REPORT AND RECOMMENDATIONS OF FOURTH STATE FINANCE COMMISSION TAMIL NADU

2012 – 2017

September 2011

K.PHANINDRA REDDY, I.A.S.,
Chairman.

Fourth State Finance Commission
No.950/1, TNPCB Building,
Poonamallee High Road,
Arumbakkam, Chennai – 600 106.

FOURTH STATE FINANCE COMMISSION

In accordance with the provisions contained under Article 243-I and 243-Y of the Constitution of India, under Section 198 of the Tamil Nadu Panchayats Act, 1994, under relevant provisions of District Municipalities Act and Municipal Corporations' Acts and in terms of the notification issued in G.O.Ms.No.549, Finance (FC-IV) Department, dated 01.12.2009, the Tamil Nadu Fourth State Finance Commission in its sixteenth meeting held on 24.09.2011 resolved to accept and adopt the final report for presentation to His Excellency the Governor of Tamil Nadu.

24/9/11
K.PHANINDRA REDDY,
CHAIRMAN

24 9 11
S. Ramalingam
Non-Official Member

24/9/11
Dr. S. Vijayakumar
Member
(Commissioner of Rural Development and Panchayat Raj)

24/9
Chandrakant B.Kamble
Member
(Commissioner of Municipal Administration)

24/9/11
M. Chandrasekaran
Member
(Director of Town Panchayats)

24/9/2011
P.Ekambaram
Member-Secretary

K. Phanindra Reddy, I.A.S.,
Chairman

Fourth State Finance Commission
No.950/1, TNPCB Building,
Poonamallee High Road,
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Chennai – 600 106.

ACKNOWLEDGEMENT

I place on record my appreciation of the valuable contributions made by all the members of the Commission. The Commission is thankful to Tmt. Reeta Harish Thakkar, IAS, former Member Secretary who has played an instrumental role in securing the facilities, infrastructure and staff for the Commission and made it operational in good time. Particular appreciation is due to Thiru R.S. Manoharan, Joint Secretary of the Commission who has immensely contributed to the preparation of the report. His dedication, hard work and writing skills are highly commendable.

Tamil Nadu Urban Infrastructure Financial Services(TNUIFSL) has carried out a study of the financials of CMWSSB and TWAD apart from the analysis of the Solid Waste Management situation in the State. The Commission is grateful to TNUIFSL for its contributions.

I also thank the Government of Tamil Nadu for their unstinting support.

(K.PHANINDRA REDDY)
CHAIRMAN

AG	Accountant General
ABAS	Accrual Based Accounting System
AD (Audit)	Assistant Director (Audit)
AD(TP)	Assistant Director (Town Panchayats)
AEE	Assistant Environmental Engineer
AGAMT	Anaithu Grama Anna Marumalarchi Thittam
ATR	Action Taken Report
AUAs	Adjacent Urban Areas
BDO	Block Development Officer
BSNL	Bharath Sanchar Nigam Limited
BTS	Base Transceiver Station
C&AG	Comptroller and Auditor General
CAPEX	Capital Expenditure
CARG	Compounded Annual Rate of Growth
CBED	Community Based Environment Development
CC	Current Consumption
CFC	Central Finance Commission
CFL	Compact Flourescent lamp
Ch.	Chapter
CMA	Commissioner of Municipal Administration
CMDA	Chennai Metropolitan Development Authority
CMWSSB	Chennai Metropolitan Water Supply and Sewerage Board
CPCB	Central Pollution Control Board
CPHEEO	Central Public Health and Environmental Engineering Organization
CRA	Commissioner of Revenue Administration
CRD & PR	Commissioner of Rural Development and Panchayat Raj
CRSP	Central Rural Sanitation Programme
DA	Dearness Allowance
D&O	Dangerous and Offensive
DBOOT	Design, Built, Own, Operate and Transfer
DCB	Demand, Collection and Balance
DDP/MP	Detailed Development Plan / Master Plan
DEE	District Environmental Engineer
DFO	District Forest Officer
DLFA	Director of Local Fund Audit
DRD	Director of Rural Development
DRDA	District Rural Development Agency
DTCP	Director of Town and Country Planning
Dy. BDO	Deputy Block Development Officer
E&AR	Evaluation and Applied Research

EB	Electricity Board
ECS	Electronic Clearance System
ET Fund	Entertainment Tax Fund
FC	Finance Commission
FRBMA	Fiscal Responsibility and Budget Management Act
FSFC	Fourth State Finance Commission
G.O.	Government Order
GFF	Gap Filling Fund
GIS	Geographic Information System
GOI	Government of India
GoTN	Government of Tamil Nadu
GPRS	Global Packet Radio Services
GPS	Global Positioning System
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
HDFC	Housing Development Finance Corporation
HLC	High Level Committee
HODs	Heads of Departments
HR & CE	Hindu Religious and Charitable Endowments
IAY	Indira Awas Yojana
IFMR	Institute for Financial Management and Research
IGFF	Infrastructure Gap Filling Fund
IP	Internet Protocol
ISO	Indian Standards Organization
IT	Information Technology
IUDP	Integrated Urban Development Project
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
KILA	Kerala Institute of Local Administration
LC/LCS	Local Cess / Local Cess Surcharge
LFAD	Local Fund Audit Department
LLA	Local Library Authority
LPA	Local Planning Authority
LPCD	Liter per Capita per day
LSG	Local Self Government
MA&WS	Municipal Administration and Water Supply
MD	Managing Director
MIS	Municipal Information System
MLA Fund	Member of Legislative Assembly Fund
MLD	Million Litres per Day
MoPR	Ministry of Panchayat Raj

MORD	Ministry of Rural Development
MOUD	Ministry of Urban Development
MSE	Madras School of Economics
MTFP	Medium Term Fiscal Plan
NABARD	National Bank for Agriculture and Rural Development
NGOs	Non Governmental Organizations
NIC	National Informatics Centre
NOC	No Objection Certificate
NREGS	National Rural Employment Guarantee Scheme
NTDA	New Town Development Authority
NTR	Non Tax Revenue
NUIS	National Urban Information System
O & M	Operation and Maintenance
ODR	Other District Road
OFC	Optical Fibre Cable
OHT	Over Head Tank
OMGFF	Operation and Maintenance Gap Filling Fund
OSR & DC	Open Space Reservation and Development Charges
PAC	Public Accounts Committee
PCB	Pollution Control Board
PPP	Public Private Participation
PRI	Panchayat Raj Institution
PWD	Public Works Department
RD	Rural Development
RD & PR	Rural Development and Panchayat Raj
RD&LA	Rural Development and Local Administration
RDMA	Regional Director of Municipal Administration
RE	Revised Estimate
RLBs	Rural Local Bodies
RTI	Right To Information
RWH	Rain Water Harvesting
SC/ST	Scheduled Caste / Scheduled Tribe
SFCs	State Finance Commissions
SGRY	Sampoorna Grameen Rozghar Yojana
SHG	Self Help Group
SOTR	State's Own Tax Revenue
Sq. ft.	Square feet
SSFC	Second State Finance Commission
SWM	Solid Waste Management
T&CP	Town and Country Planning

TANGEDCO	Tamil Nadu Generation and Distribution Corporation
THAI	Tamil Nadu Village Habitation Improvement Scheme
TNHB	Tamil Nadu Housing Board
TNPCB	Tamil Nadu Pollution Control Board
TNRRDF	Tamil Nadu Rural Road Development Fund
TNSCB	Tamil Nadu Slum Clearance Board
TNUDF	Tamil Nadu Urban Development Fund
TNUDP III	Tamil Nadu Urban Development Project III
TNUIFSL	Tamil Nadu Urban Infrastructure Financial Services Limited
ToR	Terms of Reference
TSFC	Third State Finance Commission
TUFIDCO	Tamil Nadu Urban Finance and Infrastructure Development Corporation
TURIF	Tamil Nadu Urban Road Infrastructure Fund
TWAD	Tamil Nadu Water Supply and Drainage
UFW	Unaccounted for water
ULBs	Urban Local Bodies
VAT	Value Added Tax
VLT	Vacant Land Tax
VP	Village Panchayat
WSP	Water and Sanitation Pooled
WSS	Water Supply Scheme
XI FC	Eleventh Finance Commission
XII FC	Twelfth Finance Commission
XIII FC	Thirteenth Finance Commission

