recommends that Government take over the rural dispensaries and ayahs working in maternity centres as indicated in the para and till such time grants to cover 50% of the expenditure may be sanctioned outside the devolution.

[(V-10.1) & (V-10.2)].

21. The Commission recommends that a guideline committee for fixing O&M under the Chairmanship of Commissioner of Rural Development may be formed to monitor the expenditure and budget framing for each sector as narrated in the relevant para.

(V-12.1)

22. This Commission recommends that a monitoring mechanism at the district level under the Chairmanship of the Collector may be evolved to look into the level of investment and the O&M needed as narrated in the relevant para.

(V.12.2)

23. The Commission recommends that the post of Road Inspector may be changed as Works Inspector. For a group of 5 Village Panchayats one Works Inspector may be posted. The surplus staff in other departments may be utilized and there should not be any fresh recruitments and the existing technical assistants at the Panchayat Unions who are qualified may be regularized as narrated in the connected para.

(V-13)

24. a) In respect of sewerage and sanitation, individual Town Panchayats may take up projects with public and private participation and with their own funds as like Valasaravakkam, Thiruchendur and Rameswaram.

(V-16.3)

b) The Commission has estimated sustainable level of investments for Town Panchayats at about Rs. 800 crores. The Commission further recommends that a guideline committee for O&M may be formed under the Chairmanship of DTP as narrated in the relevant para to fix the norms for various core sectors for the years 2002-04 to monitor the expenditure and budget framing within the scarce available resources and at the same time for ensuring due provision for each sector. These norms may be updated once in two years.

(V-19)

c) We recommend that the intersectoral outlay for O&M as above may be strictly monitored and implemented so that there is no tendency to book excessive expenditure on one sector at the expense of others.

(V-18.3)

d) We also recommend that the observance of O&M cost norms in the first two quarters may be watched and it may be linked to the release of third and fourth and those which conform to the norms may be given the devolution entitled to third and fourth quarter. Where the Town Panchayats incur expenditure far in excess of norms, the devolution may be reduced to the same extent they exceed the norms. Likewise in case of shortfall also the amount may be reduced as aforesaid.

e) The O&M has been estimated based on the past spending but the scope and need to contain the expenditure has been indicated in annexure to the chapter.

(V-18.1)

25. Municipalities:

The recommendations made for Town Panchayats in 24(b) to (e) are applicable mutatis-mutandis but the committees will be under Commissioner of Municipal Administration or RDMA's. The O&M in the main chapter has been worked out based on the sustainable level of investment assumed at Rs.650 crores for 2002-07.

(V-29.31)

26. a) Corporations other than Chennai:

What has been said in recommendations 24 and 25 are applicable mutatis-mutandis. The O&M in the main chapter has been worked out based on the sustainable level of investment of Rs. 450 crores during 2002-07.

(V-39-40)

b) Chennai Corporation:

The recommendation made in 26(a) above is equally applicable except for the Committee and other monitoring mechanism, which will be headed by the Commissioner, Chennai Corporation as indicated in the para and that the O&M worked out in the main para is with reference to the sustainable level of investment of Rs. 525 crores forecast for 2002-07.

(V-41)

27. a) This Commission recommends upgradation / creation / re-deployment of certain technical posts in the department of Town Panchayats as narrated in the relevant para.

(V-21.5)

b) Subject to the proviso all posts other than Executive officers may be declared as non-provincialised.

(V-22)

c) In the event of the reclassification being accepted in toto or substantially, the staff rendered surplus may be redeployed in retirement / promotion vacancies. Those who could not be accommodated anywhere may be posted in Selection Grade / Special Grade Town Panchayats as additional staff to look after computer operations, settlement of audit objections and collection of arrears of taxes and non-taxes.

(V-23)

28. The Commission recommends that in respect of the municipalities and corporations wherein surplus staff have been identified, with reference to staff / 1000 population ratio, those municipalities and corporations have to decisively reduce the strength as narrated in the relevant para.

(V-33 and 43)

29. The Commission recommends that Government may form a Committee as mentioned in the para and decide on measures to improve property stock in Madurai.

(V-37.3)

30. a) The Commission recommends that Urban Local Bodies should duly organise road digging before every re-laying so that haphazard digging will be avoided. In

Chennai city the co-ordination committee as suggested in the relevant para shall pursue and implement the procedure evolved.

(V -46)

b) To improve traffic management, we recommend that all the Municipal Corporations in the first instance may set up traffic signals in important road junctions. Particularly in Chennai city automatic computerized traffic signals as in Mumbai and Delhi may be set up. Road widths have to be maintained by keeping roads and pavements free from encroachments.

(V - 47)

31. Water Supply

The Commission recommends that maintenance, particularly preventive maintenance, needs to be accorded higher priority than hitherto. Leakage and wastage need to be brought down from the present level of 40% to the level within 10% and there is need to impart training. The Commission's abiding interest in water supply as a major civic responsibility, sustainable level of investment, supply at minimum cost to consumers etc., may be seen in this para. Hence all measures and recommendations including those spelt out in the critique on water supply may be implemented.

(V-8)

32. The Commission has taken note of the predicament of Chennaiites regarding water supply. Measures to augment supply and ensure equity in distribution are urgently required. The Commission therefore recommends a study by qualified consultant based on consumer survey and take decisive measures in the next one-year. This survey should also determine what is the market share of private water suppliers vis-à-vis, CMWSSB and outline the steps to be taken by CMWSSB to keep its market share in tact without further erosion.

(V-49.3)

33. Rainwater Harvesting

a) This commission recommends that Government may set apart Re.1/- crore as incentive fund for being distributed to the local bodies who have provided R.W.H structure in 90% of lands / buildings owned by these local bodies, as per modalities to be worked out by Government.

b) Tax incentives should be made available to the public for having constructed the R.W.H. structure in their houses (rebate on the first and second half yearly assessment)

c) The Chennai Metropolitan Water Supply & Sewerage Board has made the R.W.H. structures mandatory for all the buildings (irrespective of size and area) when approaching Chennai Metropolitan Water Supply & Sewerage Board for new water and sewer connections. This may be emulated by other Urban Local Bodies.

d) The other recommendations for propagating the rainwater harvesting may also be implemented.

(V-50)

34. Solid Waste Management

The Commission recommends that Special Grade and Selection Grade Municipalities may go in for privatization of identified segments of solid waste management so that conservancy staff would be reduced to the barest minimum. The privatization should lead to lower cost and better service. The surplus staff should be redeployed wherever needed.

(V-27.2)

35. a) The Commission recommends that the impact of modernization of solid waste management in Chennai City may be analyzed by making a study by a qualified consultant.

b) The Commission recommends that based on study mentioned above, as per Supreme Court judgement, in the first three years all Class I cities, the modernization of their solid waste management systems be attempted by setting up treatment, processing and disposal facilities with following allocation of funds from incentive fund.

i. Chennai Corporation	Rs.50 lakhs p.a.
ii. Other Corporations exceeding 5 lakhs population	Rs.10 lakhs p.a.
iii. Corporation and Municipalities exceeding one lakh population	Rs.5 lakhs p.a.

Besides, the Eleventh Central Finance Commission grants set apart for Urban Local Bodies may be apportioned and given as per the Supreme Court direction.

(V-52.1)

36. Report Cards

The Commission recommends that incentive funds may be given to local bodies as narrated in the para based on the Report Card System.

(V-53.1& 53.2)

37. The Commission recommends that a coordination committee may be constituted inducting both the Tamil Nadu Housing Board officials and officials from Heads of

Departments concerned with local body administration which may review the already completed schemes and measures needed for time-bound takeover.

(V-55.3)

Role of local bodies in infrastructure and other investments

38. The Commission recommends that whenever investments exceeding Rs.5 crores for Corporations, Rs.1 crore for Municipalities and Rs.50 lakhs for Town Panchayats and Village Panchayats take place, such projects should be monitored personally by the District Collector, Commissioners of the concerned Corporations, Commissioner of Municipal Administration, Director of Town Panchayats and Commissioner of Rural Development to ensure that the local bodies do not act as hindrance but actively cooperate in such projects. Further, the HODs concerned should see that the local bodies accord clearance for new projects within the time limit set so as to push through the pace of development.

(V-57)

BETTER FISCAL MANAGEMENT

39. a) The Commission recommends as already indicated in recommendation No.28 above, the following staff ratio per thousand during the award period of Second State Finance Commission.

Chennai Corporation	- 3.5 per thousand
Other Municipal Corporations	- 3 per thousand.
Municipalities	- 2.5 to 3 per thousand
Town Panchayats	- 1.75 to 1.90 per thousand

b) To achieve this, replacement of personnel hereafter by way of filling up shall be restricted to 50% of the retirement vacancies. After ensuring need-based replacement, the balance shall be surrendered.

(VI - 6 and Chapter X – 16.4)

Further this Commission recommends that;

(i) Productivity norms may be prescribed for all categories of staff to achieve rightsizing of establishment keeping in view the overall staff norms as recommended in para 6.4 and

(ii) Illustratively assessments for each collection staff may be prescribed at 2400.

(VI-6.4, VI - 11.2)

40. This Commission makes the following recommendations regarding the Zero Base budgeting. In the first instance Zero Base Budget may be introduced in all Municipal Corporations and Special Grade Municipalities and also in line agencies directly and intimately connected with Local Bodies viz. Tamil Nadu Water supply and Drainage Board, Chennai Metropolitan Water Supply & Sewerage Board, Chennai Metropolitan

Development Authority, Tamil Nadu Slum Clearance Board, Directorate of Town & Country Planning and Tamil Nadu Pollution Control Board.

(VI-6.6)

41. Based on the experience gained so far in privatization the State Finance Commission makes following recommendations: -

i) This Commission reiterates the provisions relating to privatization in Tamil Nadu Urban Local Bodies Act/ Rules and also policy spelt out in the G.O. on privatization of core civic services for ensuring cost reduction, but avoiding double cost for the taxpayers.

ii) In the first phase, as indicated in recommendation 34 above, Solid Waste Management particularly transport of garbage and segregation and recycling of wastes may be privatized in Municipal Corporations / Municipalities and thereafter to bigger Town Panchayats. While attempting this, the staff shall be redeployed so that the expenditure on the operations is brought down.

iii) The lessons of privatization of solid waste management may be studied and thereafter it may be extended to maintenance of streetlights and water supply. By 2005, about 35% to 40% of the civic services need to be privatized.

iv) Government may make use of the proposed amendment to contract labour laws by the Centre, to ensure that these facilitate privatization and do not hinder the process.

(VI – 7.6)

42. The State Finance Commission recommends that the fiscal responsibility may be fixed on the local bodies in the following areas illustratively and incorporated in Panchayats Act and Urban Local Bodies Act by early 2003.

- a. All local bodies shall wipe out revenue deficit by 2004.
- b. Ensuring a 5% cash reserve in each year's income.
- c. Fixing statutory ceiling on debt level.
- d. Quarterly review of the budgetary allocation and spending.
- e. Limiting the salary and pension commitment to 49% and deploy at least 51% for O & M, assets creation, debt servicing and investment.
- f. Fixing responsibility for time and cost overruns on line agencies and government departments.

(VI-8.4)

43. The State Finance Commission recommends that centralized purchase of public health materials by Panchayat Raj Institutions may be organized at the district level, (say, Collector or Project Officer, District Rural Development Agency) as in Urban Local Bodies.

(VI-9.2)

44. a) This Commission recommends the normative cost of Rs.300/- per light on an average in rural areas with purchase of aluminium choke only. Simultaneously, the State Finance Commission recommends that a Committee may be formed consisting of Chief Engineer from Tamil Nadu Electricity Board and Additional Director in the office of the Director of Rural Development. This committee will meet before the year 2002-2003 and fix norms, which will be in vogue for two years after which it will be revised every two years.

(VI-9.8)

b) This Commission recommends fixing the O&M cost for Hand Pumps and Power Pumps as below: -

- a) Hand Pumps - Rs.600/-per pump
- b) Power Pumps - Rs.7500/per pump

45. This Commission recommends that a cost-cum-water tariff fixation committee may be constituted with the members as suggested in the relevant paras and also the rates for TWAD operated schemes.

This may be done before April 2002 and reviewed once in two years by converting this into a statutory body and incorporating this in Tamil Nadu Panchayat Act and Urban Local Bodies Act.

46. In respect of CMWSSB similar approach may be adopted and a committee as mentioned in para 9.19 may be formed for fixing rates and revision.

(VI - 9.19)

47. This Commission recommends that schedule of rates may be fixed district wise annually by a committee of respective S.E.(PWD), S.E.(Highways) and S.E.(TWAD) taking into account lead and availability of raw materials locally.

(VI - 9.21)

48. This Commission recommends that HoDs may prescribe and monitor the life of a vehicle / norms for condemnation, ceiling on maintenance / repair and purchase so as to curb wasteful expenditure.

(VI - 9.25)

49. A Taxation Appeal Tribunal may be constituted in each of the seven RDMA jurisdictions besides a tribunal at Chennai for adjudicating the fiscal matters which should be final and binding. These eight tribunals will deal exclusively with local body property tax and house tax cases.

(VI-12.3.)

50. This Commission makes the following recommendations to facilitate collection of arrears: -

i) Defaulters' list may be published through mass media such as local newspapers, cable T.V., cinema slide etc.

ii) Legal proceedings and criminal prosecution may be pursued to their logical conclusion and revenue realized.