COMMISSION SECRETARIAT

Officers and staff who served in the Commission

S.No	Name Tvl/Tmt	Designation
1	R.S.Manoharan	Joint Secretary
2	K.S.Sekar	Executive Consultant (PRI)
3	C.Banumathy	Executive Consultant (ULB)
4	S. Meena	Section Officer
5	G.R. Gunasekaran	Section Officer
6	P. Namachivayam	Section Officer
7	G. Tamil Selvi	Section Officer
8	R. Dhayalan	Section Officer
9	N. Vanitha	Asst Section Officer
10	C. Vasanthakumar	Superintendent
11	V.Balachandran	Superintendent
12	G. Muthu Venkateswaran	Superintendent
13	G. Martin Vincent Kempraj	System Progarammer
14	R. Panneerselvam	Private Secretary
15	J. Thilagaraman	Personal Assistant
16	G. Thiyagarajan	Personal Assistant
17	P. Subburam	Assistant
18	M. Malaiammal	Junior Assistant
19	S. Yuvaraj	Data Entry Operator
20	C. Pal Pandi	Data Entry Operator
21	N.T. Deva Prasad	Driver
22	David	Driver
23	G. Jayaraman	Record Clerk
24	V. Kanniyappan	Office Assistant
25	D. Nandagopal	Office Assistant
26	R.Rajendran	Office Assistant

CONTENTS

SUMMARY OF RECOMMENDATIONS

CHAPTER – III

STATUS OF IMPLEMENTATION OF THE RECOMMENDATIONS OF THIRD STATE FINANCE COMMISSION

SI.No	Para No	
1	8(i)	The departments concerned shall take follow-up action in respect of the balance 67 recommendations based on the decisions communicated in the ATR including those referred to the HLC and issue orders immediately.
2	8(ii)	The existing FC wing in Finance Department be strengthened with full staff strength under the control of a senior IAS officer either outside or within Finance department but exclusively for the purpose of preparation of action taken report and monitoring the implementation of the recommendations of FSFC and local body issues relating to Central Finance Commission.
3	8(iii)	The experience gained in SFCs by the staff drafted from Finance Department be utilized in the Finance Commission wing of Finance Department and vice-versa. The strengthened FC wing in Finance Department shall monitor the follow up action taken on the recommendations of SFC and update the data base/web site for the use of future SFCs.
4	8(iv)	The subjects relating to the follow up action on the recommendations of State/Central Finance Commissions and monitoring their implementation have to be dealt with exclusively by a Section each in RD&PR/MA&WS departments with sufficient staff who gained experience and continuity in dealing with Finance Commission issues. That Section can liaise and co-ordinate with Finance and Stakeholder Departments/Heads of Departments concerned on the purpose mentioned above.

CHAPTER – IV	ASSESSMENT OF FINANCES OF PANCHAYATI RAJ INSTITUTIONS		
		District Panchayats	
	Sl.No	Para No	
	5	11(i)	A norm of 15% of SFC grant or Rs.30.00 lakh whichever is less be adopted for the administrative expenditure of each District Panchayat.
	6	11(ii)	There is no need to share Pooled Assigned Revenue with District Panchayats since all the civic works are implemented at the Village Panchayat level.
		Village Panchayats – House Tax	
	7	29(i)	The house tax in respect of terraced or tiled or thatched buildings with plinth area not exceeding 200 sq. ft be fixed at Rs 40/- per annum.
	8	29 (ii)	In respect of houses with plinth area of more than 200 sq. ft, the existing rates be increased by 25% under plinth area based taxation and in respect of assessment on capital value basis, the existing rates be increased by 25% subject to a minimum of Rs.40/- per annum during the next revision.
	9	29 (iii)	For Self financing educational institutions, the house tax shall be levied on the basis of the revision suggested for plinth area based assessment.
	10	29 (iv)	The recommendation of Third SFC to revise the unit measurement in Square Decimetres into square metres under Schedule-I of the Act is reiterated.
	11	29 (v)	The quinquennial revision in respect of all Village Panchayats invariably be brought to a common date i.e., 1st April 2013 so as to overcome the situation of Village Panchayats in postponing / not revising the house tax. The Act and Rules be amended suitably.

CHAPTER – IV

Sl.No	Para No	
12	29(vi)	The Government in Rural Development and Panchayat Raj Department shall take up the issue with Ministry of Rural Development of Government of India for levying service charges on Central Government properties.
13	29(vii)	The buildings on which or the premises in which the cell phone towers are erected be levied with house tax as applicable to commercial buildings.
	Profession Tax	
14	33(i)	Government of India be addressed by the Government in RD & PR Department to increase the maximum ceiling or to prescribe a minimum ceiling on Profession tax and to let the local bodies to decide on the maximum ceiling depending on the capabilities of local bodies.
15	33(ii)	In respect of self- employed professionals, private employers and private employees, experience and service oriented taxation as adopted by other States like Karnataka be adopted.
16	33(iii)	During the next revision due on 01.10.2013, the rate of revision as decided by the Council between 25% and 35% be adopted and the maximum amount of Profession tax be restricted to Rs.1250/- per half-year, even in cases where the revision results in a profession tax assessment more than Rs.1250/- per half year.
	Advertisement Tax	
17	35(i)	The District Collectors through Assistant Director (Panchayats) shall arrange to pass on the amount collected from advertisement tax to the Village Panchayats concerned on quarterly basis.

	Sl.No	Para No	
	18	35(ii)	The Village Panchayats on their part shall arrange to send the details of advertisements exhibited in their areas to the District authorities through monthly reporting for levy and collection of license fees and advertisement tax.
CHAPTER – IV		**Non-Tax Revenue**	
	19	39(i)	The ceiling on the rate of water charges fixed by the Government earlier be modified and that Rs.50/- be fixed as the minimum for domestic connections. The user charges be revised with effect from 1st October, 2012 and periodically once in 5 years. The deposit amount to be collected while giving water connection be increased from Rs.1000/- to Rs.2000/- for new house hold connections and Rs.3000/- for commercial/industrial connections;
	20	39(ii)	In respect of business, commercial, institutional and industrial establishments, the water charges be levied with reference to the quantum of supply made by prescribing rate per kilo litre and by installing quality water meters.
		D & O Trade License fees	
	21	42(i)	License fees for all trades be revised with the rates prescribed by First SFC as the basis for revision.
	22	42(ii)	The nomenclature viz. D&O trade license fees be revised as Trade License fees as in the case of Chennai Corporation.
	23	42(iii)	Necessary rules incorporating the rates, periodicity of revision, etc. be framed in this regard. The fees be revised once in 5 years starting from 1st April, 2013.
	24	42(iv)	License fees be levied on mobile service providers by the local bodies as in the case of Municipal Corporation of Delhi by making suitable provisions in the concerned Act.

	Sl.No	Para No	
		Bus Stand fees	
	25	44	The bus stand fees be revised during the year 2012-13 by 25%.
CHAPTER – IV		**Tamil Nadu Rural Road Development Fund**	
	26	46	The corpus of the Tamil Nadu Rural Road Development Fund be transferred to RD & PR Department so as to develop and maintain the public roads in rural areas.
		Assigned / Pooled Assigned Revenue	
	27	52(i)	The recommendation of Third SFC to levy surcharge on i) Agreement ii) Power of Attorney, iii) Release of benami right, iv) Release of right in favour of partner and v) Settlement is reiterated.
	28	52(ii)	In respect of Rural Local Bodies, the assigned revenue be transferred to RLBs as per the entitlement.
	Local Cess/Local Cess Surcharge		
		Fishery Rental	
	29	55	Orders be issued for sharing the proceeds of fishery rental from Panchayat Union tanks as well as PWD tanks with the Village Panchayats as decided by the Government. The adjustment of the proceeds be monitored by CRD & PR periodically.
		Social Forestry	
	30	57(i)	The entitlement on the share of Social Forest proceeds to Village Panchayats for the previous year be released as early in the first quarter of the subsequent year.
	31	57(ii)	The release of share of Village Panchayats from the proceeds of Social Forests be routed through the CRD & PR as stated in para: 56.

CHAPTER – IV			
		Mines & Minerals	
	Sl.No	Para No	75% of the revenue from seigniorage fee due to a particular Village Panchayat having quarries be passed on to the respective Village Panchayat and the balance 25% be pooled by the District Collector concerned and shared with Village Panchayats identified as having to bear the brunt of mining/quarrying activity in the particular Village Panchayat.
	32	64	
		Central Finance Commission grant	
	33	69(i)	A separate supplementary document to budget covering all fund transfers to both PRIs and ULBs including those transferred from Government of India directly to PRIs through DRDA, be placed in the State Legislature.
	34	69(ii)	In respect of placing of annual report of DLFA on local bodies in the legislature, constitution of ombudsman as in Kerala and Karnataka and to remove the hindrance in the general revision of house tax, the issues be positively addressed by the government and orders issued so as to keep fiscal discipline and to enable augmentation of own resources.
		Peri Urban Panchayats - Need for special focus	
	35	85(i)	The norms for appointment of sanitation staff in Peri Urban Panchayats be revised by CRD & PR so as to facilitate the Peri Urban Panchayats to appoint additional sanitation staff to meet the growing needs on solid waste management activities.
	36	85(ii)	Commissioner of Rural Development and Panchayati Raj may also issue guidelines for engaging NGOs or outsourcing solid waste management activities following the best practices already in vogue in some Village Panchayats.

	Sl.No	Para No	
	37	85(iii)	The Peri Urban Panchayats be empowered to levy vacant land tax (VLT) for house sites other than agricultural lands based on plinth area as in ULBs by amending the Tamil Nadu Panchayats Act, 1994.
CHAPTER-V	**ASSESSMENT OF FINANCES OF URBAN LOCAL BODIES**		
		Own Tax Revenue – Property Tax	
	38	22(i)	Given the requirements for general revision in Chennai Corporation as mentioned in para-7, general revision be made by Chennai Corporation during the next due date and incase the general revision is postponed by the State Government, the loss in revenue to Chennai corporation and CMWSSB be compensated by the Government.
	39	22(ii)	In case Chennai Corporation decides not to revise property tax, Chennai Corporation shall compensate CMWSSB on the income foregone by CMWSSB.
	40	22(iii)	The self-assessment system be enforced compulsorily with field inspection of self assessed properties by the assessing authorities and in case of default in filing returns, a fine of 100% of property tax be imposed on such assessees.
	41	22(iv)	The provision in the Tamil Nadu District Municipalities Act, 1920 towards the postponement of general revision by the State Government for a period of one or more half years at a time but not exceeding in any case seven half years be suitably amended so as to avoid hindrance to the quinquennial revision by ULBs.
	42	22(v)	The ceiling on the fixation of property tax fixed for general revision in respect of all categories of buildings provided in the guidelines issued by the Government be removed.

	Sl.No	Para No	
	43	22(vi)	The prompt payment of property tax within 15 days after the commencement of the half year in respect of Chennai Corporation and 30 days in respect of other Corporations and Municipalities be incentivized at 5% of the net property tax subject to a maximum of Rs.5,000/- per half year per assessment and the defaulters be penalized at 2% interest per month on any amount of tax unpaid within the half year.
CHAPTER-V	44	22(vii)	Collection of property tax through banks, post offices and online be encouraged in all ULBs.
	45	22(viii)	Since GIS property mapping would significantly improve the property tax revenue in ULBs, GIS be extended to bigger Municipalities and other Corporations.
	46	22(ix)	The issues in the collection of service charges from Central Government properties be taken up with Government of India in MOUD for issue of suitable instructions or to bring in Central legislation as mentioned by the XI and XIII Central Finance Commissions.
	47	22(x)	All the self-financing educational institutions other than those covered under charitable purpose be brought under property tax net by suitably amending the Act.
	48	22(xi)	ULBs be facilitated to levy property tax as applicable to commercial buildings, for the buildings on which or the premises in which the cell phone towers are erected.
		(B) Profession Tax	
	49	28(i)	The Departments of State/Central Governments which can furnish data needed for bringing various categories of untapped assessees of Profession tax be approached by the Government to furnish such data to the local bodies as and when demanded.

	Sl.No	Para No	
	50	28(ii)	During the next revision due on 01.10.2013, the rate of revision as decided by the Council between 25% and 35% be adopted and the maximum amount of Profession tax be restricted to Rs.1250/- per half year.
	51	28(iii)	The Government of India may be addressed by MA & WS Department to increase the maximum ceiling or to prescribe a minimum ceiling on profession tax and to let the local bodies to decide on the maximum ceiling depending on their capabilities.
CHAPTER-V		**(C) Vacant Land Tax (VLT)**	
	52	32	The details on change of ownership by registration of sales, transfers etc of properties be obtained from the Registration Department periodically by the ULBs and VLT levied.
		(D) Advertisement Tax	
	53	37(i)	The sites for hoardings be identified by the District Collectors and permission for erection of hoardings given by the executive authorities of ULBs and the hoarding tax levied by them under the overall monitoring and guidance of the District Collectors and that the hoardings not to be allowed in places other than those identified by the District Collectors.
	54	37(ii)	PPP mode of advertisements and hoardings with investments on infrastructure from the private companies/establishments be encouraged by the District administration.
	55	37(iii)	The hoarding tax proceeds collected by the District Collectors in the past years be passed on to the concerned ULBs as per the ratios prescribed during 2003 and 2008.
	56	37(iv)	The provisions available under Section 107 (A) of the District Municipalities Act, 1920 and similar provisions available in Municipal Corporation Acts be fully made use of by ULBs to raise income from Advertisement including those on lamp posts, telephone posts, posters and walls, writing on walls and buses and vehicles.

		(II) Non-tax Revenue	
	Sl.No	Para No	The rates of trades be fixed taking the First SFC rates as the basis.
	57	41(i)	
	58	41(ii)	The nomenclature 'D & O Trade License fees' be revised as 'Trade License fee' as in the case of Chennai Corporation.
CHAPTER-V	59	41(iii)	Rule provisions in Schedule-V in Tamil Nadu District Municipalities Act, 1920 and the relevant schedules in respect of other Municipal Corporation Acts be amended to notify the list of trades by the Council and to revise the rates once in 3 years.
		(D) Building license fees	
	60	43	Effective monitoring and detection mechanism for unauthorized construction be enforced strictly and in case of detection of violation, heavy penalty be levied apart from collecting building license fee.
		(F) Track Rent on OFC Feeders	
	61	46	The issue of non payment of track rent by BSNL be taken up with BSNL and Government of India by RD & PR/MA & WS Departments.
	(III) Assigned Revenue -(A) Entertainment Tax		
	62	55(i)	In case the levy of E.T prevailed prior to 2006-07 is revived, the sharable components under Section 4 (A) – "Taxes on payments for admission to cinematographic exhibition", Section 4-(H) – "Taxes on dubbed films", Section 4-(F) – "Taxes on amusements" and Section 4-(G) – "Tax on recreation parlour" (on its sharing) shall be booked under the receipt major head : 0045 00 101 AA 01 – "Tax paid in cash" and tax under Section 4 (B) – "Tax on horse race" which is not sharable be booked under 0045 00 101 AB 02 – Other Receipts.