(VI – 13.1)

51. a) In case of collection of cycle stand fees they may be given to TEXCO to prevent scrupulous elements from fleecing the public and pocketing the difference.

b) In case of pay and use latrines reputed NGOs and trusts may be granted the lease.

(VI – 13.1)

52. The sealed tender-cum-auction method may be implemented for leasing out properties of Local Bodies and advance rent can be collected before leasing out the premises. (Pagadi System). Further, by prescribing the up-set value new projects should be subjected to fetch the minimum amount, which would ultimately cover the project cost and interest well within the payback period.

(VI-13.1), (VI –15.2)

Maintenance of Provident Fund Accounts:

53. In order to streamline the system, the State Finance Commission recommends that the depositing of the Provident Fund contribution to the respective account should be verified by the Financial Adviser & Chief Accounts officer from the concerned Office of the Head of Department once in six months and with a computerization of Accounts, the backlog in interest calculation should be brought to current as explained in the relevant paragraphs in the chapter

(VI-17.2&3)

DEBT MANAGEMENT

54. a) This Commission after detailed deliberations both internally and with various stakeholders has decided to segregate water supply loan from other loans and accord separate treatment for water supply and drainage loans for the schemes implemented by TWAD as on 31.3.2000. There will be no relief for loans taken for remunerative enterprises.

(VII-7)

b) This Commission recommends debt relief subject to Recommendation No.56 below, on principal outstanding as on 31.3.2002 on water supply loans as under:

Corporations : 20%

Municipalities : 25%

Town Panchayats : 30%

From 1.4.2002, the interest may be calculated for the principal as on 1.4.2002 after deducting the amounts to be written off as recommended above.

(VII-8)

55. The State Finance Commission recommends that the interest rate may be reduced from 13.5% to 10.74% for the Urban Local Bodies subject to the criteria spelt out in Recommendation No.56 below.

(VII-9)

56. a) In respect of Municipalities and Town Panchayats, only those Urban Local Bodies which have their own per capita income above the average for that grade within that class of Urban Local Bodies will be eligible for relief. For instance, if a Municipality is in Grade I category, for comparison, the average per capita income for Grade-I needs to be taken.

b) The second criterion is that on expenditure front also, only those Municipalities and Town Panchayats which have their per capita expenditure below the average for that grade within that class of Urban Local Bodies will be eligible for relief.

c) For Municipal Corporations, (excluding Chennai) class average may be taken for both the above criteria.

d) In other words both criteria need to be satisfied for giving relief to Urban Local Bodies. For those Urban Local Bodies which satisfy any one criterion and not eligible for debt relief, moratorium will be given upto 2003 to see if they improve their financial position in the next revision of property tax and steady reduction of their expenditure by then. The Urban Local Bodies, which do not satisfy even one criterion, are not eligible for moratorium also.

e) The relief as aforesaid is confined to loans taken for water supply and drainage projects only. It will not include other projects taken up for remunerative enterprises. Further, since water supply and sewerage functions of Chennai Corporation are entrusted to Chennai Metropolitan Water Supply and Sewerage Board, Chennai Corporation is not entitled for debt relief.

(VII-10.1)

57. There are several high-debt Municipalities though not eligible under the criteria in Recommendation No.56 above need relief and would require a separate approach. To facilitate decision-making in respect of such Urban Local Bodies, this Commission recommends that a committee consisting of Commissioner of Municipal Administration, Special/Additional Secretary, Finance Department, Special / Additional Secretary, Municipal Administration & Water Supply Department as Members and Chief Executive Officer, Tamil Nadu Urban Infrastructure Financial Services Ltd. as a special invitee may be constituted by the Government. The review by the Committee may be in two ways for the two classes of Urban Local Bodies as detailed below: -

a) For the Municipalities, which are eligible under the criteria in para 10.1(per capita income/expenditure) the review will be half-yearly to see that they do not slip back in financial parameters.

b) The Commission recommends a level of Rs.750/- per capita debt for the second class of Urban Local Bodies. For these high-debt Urban Local Bodies, first there needs to be BIFR type of analysis by the above Committee as explained in para 10.2

c) After reviewing this, based on the committee's recommendations, Government can enter into a MOU with those municipalities. On signing the MOUs by these municipalities (by Chairman and Commissioner) the relief will be accorded. This will be monitored on quarterly basis to see if these ULBs stick to the conditions stipulated in the MOU. If they do not, devolution shall be cut proportionately.

(VII-10.2.)

58. The Commission recommends a 25% ceiling on deduction from gross State Finance Commission devolution towards repayment of government loans.

(VII - 10.4)

59. The penal interest on water-supply loan outstanding as on 31.3. 2000 is around Rs.30 crores. Hence this Commission recommends waiver of penal interest from equalization fund available to Urban Local Bodies to those Urban Local Bodies who satisfy the eligibility criteria spelt out in para 10.1.

(VII - 10.5)

60. The Commission recommends that there may be one agency for both State and Centrally Sponsored schemes for improving basic amenities viz. TUFIDCO and the other for World Bank aided projects viz. TUIFSL. Accordingly, the IUDP schemes handled by Directorate of Town and Country Planning may be handed over to TUFIDCO. Thus, TUIFSL may continue to be an agency in BOT and World Bank funded projects. To avoid overlapping of functions, lending by TUFIDCO may concentrate upon remunerative projects and Mega city programmes and TUIFSL may take up the rest viz. water supply and infrastructure loans.

(VII - 11.2)

61. The Commission recommends that the Heads of the Departments should continue to oversee the financial position of local bodies effectively and to limit the borrowings at certain prudent level especially in Urban Local Bodies through case-by-case analysis. A ceiling of four times on own resources could be fixed for borrowing by the Urban Local Bodies in this State. After detailed scrutiny, this norm may be incorporated in TNULBs Act. Similarly for annual debt servicing for all loans, it may be fixed at 25% of the total revenue receipts.

(VII - 13-14.4)

62. a) The State Finance Commission recommends that the incentives may be sanctioned to both Urban Local Bodies which have successfully launched the public

health project through public participatory approach and through private sector involvement. This approach will keep debt of such local bodies within manageable levels.

b) The Commission recommends that urban development fund may be created from out of equalization fund set-apart for Urban Local Bodies. This is to take care of interest subsidy in respect of viable and eligible projects benefiting the core civic needs of the people. This will be done after appraisal in each case.

(VII - 17)

63. The Commission recommends that better placed Village Panchayats adjoining Corporations can think of taking loans. The borrowing may also be permitted at the Panchayat Union level for remunerative purposes since the Panchayat Unions will have better financial viability for better management of assets and for debt servicing, for which instructions may be given. These will be on case-by-case study.