	Sl.No	Para No	The tax under Section 4-(G) – "Tax on recreation parlour" be shared with local bodies by amending the Tamil Nadu Entertainment Tax Act, 1939 and Tamil Nadu Financial Code, Volume-I.
	63	55(ii)	
		(B) Surcharge on Stamp Duty	
	64	61	In respect of Urban Local Bodies, the assigned revenue be transferred to ULBs as per the entitlement without any diversion to TURIF or any other scheme.
CHAPTER-V		**(V) XIII FC Grants**	
	65	66 (a)	The annual technical inspection report as well as annual report of the DLFA be placed in the State Legislature as in Kerala and Karnataka so as to review the accountability of the elected and executive heads of all local bodies.
	66	66 (b)	A separate Ombudsman to look into the complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials be created.
	67	66 (c)	Property Tax Board be constituted so as to eliminate the hurdles such as non-enumeration, under assessment, non-assessment, non-revision, unreasonable fixation of unit cost of zonal value of properties.
	68	66 (d)	The fire hazard response and mitigation plan be implemented in Chennai, Coimbatore and Madurai Municipal Corporations.
	69	67(i)	The distribution of the general basic grant be based on the vertical sharing ratio for SFC devolution among the tiers of ULBs as recommended by the Fourth SFC.
	70	67(ii)	Since the conditionalities laid down by Government of India would bring in fiscal discipline, those conditionalities be implemented within 2011-12 so as to get the general performance grant from Government of India.

Chapter	Sl.No	Para No	Recommendation
CHAPTER-VI			**SOLID WASTE MANAGEMENT – NEEDS AND FOCUS**
	71	16(i)	Solid Waste Management fund be created and Rs.200.00 crore per annum may be contributed to the fund for improving solid waste management in the State, cutting across local bodies. Source of funding is mentioned in the Chapter on devolution.
	72	16(ii)	Management of the fund may follow a public private partnership model like TNUDF to ensure professional management and effective operation.
CHAPTER-VII			**ACCOUNTABILITY AND AUDIT OF LOCAL BODIES**
	73	27(i)	The Tamil Nadu Panchayats (Issue and Disposal of Audit Report of Village Panchayats) Rules, 2000 be amended to include Local Fund Department Auditor also as an auditor to test audit the accounts of Village Panchayats.
	74	27(ii)	Deputy BDO (Audit) be directed to audit the revenue side also relating to the enumeration of properties, review of under/non-assessment, periodical revision of taxes/non-taxes and untapped tax/non-tax revenue potential. The format for audit by the Deputy BDO (Audit) be revised accordingly.
	75	27(iii)	Internal audit be introduced in ULBs with professional Chartered Accountants/Works Accountants through outsourcing in a phased manner to facilitate better accountability and to strengthen the audit and accounting system.
	76	27(iv)	Government orders on the time limit of three months for finalisation of accounts, after the end of each financial year for all the tiers of local bodies, i.e., upto 30th June leaving three months time for auditing the accounts by LFAD i.e. upto 30th September, along with strict guidelines to adhere to the time limit be issued by the Govt.

	Sl.No	Para No	
CHAPTER-VII	77	27(v)	The Heads of Departments concerned with ULBs be directed to provide periodical training to the accounts staff of ULBs on accrual accounting through LFAD/Professional institutes.
	78	27(vi)	A new Municipal Accounting Service with appropriate staff strength based on the turnover be created for ULBs. The method of recruitment be decided by the Government in consultation with the HoDs concerned. Till such time, Chartered Accountants be appointed by ULBs on contract basis to finalise the accounts early, as in vogue in Coimbatore Municipal Corporation and also in Karnataka.
	79	27(vii)	Government to expedite the issue of framing the Tamil Nadu Local Fund Audit Act and Rules and conferring statutory status to DLFA as seen in Kerala and Karnataka, which is pending already with the Government and to issue orders suitably.
	80	27(viii)	A consolidated annual audit report of the accounts of local bodies containing particulars of objections of serious nature for each financial year for which audit has been completed shall be placed before the State Legislature.
	81	27(ix)	The recommendation of Second SFC to fill up 25% of the posts of Assistant Directors of L.F. Audit from professional auditors through direct recruitment is reiterated.
	82	27(x)	The HODs concerned and DLFA shall monitor the conduct of District HLC meetings once in 3 months for every district as per G.O and to send compliance report to the Government in RD& PR / MA & WS Department, periodically.

CHAPTER-VIII	Sl.No	Para No	
	83	27(xi)	The Model Panchayat Accounting System through PRIA Soft be introduced in PRIs by outsourcing the creation and maintenance through accounting professionals. The cost of outsourcing be met from the General Performance grant from Government of India. or to make the existing accounting system compatible and accessible with PRIA Soft through outsourcing so that the reports are made available on PRIA Soft Portal along with other States.
	84	27(xii)	The Heads of Departments concerned with ULBs to review the existing ABAS and to improve it so as to bring the accounting system in our State consistent with the accounting formats and codification pattern suggested in the National Municipal Accounting manual.
	EQUATION BETWEEN LINE DEPARTMENTS / AGENCIES AND LOCAL BODIES		
		(A) CHENNAI METROPOLITAN DEVELOPMENT AUTHORITY (CMDA)	
	85	12(i)	The system of transfer of funds directly from the Planning and Development Fund of CMDA to ULBs implemented during 2010-11 be followed for RLBs also so as to avoid inordinate delay in getting the administrative and technical sanctions from the concerned authorities, approval/sanction of CMDA and the implementation of the projects in Village Panchayats. After implementing direct transfer of 75% of OSR & DC to RLBs in Chennai Metropolitan Area, the scheme funds through CBED and LAP need not continue.

CHAPTER-VIII	Sl.No	Para No	
	86	12(ii)	The reconciled and audited establishment expenditure of the Planning Wing of the CMDA should be borne by all the local bodies in Chennai Metropolitan Area including Chennai Corporation from the date from which it is given effect to and till then all the local bodies have to remit the arrears on 0.25% of their own income to CMDA.
		(B) TAMIL NADU POLLUTION CONTROL BOARD (TNPCB)	
	87	18	The Government in MA & WS Department in association with Environment and Forests Department shall approach GOI so as to amend the Water Cess Act, 1977.
		(C) TAMIL NADU HOUSING BOARD (TNHB)	
	88	23(i)	The unsold units of TNHB should be subjected to the levy of property tax from the date of completion of construction of such units and not from the date of allotments.
	89	23(ii)	The list of allottees for hire purchase flats should be sent to concerned local bodies by TNHB directly on allotment.
		(D) TAMIL NADU SLUM CLEARANCE BOARD (TNSCB)	
	90	30(i)	In respect of new slum tenements, Government Orders on administrative and financial sanctions be issued by all the stakeholder departments in one go so as to provide civic services and other facilities like ration shops etc., without any delay so that the rehabilitated slum people could settle down comfortably.
	91	30(ii)	In respect of rehabilitation and resettlement of slum dwellers from one local body area to another en masse, the per capita based SFC funds for the resettled slum population be provided to the receiving local body by the HOD concerned for making civic facilities to the resettlers from out of the IGFF and then reimbursed from the HOD concerned with the sending local body.

CHAPTER-VIII			
		(E)TAMIL NADU WATER SUPPLY AND DRAINAGE BOARD (TWAD)	
	Sl.No	Para No	
	92	44(i)	The rate of bulk water charges for CWSS be revised from Rs.3 to Rs.4.50 for RLBs, Rs.4.50 to Rs.7/- for ULBs and from Rs.15/- to Rs.30/- per kilo litre for industries and commercial organizations who have paid proportionate cost of CWSS. This may be periodically revised to cover O&M costs of TWAD Board.
	93	44(ii)	Project based outsourcing of man power especially on engineering side be made so as to reduce the operation cost and that the maintenance of water supply scheme also be outsourced so as to overcome the deficit in the O&M cost of CWSS.
	94	44(iii)	Project planning software be used for better management of the water supply/sewerage projects and the project planning software may be procured at the central level and training at all level has to be imparted to use the software package.
	95	44(iv)	Bulk water meters be installed also at the source level so as to assess the exact quantum of UFW, to identify the approximate location of losses in the pipelines and to arrest the leakages. The proper working of water meters and also the billing as per the genuine meter reading be ensured.
	96	44(v)	The long pending undisputed dues on water charges to be paid by local bodies be deducted 'at source' from SFC devolution and or from XIII FC grants and remitted to TWAD.
	97	(vi)	The energy efficiency study be made for all CWSS on priority basis.
		(F) CHENNAI METROPOLITAN WATER SUPPLY AND SEWERAGE BOARD (CMWSSB)	
	98	60(i)	The water/sewerage charges be revised upward on 1st October 2012 and revised quinquennially.