(VII-19)

ACCOUNTABILITY AND AUDIT

64. a) This Commission recommends that the Director of Local Fund Audit shall be the statutory auditor for Municipal Corporations, Municipalities, Town Panchayats, District Panchayats, and Panchayat Unions. For conferring statutory status on Director of Local Fund Audit, a separate enactment of law on the lines of A.P. and Kerala may be attempted.

b) The Village Panchayats' audit shall continue to be done by Deputy B.D.O. as at present. However we recommend Test Audit by Director of Local Fund Audit as tabulated in the statement in the Annexure VIII 1.a. to this chapter.

c) Further we recommend that in place of concurrent audit, pre-audit may be introduced for work-bills in Municipalities, Town Panchayats and Panchayat Unions. The staff that are now engaged in concurrent audit may be made use of.

d) Simultaneously, it is imperative to improve the expertise of auditors qualitatively for which more professional approach is needed. Hence we recommend that 25% of the posts of ADs may be earmarked for direct recruitment so as to induct professionals such as Chartered Accountants as is being done in Treasuries and Accounts Department. Besides, we recommend that subordinate service personnel be put through SAS test so that they could give adequate support to auditing officers as is being done in Accountant General's Office.

(VIII - Paras 3.6 (a), (b), (c) , (d) and Para 5)

e) The Commission recommends that the accrual accounting system may be progressively extended to all Town Panchayats and Panchayat Unions from 2003-04 after due and extensive training to the staff.

(VIII - Para 3.7(a))

65. We recommend that, wherever Sec 14 of the Comptroller & Auditor General Act 1971 applies, A.G. can continue to do scheme audit. The relative audits to be done by Director of Local Fund Audit and Accountant General may be seen in Annexure VIII-1. Further, the Government may take up with Comptroller & Auditor General of India and Union Finance Ministry for raising the financial limits as they were fixed about two decades ago.

(VIII-Para 3.7. (b) and (c) and (XI para-4 : Rec.8.20)

66. The Commission recommends that the time frame as indicated in Para 3.8. may be followed.

To ensure the above annual calendar of events the two exclusive committees as amplified in Para 3.8 may be set-up to monitor the schedule and they may meet once in a quarter.

(VIII-Para 3.8)

67. This Commission recommends Committees at the district level for Urban Local Bodies for clearing the accumulated audit objections.

(VIII-Para 3.9)

68. The Commission recommends implementation of management audit, so as to instill a sense of responsibility among the executing agencies.

(VIII-Para 4.2.)

69. a) The Commission recommends creation of schematic budget as explained in Para 6.5 and 6.6 for a period of two years to start with.

(VIII – Para 6.5 and 6.6)

b) The Commission further recommends that a detailed shelf of projects needs to be prepared dovetailing with the Tenth five-year plan and this can be got approved by the Grama Sabha. This is explained in the section on Grama Sabha. Further Plan-Budget linkage needs to be consciously worked out.

(VIII-Para 11.6 Para 15 and Para 17)

70. In order to strengthen the accountability of the elected representatives to the public, the Commission makes the following recommendations: -

- a. Filing of property return as mandatory for elected representatives as contemplated in G.O. Ms.No.858 RD & LA Dept. dated 25.4.73 at the time of assuming office and also annually during the term of office for which Tamil Nadu Panchayat Act 1994 and Tamil Nadu Urban Local Bodies Act 1998 may be amended suitably (vide Annexure VIII 2)

- b. The Local Body representatives have to be declared as public servants so as to enable invoking the provision of Prevention of Corruption Act, 1988 and Benami Act.
- c. Ombudsman type of institution may be set up for Local Body representatives with six months time frame to complete the enquiry and give findings.
- d. Debarring the functionary concerned from election in the event of conviction by court as envisaged in Section 8 of the Representation of Peoples Act, 1951.
- e. Issuance of detailed guidelines to prevent Benami Transaction by Local Body representatives.
- f. The elected representatives against whom RILS proceedings are issued and also for proven irregularities may be debarred from contesting election for six years for which the relevant Act may be amended.

(VIII-Para 7.2)

71. a) This Commission recommends that for each Panchayat Union as explained in the relevant paras, a qualified para-accounting professional from the panel approved and maintained by the Director of Local Fund Audit can be appointed by the concerned District Collector, as Inspector of Panchayats. While computerizing the accounts of the Village Panchayats, the present registers maintained may be reviewed and reduced to the extent possible.

(VIII-Para 8.1)

72. The Commission recommends that the amount earmarked by Eleventh Central Finance Commission for data base of Urban Local Bodies may be set apart for Town Panchayats for computerizing these accounts. In respect of PRIs, the entire amount may be set-apart for Panchayat Unions as they are the focal centres of data base management

(VIII-Para 8.2)

73. This Commission recommends that the audit report incorporating major irregularities noticed in the local bodies may be compiled and presented before the Committee of legislature for local bodies, for which the Director of Local Fund Audit can function as a Secretary or Convenor.

(VIII-Para-9)

74. The Commission recommends opening of Computerized Information Kiosk in all the Corporations, Municipalities and Panchayat Unions, in the first instance. Once the computerization is introduced in Town Panchayats, (vide para 8.2) such kiosks can be opened there also.

(VIII-10-5)

75. This Commission makes the following recommendations to strengthen the Grama Sabha: -

- i) Grama Sabhas may be conducted by rotation twice a year covering all the habitations in Village Panchayats.
- ii) Grama Sabhas may approve all the works taken up by Panchayat Unions, District Panchayats, District Rural Development Agency, various State and centrally sponsored schemes as also works taken up under MLA LADP funds. Wherever urgent works are to be executed, post-facto approval may be obtained in the next meeting of grama sabha as explained in chapter on Civic Needs and Finances-Para 7.1.
- iii) It must be made mandatory for the field functionaries of line departments to be in attendance while Grama Sabhas are in session.
- iv) Printed copies of budget may be given in Grama Sabhas to all participants.
- v) Consistent with the above, other recommendations and suggestions made in the reports of Director of Evaluation and Applied Research and Gandhigram Rural Institute may also be implemented.

(VIII - Para 15.4.)

76. a) In the light of the experiences gained in the conduct of Grama Sabha in the last four years, the Second State Finance Commission strongly recommends a similar Urban Sabha may be constituted in Town Panchayats. The representatives of various residential welfare associations can be included in the Urban Sabha.

b) The State Finance Commission recommends that simultaneously Zonal Committees may be set up for all Municipalities having a population of less than three lakhs also, as explained in Para 16 of the Chapter.

(VIII-Para 16).

BASIS OF CLASSIFICATION

77. The Commission recommends the following in respect of Panchayats: -

- i) Government may accept in principle to reconstitute Village Panchayats based on a minimum population of 3000 as per 1991 census. (As per 2001 census, this could be 3200).
- ii) After passing suitable orders on (i) above, Government may simultaneously direct, on the models of two districts given in the report, each Collector to undertake the detailed exercise keeping in mind, geographical contiguity, social pattern of settlements and other relevant local factors. While the model studies indicate scope for reducing the number of Panchayats by about 30%, the State level average could aim at about 25% reduction. Eventually the State could have about 10,000 Village Panchayats, including those, which are proposed for downgradation from Town Panchayats as Village Panchayats.