	Sl.No	Para No	
CHAPTER-VIII	99	60(ii)	Quality digital meters be installed by Metro Water at least in a phased manner for all water connections. The fixing and maintenance of meters be outsourced for a specific period to overcome the loss in revenue due to meter becoming defective. Metering be made compulsory for all commercial premises in the water intensive category and other institutions.
		(G) TOWN AND COUNTRY PLANNING DEPARTMENT (T&CP)	
	100	67	The reconciled and audited establishment expenditure of the Planning Wing of the T&CP authorities should be borne by all the local bodies in such areas from the date from which it is given effect to and till then the local bodies have to remit the arrears on 1% of their own income to T&CP authorities.
		(H) PUBLIC LIBRARIES	
	101	77(i)	The revised rate of library cess at 10 paise for all properties be levied by Chennai Corporation with effect from 01.04.2013 by issuing revision notices to all the assessees.
	102	77(ii)	The details on the actual collection and remittance of library cess from each local body, every year be furnished to the Director of Public Libraries by the HODs/District Collectors concerned.
	103	77(iii)	The arrears on library cess due to default by local bodies be deducted from SFC devolution after reconciliation and adjusted to Public Libraries Department.

CHAPTER-VIII	Sl.No	Para No	
	104	77(iv)	The library cess collected in cash be remitted to the separate bank account of ULBs intended for library cess as and when collected by urban local bodies. The dues on library cess collected through cheque payments also be credited to the bank account every month. The proceeds of library cess then be transferred through ECS mode from the bank account of the urban local bodies intended for library cess to the remittance account of the District Library Officer concerned to be opened. In respect of Village Panchayats, the library cess collected separately along with house tax be remitted into a separate bank account to be opened for the purpose and linked to the remittance account of the District Library Officer concerned through ECS.
	105	77(v)	10% of the library cess collected be retained by the local bodies as collection charges subject to the prompt remittance of the entire library cess excluding collection charges every month to the Public Libraries Department through ECS.
	106	77(vi)	All the AGAMT libraries be taken over by Public Libraries Department in a phased manner with suitable reorganisation of village libraries created by Public Libraries Department.
		(I) HINDU RELIGIOUS AND CHARITABLE ENDOWMENTS DEPARTMENT (HR & CE)	
	107	80(i)	The expenditure incurred by local bodies towards providing civic services to the floating population of 50,000 and above, at the time of non notified festivals be reimbursed by the HR & CE Department at 50% of the cost.

	Sl.No	Para No	
CHAPTER-VIII	108	80(ii)	The expenditure towards sanitation and other essential civic facilities provided by the local bodies upto 1 km radius from the temples during notified / non notified festivals be reimbursed by the temple authorities at 50% of the cost.
	109	80(iii)	The prompt payment of Property tax in respect of properties belonging to HR & CE Department and raised in temple lands such as shops, guest houses, staff quarters, restaurants, etc. be ensured by the temple authorities and monitored by both the Heads of Departments concerned with temples and local bodies.
CHAPTER-X	**ASSESSMENT OF GAP IN FINANCIAL RESOURCES**		
	110	26	30% allocation towards material component under NREGS funds shall be utilized for capital works so as to reduce the gap in resources required for capital asset creation.
CHAPTER-XI	**SCHEME OF DEVOLUTION**		
	111	27(i)	The following deductions be made from the gross SOTR so as to arrive net SOTR: a) Share of E.T/surcharge on stamp duty of RLBs/ULBs provided in the expenditure budget if not deducted under the receipt major head. b) Transfers to Tamil Nadu Rural Road Development Fund and all surcharges.
	112	27(ii)	For the period of the three SFCs, devolution arrears of Rs.129.30 crore for PRIs and Rs.222.82 crore for ULBs worked out based on the methodology adopted by the Finance Department be paid by the State Government.

	Sl.No	Para No	
CHAPTER-XI	113	27(iii)	The existing global sharing ratio to the local bodies at 10% of the net SOTR be continued during the award period of the Commission.
	114	27(iv)	Apart from the global sharing of 10% of net SOTR, Rs.200.00 crore per annum be allocated by the State Government towards the Integrated Solid Waste Management activities both in rural and urban local bodies as stated in Chapter-VI. The needs of Peri Urban Panchayats towards SWM be met specifically from this fund.
	115	27(v)	The vertical sharing ratio between rural and urban local bodies be 56 : 44.
	116	27(vi)	The vertical sharing ratio between the tiers of PRIs shall be 8 : 32 : 60 for District Panchayats, Panchayat Unions and Village Panchayats respectively.
	117	27(vii)	10% from out of the devolution for rural local bodies be allocated towards Infrastructure Gap Filling Fund. The IGFF be utilized on project/scheme basis only.
	118	27(viii)	The minimum lumpsum grant to Village Panchayats be increased from Rs.3.00 lakh to Rs.5.00 lakh per Panchayat. This amount has to be deducted from the rural share of 60% of SFC devolution intended for Village Panchayats and be deducted as the first charge and distributed to all Village Panchayats on monthly basis. The balance amount from out of the share of Village Panchayats in the SFC devolution be distributed on the horizontal sharing ratio suggested below. a) Total population (2011 Census) : 60% b) SC/ST population : 20% c) Area : 20%
	119	27(ix)	The minimum lumpsum grant of Rs.30.00 lakh to Panchayat Unions be continued for the award period.

CHAPTER-XI

Sl.No	Para No	
120	27(x)	The vertical sharing ratio between the tiers of ULBs shall be 40 : 29 : 31 for Municipal Corporations, Municipalities and Town Panchayats respectively.
121	27(xi)	For horizontal sharing of SFC devolution within each tier of ULBs, the following criteria and weightages be adopted: a) 2011 Census population : 80% b) Area : 15% c) Debt outstanding : 5%
122	27(xii)	The percentage of IGFF for each tier of ULBs be increased from 3% to 7%. Debt relief to 41 Municipalities and 3 Municipal Corporations as discussed in Chapter-V also be met from this fund.
123	27(xiii)	The percentage of O&M GFF for each tier of ULBs be increased from 2% to 3%.
124	27(xiv)	The minimum lumpsum grant for Town Panchayats be increased from Rs.10.00 lakh to Rs.20.00 lakh.
125	27(xv)	From the vertical share of SFC devolution recommended for rural and urban local bodies, 2.5 percent be allocated as a separate corpus for incentive fund from SFC devolution. From out of the corpus, the incentive be given to the local bodies as detailed below: ➢ Local bodies which record 100% current collection in house/property tax and 75% arrear collection with increase in the collection at 15% over the previous year will be qualified to get an incentive as graded below: 100% of demand subject to a maximum of (a) Village Panchayats Rs.2.00 lakh (b) Town Panchayats Rs.10.00 lakh (c) Municipalities Rs.20.00 lakh (d) Municipal Corporations Rs.50.00 lakh

CHAPTER-XI

<table>
<tr><th>SI.No</th><th>Para No</th><th>The following conditionalities also be prescribed for getting the incentive:</th></tr>
<tr><td>126</td><td>27(xv)</td><td>➢ Enumeration of properties every year and to be certified by the Deputy BDO (Audit)/RDMA/AD (TPs).