(IX -2.11 and 4.12)

78. This Commission recommends that Collectors may be directed by Government to study regrouping of Panchayat Unions, adopt the methodology of Coimbatore District and eventually reorganize them as 340 to 350 Panchayat Unions in all.

(IX -3.3)

79. i) The Commission recommends that a staff norm of one per thousand population in a Panchayat Union may be adopted. The excess and surplus may be set off in each district and redeployed suitably.

ii) Further this Commission recommends five-fold classification of Panchayat Unions based on per capita Land Revenue as indicated in the relevant para

(X-3.7)

80. In regard to Town Panchayats the Commission recommends:

i) Regrouping or merger of 26 Town Panchayats as mentioned in para.4.4 with nearby Town Panchayats

ii) Downgrading of 178 Town Panchayats as mentioned in para.4.5 as Village Panchayats or merging with nearby Town Panchayats wherever possible to make them viable.

iii) Based on yet another approach, the Commission recommends that merger of Town Panchayats

adjoining Municipalities such as Inam Karur with Karur and Chitlapakkam near Tambaram with

Tambaram may be considered so long as there are no intervening Village Panchayats.

iv) Upgrading 18 Village Panchayats called census Towns in Chennai Metropolitan area as mentioned in para.4.7 as independent Town Panchayats or they be merged with nearby Town Panchayats, which are contiguous geographically to bring the entire Metropolitan area under urban character. This upgradation may be done provided the reclassifications in recommendations (i) to (iii) above are given effect to first.

v) Resource allocation procedure as indicated in para.4.10 above may be adopted to ensure that on downgradation, 178 Town Panchayats do not lose out in devolution.

(IX -4.12)

81. Municipalities:

i) The Commission recommends that eligibility for upgrading from the status of Town Panchayat to Municipality of Grade-II shall be minimum population of 30,000 and

minimum average annual income for the last three consecutive years should be of Rs. 2 crores and above.

(IX- 5.6)

ii) We recommend that the 11 Municipalities mentioned in para 5.7 may be downgraded as Town Panchayats for the reasons given in the relevant paragraphs.

(IX - 5.7)

iii) Subject to the above package, we recommend the upgradation of Ambasamuthiram Town Panchayat and Veerappanchatram Town Panchayat as Grade II Municipalities.

(IX-5.7)

82. Revised limits:

The Commission further recommends for the amendment of the Tamil Nadu Urban Local Bodies Act and the rules framed thereunder, enabling constitution / upgradation of the Urban Local Bodies on the basis of the norms suggested below:

(IX-5.8)

TOWN PANCHAYATS

Grade	Annual Income (***)
II	Above Rs.30 lakhs but below Rs.40 lakhs
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 2 crores

*** Includes all income except capital income and specific purpose grant.

MUNICIPALITIES:

GRADE	INCOME
II	Rs.2 crores and above but below Rs.4 crores
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

CORPORATIONS: Income above Rs.50 crores with minimum population of 5 lakhs.

83) i) The Commission after a quick study recommends the proposal of Madurai Municipal Corporation for merger of the proposed areas in para 6.1. above, except the following local bodies.

MUNICIPALITY	VILLAGE PANCHAYATS
Thirumangalam	Thoppur Thanakkankulam Nilaiyur Bit-I Nilaiyur bit -II Kappaloor Uchampatti

ii) This may be decided by Government based on a more detailed study by a Committee consisting of CMA, Madurai District Collector, Madurai Corporation Commissioner and Director of Town Panchayats.

(IX –6.2, 6.3)

iii) Further this Commission suggests that there is no need to upgrade any Municipality into Municipal Corporation till concrete action is first taken to make the existing financially weak Corporations viable, during the award period of this Commission.

(IX – 6.4)

84. Putting together the above approach and recommendations regarding all the local bodies, we envisage the following pattern in our award period.

(IX – 7)

Existing No. of Local Bodies		Proposed No. of local bodies	
6	Municipal Corporations	6	Municipal Corporations
102	Municipalities	93	Municipalities
611	Town Panchayats	432	Town Panchayats
28	District Panchayats	29	District Panchayats (including Ariyalur District Panchayat)
385	Panchayat Unions	345	Panchayat Unions
12619	Village Panchayats	10000	Village Panchayats

85. This Commission recommends that the reclassification package as worked out in this Chapter may be implemented well before issue of notification for the next elections to local bodies, which is expected by September 2001, and this may be given priority pending acceptance of other recommendations.

(IX – 8.1, 8.2)

PAYMENT OF PENSION

86. Director of Local Fund Audit may continue to be the pension sanctioning / disbursing authority in respect of all Municipalities, Town Panchayats and Panchayat Union, bringing into fold in the process "below 90 categories" also.

(X-16-1)

87. Those who are to be recruited on and from 1.4.2002 shall contribute a minimum of 5% of their basic pay for the Pension fund and this should form part of the service terms to make it compulsory.

(X-16-2)

88. Out of the total ceiling of 49% on salary and pension, upto 14% may be apportioned for pension. For the new recruits, the local body is liable to pay gratuity while the pension entitlement shall be with reference to employee's contribution and this may be given effect in the respective Acts of the local bodies by way of amendments.

(X-16-3)

89. In future, the disbursement of pension may be left to the professional bodies like LIC and Banks and that the regulation of post retirement benefits may be monitored by a regulatory body as is done in USA and UK for which the following workable system could be evolved: -

a) Gratuity & Commutation - Director of Local Fund Audit

b) Regular monthly pension - Professional agencies like LIC, Banks or other competent agencies.

(X-16-5)

90. Computerization of pension payment shall be attempted in a comprehensive way for which more computer systems may be deployed. The present restriction of payment through five nationalized banks may be relaxed to cover all nationalized banks to provide relief to pensioners.

(X-16-7)

91. In future all concessions available to State Government pensioners need not be extended to local body pensioners as a matter of routine. Each issue may be studied for which a separate local bodies Pay-cum-Administrative Reforms Committee may be constituted.

(X-16-8)

92. Other issues

a) Death gratuity shall be on par with superannuation gratuity.

b) A person who is in receipt of one civil / family pension he/she need not be sanctioned another family pension. But this condition will not apply to those who are in receipt of military pension.

c) Having become infructuous owing to non-amendment of rules, G.O.Ms.No.600, MA&WS Department, dated 14.9.1989 may be formally cancelled.

d) Pension payment need not be transferred to Treasuries/Sub-Treasuries.

e) The CRD/DTP/CMA need to organize release of the withheld gratuity immediately on settlement of audit objections.

f) A database may be set up for personnel matters to avoid delay in settlement of claims and that DLFA may be requested to scrutinize the service particulars one year prior to retirement.

g) The Rural Development Department shall make full payment to DLFA based on his demand, so as to ensure timely payment for which the relevant rule may be suitably amended.

(X-16-9)

ELEVENTH CENTRAL FINANCE COMMISSION RECOMMENDATIONS

93. This Commission recommends that the deletion of Article (bb) & (c) under Article 280 (3) as mooted by Eleventh Central Finance Commission need not be accepted but the same retained for critical analysis by Twelfth Central Finance Commission. If need be suitable addition may be made as mentioned in para 4 of the Chapter. This may be taken by the Government with the Centre.

(Ref: Recommendation 8.11d of ECFC)

94. This Commission recommends that the amount set apart by Eleventh Central Finance Commission for Local Bodies exclusive of Panchayats activity & database after setting apart the amounts for accounts and data base may be used for O & M purpose and also for capital return items like purchase of vehicles for core civic services. The amount may be distributed based on population and without any discretionary element.

(Ref: Recommendation 8.18 of ECFC)

95 a) This Commission recommends that the Government may take up with AG for effecting changes, if need be, as the present classification under the major head 3604 takes care of the views expressed by Eleventh Central Finance Commission.

b) The Government may also take up with AG preparation of accounting and budget formats amenable to computerization. Further, the Commission recommends that the States should have flexibility in maintaining accounts in keeping with the spirit of the statutory provisions. The AG may suggest measures for timely preparation of accounts.

(Ref: Recommendation 8.19 and 8.19d of ECFC)

96. This Commission recommends that the States be allowed the freedom in creating database accessible, wherever necessary, as for instance the Central grants to local bodies, to national-level and that the agency responsible for monitoring the database at the Central Government level may scrutinize the functioning at frequent intervals.

(Recommendation 8.21 of ECFC)

ISSUES GERMANE TO TERMS OF REFERENCE

Population

97. a) We recommend that Census 2001 figures be adopted in various calculations and for resource transfers.

(XII -2)

b) For our award period, we recommend that Government of Tamil Nadu in Public (Census) Department as a neutral authority may issue a G.O. classifying 2001 census figures as narrated in the relevant para.

c) The other recommendations may also be implemented.

(XII-2.7.1 & 2.7.2)

98. Setting up of State-Local bodies Council.

The Commission recommends that the State - Local bodies Council be set up. This shall be a recommendary body and its terms shall be as explained in the para .

(XII - 3.6, 3.7)

99. Training needs of urban local bodies.

i) The TNIUS should be revamped to give core training to the staff of Urban Local Bodies including Town Panchayats at Coimbatore, while workshops for Officials, Chairman, Vice-Chairman / Mayor, Deputy Mayor are to be held at Chennai .The training for Councillors of Corporations and Municipalities would be held in various regions, coinciding with RDMAs' regions. In respect of Town Panchayats, training for Councillors will be held at district level.

(XII – 4.3)

ii) Infrastructure will be strengthened at a cost of Rs.5 Crores to be provided from State Finance Commission Devolution Fund to be given in two instalments @ Rs.2.50 Crores in the year 2002-03 and another @ Rs.2.50 Crores in the year 2003-04 to TNIUS Coimbatore and also the recurring cost at Rs.25 lakhs per annum and also integration of PMU and TNIUS as narrated in the relevant para.

(XII – 4.4)

100. Training needs of Panchayat Raj institutions.

i) A grant of Rs.6 crores may be given for meeting the fixed cost of SIRD, RETCs and for setting up two additional RETCs at Cuddalore and Koilpatti and amount may be given in two instalments one at Rs.3 crores in the year 2002-03 and balance of Rs.3 crores in the year 2003-04

(X11 – 5.2)

ii) In respect of running cost for these Training Institutions, this Commission recommends Rs.75 lakhs per annum at the rate of Rs.25 lakhs to SIRD and at the rate of Rs.10 lakhs to five RETCs as narrated in the relevant para

(XII – 5.2)

The other three recommendations may also be implemented.

(XII – 5.2)

101. a) Local bodies – Tamil Nadu water supply & Drainage board relations.

The Commission recommends that necessary amendments may be made to TWAD Board Act, Tamil Nadu Panchayat Act and TNULB Act so as to consolidate the gains that may accrue by virtue of the turnkey system.

(XII-6.5)

b) The Commission recommends that Tamil Nadu Water Supply & Drainage Board needs to function as executing agency and accordingly funds be routed through the heads of department and not directly given to TWAD. Provisions for water supply may be made in the budgets of CMA, CRD and DTP in regard to respective local bodies.

(XII –6.7.1)

c) The remaining five recommendations narrated in the section may also be implemented.

(XII – 6.7.2, 6-10.1, 6-10.2, 6.11)

102. Chennai Metropolitan Water Supply & Sewerage Board.

a) Our Commission, as a matter of policy, recognizes Chennai Metropolitan Water Supply & Sewerage Board as local authority eligible for devolution. The Commission recommends setting apart 10% from out of the devolution payable to Chennai Corporation towards the share of Chennai Metropolitan Water Supply & Sewerage Board. This is earmarked for strengthening and streamlining the distribution system till it is made foolproof.

(XII – 7.6.1)

b) The other three recommendations narrated in the section may also be implemented.

(XII – 7.6.2, 7.6.3)

103. Equation between Chennai Corporation and Chennai Metropolitan Development Authority.

i) The Chennai Metropolitan Development Authority should confine itself to persuance of goal setting, resource allocation, determining priorities, capital budgeting, coordination and monitoring and should pursue these areas at all times and it should not take upon itself any execution role or the task of line agency or dissipate its energy, expertise and manpower resources in dealing with individual planning permissions and granting licenses.

(XII – 8.6)

ii) Chennai Metropolitan Development Authority may be used as a secretariat of the Committee for Metropolitan Planning.

(XII-8.6)

iii) The other two recommendations may also be implemented.

(XII – 8.6)

104. Constitution of Metropolitan Planning Committee.

a. The Commission recommends that the Chennai Metropolitan Planning Committee be constituted as narrated in the relevant para.

b. Minister (L.A) may be Chairman of both Metropolitan Planning Committee and Chennai Metropolitan Development Authority to ensure proper coordination.

(XII – 9.4)

c. The remaining two recommendations as narrated in the report may be implemented.

(XII – 9.5, 9.6, 9.7)

105. Licensing and planning functions: Equation between local bodies and Directorate of Town & Country Planning:

a) The Commission recommends that the Directorate of Town & Country Planning should not involve itself in the routine tasks of issuing planning permission irrespective of the nature of construction of area or development so long as they are in accordance with developmental planning parameters.

(XII – 10.4)

b) The other three recommendations as narrated in the report may also be implemented.