General revision should have been done in the past 5 years.</td></tr>
<tr><td>127</td><td>27(xvi)</td><td>The cash award be given to the local bodies at the District and State level also. At the District level 3 cash awards of Rs.3.00 lakh, Rs.2.50 lakh and Rs.2.00 lakh for the first 3 local bodies which fulfill the conditionalities and qualify for getting the incentive mentioned in Para. 25(i). The awards be given by the District Collectors. Similar awards also be given at the State level for the local bodies as mentioned in para. 25(ii), with cash of Rs.10.00 lakh, Rs.7.50 lakh and Rs.5.00 lakh for the first 3 Village Panchayats respectively.

At the State level, the cash award for ULBs be given for the first 3 Municipal Corporations, Municipalities and Town Panchayats as detailed below:
<table>
<tr><th rowspan="2">S.No</th><th rowspan="2">Tier of ULBs</th><th colspan="3">Cash award (Rs. in lakh)</th></tr>
<tr><th>First</th><th>Second</th><th>Third</th></tr>
<tr><td>1)</td><td>Municipal Corporations</td><td>100.00</td><td>75.00</td><td>60.00</td></tr>
<tr><td>2)</td><td>Municipalities</td><td>50.00</td><td>40.00</td><td>30.00</td></tr>
<tr><td>3)</td><td>Town Panchayats</td><td>40.00</td><td>30.00</td><td>20.00</td></tr>
</table></td></tr>
<tr><td>128</td><td>27(xvii)</td><td>Balance in the incentive fund be transferred to IGFF.</td></tr>
<tr><td>129</td><td>27(xviii)</td><td>As and when Goods and Services Tax is implemented, the GST loss compensation if any received from Government of India also be shared with the local bodies in the global sharing ratio. The local taxes/surcharges related to local bodies be excluded from the purview of State GST as and when GST is implemented.</td></tr>
</table>

CHAPTER-XII	**RECORDING OF BEST PRACTICES**		
	130	5	The best practices listed below be implemented in all the local bodies wherever feasible for which the HODs concerned shall encourage the local bodies by honoring them with District / State level awards and also allocate incentive from the SFC devolution for the adoption of best practices which would increase the size of the own revenue significantly and improve delivery of services as explained in the relevant chapter.
			i. Enumeration of properties / persons to be assessed for taxation, every year. ii. Switching over from capital value based house tax to plinth area basis. iii. General revision of house tax once in 5 years. iv. Avoidance of under/non-assessments of house tax. v. Foolproof assessment of self employed professionals, traders and private companies/employees for Profession Tax. vi. Finalization of accounts within the stipulated time. vii. Revision of water charges periodically. viii. Water charges to meet at least 50% of O&M cost of water supply. ix. Involvement of SHGs/NGOs/Trusts/Resident Welfare Associations to participate in the Solid Waste Management and Green Environment activities. x. Conversion of street lights into energy saver CFL lamps. xi. Encouraging Public Private Participation in the creation of public infrastructure especially in RLBs. xii. Outsourcing tax collection through banks/online especially in ULBs xiii. Privatisation of the maintenance of street lights. xiv. Energy audit in civic services such as street lighting and water supply. xv. Identification and listing of common property resources vested with Panchayats and making them productive for revenue generation.

CHAPTER-I

INTRODUCTION

> *"The best way to suppose what may come is to remember what is past."*
>
> ***-Lord Halifax***

With the advent of 73rd and 74th Amendment to the Constitution of India, a Local Government System emerged as the third tier of governance with focus on economic development and social justice. The main features of the amendments are, 3 tier system of Local Self Government for all States having a population of over 20 lakh, local body elections in every 5 years through State Election Commission, reservation of seats for SC/ST and women, appointment of State Finance Commission to make recommendations as regards the financial powers to local bodies, constitution of District Planning Committees and Metropolitan Planning Committees.

Constitution of Fourth State Finance Commission

2) As envisaged in Article 243 (I) and 243 (Y) of the Constitution of India enacted through the 73rd/74th Amendment, each State has to constitute a State Finance Commission once in five years to review the financial position of the local bodies and to make its recommendations to the Governor of the State. In pursuance of the Constitutional provisions and the concomitant State legislations, State Finance Commission is being constituted in Tamil Nadu once in five years. The history of the previous Commissions is given in the following table:

TABLE - I (1)

Sl.No	Details	First State Finance Commission	Second State Finance Commission	Third State Finance Commission
1.	Date of Constitution	23.04.1994	01.12.1999	01.12.2004
2.	a) G.O. in which Constituted.	G.O.Ms.No.350, Fin (Res) Dept., Dt: 23.04.1994 & G.O.Ms.No.161, RD Dept. Dated: 06.09.1994	G.O.Ms.No.518, Fin (Res) Dept., Dt: 01.12.1999	G.O.Ms.No.573, Fin (FC.IV)Dept Dt: 01.12.2004.

	b) G.O. in which ToR were issued.	G.O.Ms.No.350, Fin (Res) Dept., Dt: 23.04.1994	G.O.Ms.No.103, Fin (Res) Dept., Dt: 03.03.2000	G.O.Ms.No.584, Fin(FC.IV)Dept. Dt: 14.12.2004
3.	a) Due date for submission of Report.	31.10.1995	31.10.2001	31.05.2006. Term extended further till 30.09.2006.
	b) Actual date of submission of Report to the Government.	29.11.1996	21.05.2001	30.09.2006
4.	Action Taken Report placed in the Legislative Assembly on	28.04.1997	08.05.2002	10.05.2007
5.	Award Period	1997-98 to 2001-02	2002-03 to 2006-07	2007-08 to 2011-12

The Fourth State Finance Commission (FSFC) was constituted in G.O.Ms.No.549/Finance (FC.IV) Dept., dt.1.12.2009 and notified in the Tamil Nadu Government Gazette Extraordinary dated 01.12.2009 vide No.II (1)/ Fin/42(a) 2009 published in Part-II – Section-1 of the Gazette.

The composition of the Commission was ordered as under:

Thiru K. Phanindra Reddy, I.A.S.,	Chairman
Thiru S. Ramalingam, Ex-M.L.A.,	Non-official Member
Commissioner of Rural Development and Panchayat Raj	Ex-officio Member
Director of Municipal Administration	Ex-officio Member
Director of Town Panchayats	Ex-officio Member
Tmt. Reeta Harish Thakkar, I.A.S.,	Member – Secretary

Subsequently, Thiru P. Ekambaram, I.A.S., was appointed as Member-Secretary of the FSFC in G.O.Rt.No.4211 Public (Special.A) Department, Dated: 03.11.2010 and he assumed charge in the Commission with effect from 16-11-2010 F.N.

Terms of Reference

3) The Terms of Reference (ToR) for FSFC issued in G.O. Ms. No.549, Finance (FC-IV) Department dated, 01.12.2009 are placed as **Annexure-I (1).** The ToR necessitated

the FSFC to make its report available by 31st May, 2011 for the award period of five years commencing from 1st April, 2012. The tenure of the Commission was extended up to 30th September 2011 in G.O.Ms.No.77, Finance (FC.IV) Department, Dated: 01.03.2011 **(Annexure I (2)** and notified in Tamil Nadu Government Gazette Extraordinary dated 01.03.2011 vide No.II (1) Fin/7(d)/2011 in Part-II – Section-1 of the Gazette. The ToR 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.

4) The ToR necessitated the FSFC to recommend only on financial issues such as the principles governing the distribution of funds to local bodies from the net proceeds of the taxes, duties, tolls and fees leviable by the Government, the distribution of taxes, duties, tolls and fees which may be assigned to or appropriated by the local bodies and also the distribution of grants-in-aid from the Consolidated Fund of the State. As per para 3 (b) of the ToR, the Commission has also to study the measures needed to improve the financial position of local bodies and the possible new avenues for tapping resources in rural and urban local bodies keeping in mind the local body tax structure in other States. While making the recommendations, the Commission has to take into account the financial position of the State Government also as enunciated in para.5 of the ToR. The previous Commission dealt with the following issues apart from the ToR mandated in the Constitution and made its recommendations elaborately so as to facilitate the Government to take decisions on such issues:

i) Well defined demarcation of functions of State Government vis-a-vis local bodies taking into account the prevailing levels of delegation of administrative, functional and financial powers to local bodies with reference to the functions enumerated in the Constitution of India and the concomitant State Legislations.

ii) To draw a monitorable fiscal reforms programme aimed at reduction of revenue deficit of the local bodies and a scheme for providing an incentive to local bodies within the ambit of devolution mechanism linked to progress in implementing the said programme.

iii) The award and recommendations of the Twelfth Finance commission to the local bodies and their adequacy.

iv) The status of implementation of the recommendations of the (Eleventh) Central Finance Commission and the (Second) State Finance Commission and the utilisation by the local bodies of the resources transferred.

v) The classification of rural and urban local bodies as per the Government of India guidelines.

vi) To suggest measures for improvement of the administrative arrangements already made by the Government consequent on the reclassification of Town Panchayats. Reclassification of other local bodies taking into account their present status and the reorganization exercise already undertaken for the Town Panchayats.

vii) To review the functions of grama sabha, its linkages with non-governmental organizations, line agencies / departments on par with other States and to suggest measures / powers to strengthen grass root democracy.

However, the ToR of the present Commission is restricted to the issues mandated in the Constitution though there is a provision to assign any other issue for review by the SFC. Issues on the upgradation of Town Panchayats based on their annual income, though not coming under the purview of the ToR, were also referred to the Commission for its views and the same were offered by the Commission after detailed discussion. Though there is no specific ToR, certain administrative issues of local bodies which influence the augmentation of own revenue of local bodies indirectly need to be analyzed by the Commission under the purview of the ToR on the measures needed to improve the financial position of local bodies.

5) XIII FC observed that the State Finance Commission reports submitted to the Central Finance Commission (CFC) were widely divergent in the quality of their analyses, the scope and scale of their recommendations and that the data were not in uniform pattern thus detracting from their usability towards forming a basis for recommendations by CFCs. Hence, XIII FC recommended a template on the preparation of SFC Report for adoption by State Finance Commissions. We adopted the template provided by the XIII FC for the design and preparation of this report, to the most extent but within the provisions of the ToR issued to FSFC.

6) The approach and methodology evolved by the FSFC are discussed in Chapter II of the report.

CHAPTER-II

APPROACH AND METHODOLOGY

> *"Probable impossibilities are to be preferred to improbable possibilities."*
>
> ***-Aristotle***

APPROACH:

The Terms of Reference for the Fourth State Finance Commission as mentioned in the previous chapter are limited to looking into the finances of the local governments and the State Government and to make appropriate recommendations as to what should constitute the devolution formula. Consequently, the Commission has limited its review to the financial aspects unlike the previous Commissions which have been ordained to look into the issues like reclassification, delegation of powers, upgradation, etc. As a Constitutional body, the Fourth State Finance Commission needs to review the status of the implementation of the recommendations of the previous Commission and also the untapped potential as a result of non-implementation of any recommendation of the previous Commission. Similarly, there is a need to review the implementation of the recommendations of Central Finance Commission (CFC), its impact on local body finances also as provided in the template given by the XIII FC. We proceeded accordingly.

2) While making a tier-wise and category wise analysis of revenue sources of local bodies in terms of trends, performance and efficiency, we found several issues like arbitrariness in the fixation of taxes, reluctance to revise tax/non-tax rates, under/non-assessments, lack of proper monitoring mechanism to set right all the said issues which ultimately brought down the revenue collections of local bodies. Hence, we analyzed the defects in the existing system of taxation and recommended to rectify them. We identified the untapped tax potential also wherever possible and made our suggestions to augment such revenue. The concept of incentive recommended by the Second SFC and adopted by the Government during 2002-03 to 2006-07 was reconsidered by FSFC sorting out the discouraging factors of the incentive concept, which are discussed in the relevant chapter. The existing powers of local bodies in the levy and collection of taxes/non-taxes, the amendments needed in the relevant Acts/Rules to facilitate the augmentation of local revenue and also the new avenues for augmentation of resources of local bodies are examined by us.

3) Another important issue which attracted the Commission's attention is that the needs vis-à-vis the financial position of Peri Urban Panchayats. An analysis of the population growth would show that the rate of growth in the Peri Urban Panchayats is higher than that in the core city. A devolution package based on the population figures of a particular year cannot do justice to such local bodies. More over though there exists a need for provision of urban services in these Panchayats that being not the focus of the Head of the Department, the Commission felt the necessity for special attention towards these Panchayats. The Peri Urban Panchayats situated within 7 kms radius from Municipal Corporations/Municipalities need to provide civic services to the public on a par with the neighbouring Corporation/Municipality. But there is no special consideration to offer relief to such Panchayats from this strain as the fund transfers are made as per the existing formula only. The financial and administrative issues of Peri Urban Panchayats are examined by us and considered for suitable package.

4) The expected income of local bodies and the anticipatory expenditure based on service norms are projected for the award period of FSFC and the resource gap is analysed and suitable package is derived by the Commission, taking into account the financial position of State Government. We explained the issues in detail in Chapter IX, X and XI.

5) During the field visit in districts and other States, the Commission observed certain best practices adopted by local bodies, which can be emulated by others. After further studies, we were able to enlist the best practices and recommended for adoption by all local bodies. Tieing up funds for implementing such best practices is also built up suitably in our resource package.

6) The equation between the line departments and local bodies with reference to the augmentation of revenue of the local bodies is also studied and the issues which exist between them are addressed by the Commission.

Methodology

7) Every study should define a methodology. We adopted the following methodology to approach the issues before us:

i) Rules of Procedure

As mandated under Article 243 I(3) of the Constitution of India, the FSFC evolved a procedure for the Commission's functioning and for its Secretariat. The details of the Rules of procedure as adopted by the FSFC are in **Annexure II (1)**

ii) Questionnaires to Local Bodies

In order to assess the income, expenditure, service level, capital needs etc., a detailed Questionnaire was prepared by the In-house Committees constituted by the Commission as in **Annexure-II (2)**

Till now, the data collection was done conventionally i.e., through hard and soft copies and analyzed. The present Commission collected the data from the local bodies online by installing Commission's own Server System. Since, hackers are aiming at Government data, transaction of Commission's information through other servers including NIC were avoided. Online software has been developed by the Commission and installed with utmost care. The server was made available to the users i.e., local bodies, 24 hours a day throughout the period of the Commission. The end users were taught to open the server IP, with the username, password provided exclusively for each local body. Training sessions were conducted for all the end users to download, to fill up offline and to upload in the Commission's server by the local bodies themselves.

The questionnaires to the local bodies viz Municipal Corporations, Municipalities, Town Panchayats, District Panchayats, Panchayat Unions and Village Panchayats were devised almost like data sheets and constraints made therein to capture only the expected data (viz numeric, non-numeric, decimals, logical etc). The data sheets were so designed to develop data in linear formats simultaneously as and when uploaded by the local bodies. This facilitated the quick compilation of data in respect of all local bodies by the Commission Secretariat. Guidelines to fill up the Questionnaires were also prepared and hosted in the Commission's server.

Questionnaires were also designed for Mayors of Municipal Corporations, Chairpersons of Municipalities / Town Panchayats and sent to them seeking their views on specific issues related to local bodies. Most of them have responded to our request.

The number of local bodies covered under the questionnaires were:

1	Village Panchayats	12,620
2	Panchayat Unions	385
3	District Panchayats	29
4	Town Panchayats	559
5	Municipalities	150
6	Municipal Corporations	10

Training sessions were conducted at Regional level for Municipalities and Town Panchayats and District level for rural local bodies on how to fill up the questionnaires correctly. In respect of rural local bodies, the data for all Village Panchayats, in each block were collected and entered in the format at block level, validated and uploaded in the Commission's server.