(XII – 10.3, 10.4, 10.6)

106. Area planning: Local bodies and Tamil Nadu Housing Board.

The Commission recommends that section 152 of Tamil Nadu Housing Board Act may be either deleted or amended in such a way that the local body is taken into confidence and its approval obtained before notifying or proposing a new scheme under Housing Board Act.

(XII - 11.3)

107. Equation between Urban local bodies and Tamil Nadu Slum Clearance Board.

a) The Commission recommends that Tamil Nadu Slum Clearance Board as a statutory Board may continue with its assigned role of constructing tenements to slum dwellers in Chennai Corporation only as explained in Para 4. Slum improvement as a function is to be transferred to urban local bodies. It also recommends rescinding the notification extending the jurisdiction of Tamil Nadu Slum Clearance Board to Town Panchayats in 1995.

(XII-12.3)

b) The other two recommendations narrated in the report may be implemented.

108. Relationship between Tamil Nadu State Pollution Control Board and Urban Local bodies.

a) The Commission recommends that Urban Local Bodies and Tamil Nadu Pollution Control Board have to be partners in protection of the environment and promotion of ecological aspects. Hence District Level Committees consisting of members as indicated in the relevant para may be constituted for all the Districts except Chennai District to monitor effective implementation of environmental and pollution control programmes launched by Tamil Nadu Pollution Control Board in Urban Local Bodies, as narrated in the report. For Chennai a different Committee with Mayor as Chairman may be constituted.

(XII-13.5)

b) The other two recommendations as explained in the report may also be implemented.

(XII-13.6, 13.7.1, 13.7.2.)

109. Equation between local bodies and Tamil Nadu Electricity Board.

a. To sort out field level problems district level coordination Committee as given in para 14.4.1. may be formed.

b. The other five recommendations as spelt out in the relevant para may also be implemented.

(XII 14.3, 14.4.2)

110. Panchayat Raj Institutions - Equation with H & RW Department.

a) The Commission recommends that the Rural road wing of Highways & Rural works Department may be disbanded and all the local body roads should be executed only through local bodies through their rural engineering wing of Commissioner of Rural Development. To ensure relative role clarity, it would be appropriate to have the nomenclature "Highways" Department deleting the words "and rural works".

(XII-15.5)

b) The remaining two recommendations as narrated in the relevant para may be implemented.

111. District Planning Committee.

a) The Commission recommends that the Collector may be nominated as Co-Chairman instead of Vice-Chairman of District Planning Committee.

(XII-16.7.1.)

The Commission recommends the composition of members of District Planning Committee keeping in mind the proviso of 243 ZD of Constitution of India, as given in the relevant para.

b) The Commission also recommends that the present officers and staff in the office of the District Panchayat and office of the RDD of Town & Country Planning may be made the Secretariat of the District Planning Committee. The District Plan so drawn needs to be dovetailed into State Plan and the budgets of local bodies.

(XII-16.7.2)

112. Institutional linkages between and among the tiers of Panchayat Raj Institutions.

a) The Commission recommends that to ensure organic linkage among the three tiers, Constitution of India may be suitably amended to restore the earlier position whereby the President of Village Panchayat will automatically be Member of Panchayat Union Council and Chairman of Panchayat Union Council will automatically be member of District Panchayat Council. However, till such time Constitution of India is amended, Section 241(g) of Tamil Nadu Panchayat Act 1994, as it existed till 1996 enabling 20% nomination in Panchayat Union Council and District Panchayats may be restored. The Commission recommends that this be given effect before the next local body elections, due in October 2001.

(XII-17.6)

113. Primary Education in Panchayat Unions.

We recommend that the options offered in the relevant para may be examined and suitable decisions taken by Government. Among other things, quality of primary education may improve and the devolution to local bodies increase by 8%.

(XII-18.5)

114. Data Base:

The Commission recommends that creation of database as elaborated in the relevant paras for Panchayat Raj Institutions /Urban Local Bodies may be implemented

(XII – 19.1, 19.11, 19.12)

115. Funding of disaster Management.

a. The Commission recommends that 30% of the State relief fund be set apart for Local body assets. Further, a fund as mentioned in para 20.3.2 needs to be created as first charge towards the relief to be provided for disaster caused by natural calamities. Balance, if any, from this reserve fund will be released proportionately to Panchayat Raj Institutions and ULBs along with the last quarter devolution if there are no natural calamities warranting expenditure to the earmarked extent.

b. The other three recommendations made in the relevant para may also be implemented.

(XII – 20.4)

116. Monitoring Mechanism for local bodies fiscal reforms.

a. This Commission recommends that the State High Level Committee among other things may monitor the issues pertaining to the local bodies periodically, as indicated in the relevant para and the connected annexure.

(XII – 21.6)

b. The High-level Committee may also follow up tabling the ATR in the Legislature within six months.

c. Further the Commission recommends that one section out of the above four sections and the concerned Deputy Secretary may be made responsible for the issues and topics enumerated in para 5 and 6 above for following up the State Finance Commission-related matters.

(XII-21-7)

117. The Commission recommends that all suggestions on the ten themes and issues made in paras 24 to 33 may be given due consideration by Government for implementation of the same.

(XII-24-33)

DEVOLUTION MECHANISM

118. The following resource distribution device is designed.

Pool A:

The Commission recommends that Assigned revenue items viz, Entertainment Tax, Surcharge on Stamp duty, Local Cess and Local Cess Surcharge need to continue as such and are to be distributed among the local bodies as mentioned in the chapter on Resource Base of Local Bodies.

(XIII-9.3)

Pool B:

119. a) The Commission recommends that the approach of global sharing is the proper mechanism for devolution from State to local bodies. The percentages of global sharing from out of SOTR after excluding Entertainment Tax shall be as under:

2002-03 8%
2003-04 8%
2004-05 9%
2005-06 9%
2006-07 10%

b) The Commission recommends that 5% of Central devolution also be passed on to the local bodies and shared among the local bodies vertically and horizontally based on the formula suggested by SSFC for global sharing. The above mentioned components of transfers including a percentage of central devolution are considered as 'Formula Based Transfers'.

(XIII-9.5)

c) The Commission recommends that out of total transfer made by the State, 80% needs to be by way of formula based transfer (Pool A & Pool B) and the plan, non-plan and other discretionary transfers outside the State Finance Commission devolution need to be 20%.

(XIII-9.7)

d) The Commission also recommends that while releasing the devolution for the next year, the adjustments to be made shall be explained clearly in the first quarter G.O. itself to ensure transparency in the devolution process.

(XIII-10.2)

120. The Commission recommends that 10% the SFC devolution may be used for capital works in Municipalities and Corporations, 15% by Town Panchayats and 20% by Village Panchayats.

(XIII-10.1)

121. a) The Commission recommends that the sharing between PRIs & Urban Local Bodies shall be in the ratio of 58 : 42 respectively, after giving weightages to population, resource potential and needs. This is for present configuration of local bodies.

b) On acceptance of our recommendations relating to classification of local bodies, the ratio will be 59:41.

(XIII-11.1 (e))

122. The Commission, on assessing the needs and functions of various tiers of PRIs recommends that after allocating the proposed salary requirements of District

Panchayats, the balance funds shall be distributed between Village Panchayats and Panchayat Unions in the ratio of 60:40 respectively.

(XIII-11.3)

123. a) The Commission recommends that sharing of devolution vertical among Corporations, Municipalities and Town Panchayats may be in the ratio of 33 : 32 : 35 respectively.

(XIII-11.4)

b) After reclassification among Urban Local Bodies, the vertical sharing among Urban Local Bodies, viz. Municipal Corporations, Municipalities and Town Panchayats may be in the ratio of 34:31:35 respectively.

(XIII-11.5)

124. The Commission recommends that the horizontal distributions among Panchayat Raj Institutions and among Urban Local Bodies shall be as explained in para 11.6.

(XIII-11.6)

125. The net devolution reaching the local bodies eventually needs to be a reasonable amount and accordingly the Commission recommends that upto 25% deduction from devolution towards debt liability would be optimum as per recommendation No.58 above, and a maximum of another 20% may be towards non-debt liabilities (excluding pension)

(XIII-11.8, 11.9)

126. Periodicity of release of funds by the Government to the Local Bodies:

As the State Finance Commission devolution is essentially meant for salary, O&M and recurring items of expenditure, this Commission recommends steady release of funds to the local bodies by the Government. To ensure that the release is evenly spread, the illustrative staggering release of funds for 2001-2002 is recommended which may help both the Government and the local bodies as indicated in the relevant para.

(XIII-12.d)

127. On the distribution of assigned revenue, the Commission recommends that the entertainment tax and surcharge on stamp duty and mines and minerals income relating to each quarter may be released in the second month of the subsequent quarter. In respect of Local Cess & Local Cess Surcharge, considering the normal Kist season, 50% of Local Cess and Local Cess Surcharge (dues based on fixed demand) may be adjusted in February and the balance 50% may be adjusted by May every year. All assigned revenues should be by way of deduct entries and adjustments obviating the need for budgetary provisions, sanction by Head of the Departments etc. Further, these adjustments need not be subjected to ways and means scrutiny.

(XIII-12.f)

128. a) Taking a holistic view on the needs, the Commission recommends setting apart 13% from the devolution as noted in the relevant para to take care of the needs and for utilization for the distinct purposes indicated below.

(XIII-13.10)

- a. Reserve Fund 3%
- b. Equalization Fund 5%
- c. Incentive Fund 5%

The balance 87% will be devolution for general purpose.

b) Further, the Commission recommends that the distribution pattern for the Reserve, Equalization and Incentive Fund should be, except where specified differently, at 58% for Panchayat Raj Institutions and 42% for Urban Local Bodies.

(XIII-13.10)

129. Incentive Fund:

Panchayat Raj Institutions:

a) The Commission recommends that the House tax matching grant / report card incentive distribution and incentive fund earmarked from mines and minerals shall be as indicated in para 13.6.1. of the chapter on devolution mechanism.,

(XIII-13.6.1)

Urban Local Bodies:

b) The Commission recommends that the property tax matching grant for Town Panchayats and report card incentive shall be as indicated in para 13.6.2.

(XIII.13.6.2)

c) In respect of Municipalities and Municipal Corporations, the Commission recommends that incentive fund may be distributed for report card assessment, solid waste management and other tax collection performance as indicated in para 13.6.3.

(XIII-13.6.3)

130. Reserve fund:

Collector's development fund:

a) The Commission recommends that out of 3% set apart under reserve fund, 1% may be placed at the disposal of the Collectors in the name of District Collectors' Development Fund for meeting the urgent needs of both Panchayat Raj Institutions and Urban Local Bodies in the ratio of 60:40 respectively.

b) The Commission recommends that the apportionment may be Rs.60 lakhs for districts with more than 15 lakhs population and Rs.40 lakhs for districts having less than 15 lakhs population. The other recommendation on monitoring may be implemented as explained in the relevant para.

(XIII-13.7.2)

131. Equalization fund:

Panchayat Raj Institutions:

a) The Commission recommends that the equalization fund may be placed at the disposal of the District Collector for distribution among weaker Village Panchayats for clearance of debt and non-debt liabilities as mentioned in para 13.9.

b) The component intended for Panchayat Unions may be operated by Commissioner of Rural Development.

(XIII-13.9)

Urban Local Bodies:

c) The Commission recommends that the distribution of equalization fund may be done as narrated in para 13.10.1.

(XIII-13.10.1)

132. Out of each fund, the amount unutilized or un-apportioned for want of specific clearance or absence of need may be added to the general devolution and the same released in the last quarter of the financial year. There should be no diversion to other fund(s).

CONCLUSION:

4. The summary of findings and recommendations numbering 132 gives a bird's eye view of the report. The above findings and recommendations are necessarily brief. The nitty-gritty of the findings have been adequately dealt with in the relevant chapters.

It is worth specifying here that 132 recommendations as suitably grouped in fact contain additionally 218 sub-recommendations which are equally important. The Government while deciding on the recommendations may also take into account the sub-recommendations as found in the respective chapters. We also envisage that while tabling ATR the break-up of recommendations viz. Main recommendations, and Sub-recommendations may be clearly brought out so that the sub-recommendations do not get neglected or relegated.

Another aspect is that the Commission has made recommendations having financial and non-financial implications. Those which have a direct learning on the outflow on inflow of funds are generally implemented. The implementation of non-financial recommendations needs to be given equal weightage as these also have an impact on the financial position of the State and the Local Bodies.

We have included this chapter on summary of recommendations as part of the main report rather than as separate volume as done by the First State Finance Commission. We believe that our procedure would facilitate ready access to main paras connected with recommendations.

A reflection over the gamut of recommendations would confirm the policy framework set forth by us in Chapter-II. The operative chapters began with resource base of local bodies and measures for strengthening the same. After traversing the ground relating to civic amenities and services we have dealt with all facets of local bodies' finances. We then took up issues germane to Terms of Reference. In the final operative chapter, we arrived at the level of devolution to enable the local bodies to meet their revenue expenditure and a component of investment needs. Most of devolution viz. 87% would be by way of untied funds but with suitable monitoring mechanisms and greater sense of accountability. The balance 13% would take care of wide variety of needs of local bodies and would be disbursed through various funds.

It is hoped that implementation of the entire package of recommendations would enable the local bodies to discharge their civic responsibilities better for the growing population with increasing expectations.

“ஆகாறு அளவிட்டி தாயினும் கேடில்லை
போகாறு அகலாக் கடை”

(குறள்:478)