Unlike the previous Commissions, this Commission was able to collect data for all the 12620 Village Panchayats successfully which forms a data base available for stakeholders. The data base needs to be updated periodically by the stakeholder departments.

The data for each Panchayat Union and District Panchayat were compiled, validated by them and uploaded to the Commission, directly. 10 retired District level Rural Development officials were also appointed as Coordinators allocating 3 districts each on contract terms to collect, consolidate, validate and upload the data of Village Panchayats and Panchayat Unions, in the Commission's server. After collecting the data, they were consolidated in linear format. Inspite of the efforts taken by the Commission, numerous errors were noticed in the data uploaded by the local bodies, which necessitated huge efforts to bring the data to acceptable level.

iii) Engagement of External Agencies

Since the Commission Secretariat has been fully engaged in the collection of data from each and every local body, consolidation and validation of data and also in the preparation of various related statements for the Commission's discussions with the concerned Departments, the Commission has decided to engage external agencies to study the data collected from local bodies and to furnish an analytical report to the Commission. As such, the Centre for Development Finance, IFMR was engaged to analyse the data received from the ULBs. Similarly, the Department of Evaluation and Applied Research was engaged to anaylse the data from RLBs. Since the Madras School of Economics was having expertise in analyzing the data on State Finances for submission to XIII FC, the Institution was engaged by the Commission to study the financial position of State Government. The reports furnished by the external agencies were further analysed by the Commission and accommodated in the report suitably.

Based on the feed back obtained from the District Collectors on issues relating to under/non-assessment of properties, award of incentive for the collection of taxes/non taxes and to identify the best practices in local bodies, Thiru D.S. Sivasamy, Retired Additional Director of Municipal Administration was engaged to study such issues at the field level and to report to the Commission. His report was also considered while formulating the recommendations of the Commission.

A discussion was also held with the Debt Monitoring Cell of Municipal Administration Department on 09.02.2011 to ascertain the position of outstanding debt of ULBs.

On behalf of the Commission, Tamil Nadu Urban Infrastructure Financial Services Ltd (TNUIFSL) made a study on the potential for revenue mobilization by TWAD and CMWSSB in comparison with the present level, expenditure needs, funding sources and manpower productivity and sent reports to the Commission. The observations and findings of TNUIFSL were further analyzed and incorporated suitably in the Report.

IV) Questionnaires to Secretaries to Government / Heads of Departments / Other Stakeholders.

In addition to the above questionnaires, another 33 questionnaires were issued to various stakeholders including Secretaries to Government, Heads of Departments and others. Interactions with stakeholders were held as noted below:

S.No	Name of Stake holder Department	Date of interaction.	Commission's Meeting.
1.	Director of Local Fund Audit,	16-07-2010	5th Meeting
2.	Inspector General of Registration	18-08-2010	6th Meeting
3.	Tamil Nadu Pollution Control Board	28-09-2010	7th Meeting
4.	Commissioner of Commercial Taxes,	28-09-2010	7th Meeting
5.	Chennai Metropolitan Development Authority	01-12-2010	8th Meeting
6.	Tamil Nadu Electricity Board (now TANGEDCO)	01-12-2010	8th Meeting
7.	Tamil Nadu Housing Board	01-12-2010	8th Meeting
8.	Adi-Dravidar Welfare Department	01-12-2010	8th Meeting
9.	Chennai Metropolitan Water Supply and Sewerage Board	04-02-2011	9th Meeting
10.	Tamil Nadu Slum Clearance Board	04-02-2011	9th Meeting
11.	Principal Chief Conservator of Forests	04-02-2011	9th Meeting
12.	Director of Town and Country Planning	04-03-2011	10th Meeting
13.	Chief Engineer (Highways)	04-03-2011	10th Meeting
14.	Tamil Nadu Water Supply and Drainage Board	04-03-2011	10th Meeting
15.	Geology and Mining Department	09-06-2011	11th Meeting

16.	Director of Public Libraries	09-06-2011	11th Meeting
17	Tamil Nadu Energy Development Agency	09-06-2011	11th Meeting
18.	Hindu Religious & Charitable Endowments	09-06-2011	11th Meeting
19.	Commissioner, Corporation of Chennai	09-06-2011	11th Meeting
20.	Commissioner of Municipal Administration	30-06-2011	12th Meeting
21.	Commissioner of Rural Development and Panchayat Raj	18-07-2011	13th Meeting
22.	Director of Town Panchayats	18-07-2011	13th Meeting
23.	Secretary, Municipal Administration & Water Supply Department.	25-07-2011	14th Meeting
24.	Rural Development & Panchayat Raj Department, Chennai-9	25-07-2011	14th Meeting
25.	Principal Secretary, Finance Department	20.08.2011	15th Meeting

The replies to questionnaires obtained from NGOs and Political Parties were discussed in the meetings held with them separately. The replies to questionnaires for District Collectors were discussed in the interactions held with them during district sittings. Only a very few issues were raised to CRA and Home Department in questionnaires and the replies obtained from them were examined separately. The views emerged from out of the interactions formed the bases for some of our recommendations.

v) Interactions with District Collectors and Elected Chairpersons of Local Bodies

The FSFC undertook tours to various Districts in four phases to hold discussions with District Collectors and District officials in the morning session and with the elected heads of local bodies in the afternoon session at the host District Collectorates. The details of District sittings are as noted below:

Table II – 1

Phase	Commission's District sittings		
	Date	**Place**	**Participating Districts**
1.	19-11-2010	Kancheepuram	Kancheepuram, Thiruvallur, Vellore, Villupuram, Cuddalore & Thiruvannamalai.
2.	27-01-2011	Tiruchirappalli	Tiruchirappalli, Dindigul, Perambalur, Ariyalur, Karur, Pudukottai, Thanjavur, Tiruvarur and Nagapattinam.
3.	02-02-2011	Madurai	Madurai, Theni, Sivaganga, Virudhunagar, Ramanathapuram, Tuticorin, Tirunelveli and Kanniyakumari.
4.	15-02-2011	Coimbatore	Coimbatore, Salem, Namakkal, Erode, The Nilgiris, Tiruppur, Dharmapuri and Krishnagiri.

District Collectors and Officials of participatory Districts attending the meeting at Kancheepuram.

Meeting with elected representatives of local bodies at Kancheepuram.

District level hearing at Coimbatore

vi) Interaction with Recognised Political Parties.

A questionnaire was sent to all the recognised National and State Political Parties and a meeting was conducted on 25.02.2011 to hear their views with reference to the questionnaire already sent to them.

vii) Interaction with Non-Governmental Organisations (NGOs).

NGOs play a vital role in organising the communities and in ensuring their participation in the developmental activities of local bodies. Hence, the views of NGOs on various issues were obtained from the select major NGOs and interaction was also held with them on 16.03.2011 by the Commission. Their views were considered suitably in the report.

viii) INTERACTION WITH SERVICE ASSOCIATIONS:

Based on the representations received, interactions were held with office bearers of the Tamil Nadu Town Panchayats Executive Officers Association on 02.09.2010 and with Rural Development Officials Union, Namakkal on 09.09.2010 and their views on various local body issues were heard and taken into account for consideration by the Commission.

ix) VISIT TO OTHER STATES

The Member-Secretary and Joint Secretary, FSFC visited Kerala on 26-10-2010 and discussed with Thiru S.M. Vijayanand, Principal Secretary, Local Self Government Department on the issues relating to the tax structure and other issues. They also discussed local body issues with the Chairman, Kerala FSFC. As suggested by the Principal Secretary, LSG Department, the Joint Secretary and Executive Consultant (PRIs) of Fourth SFC visited the Kerala Institute of Local Administration (KILA), Thrissur from 21-12-2010 to 23-12-2010 and discussed various issues relating to the tax structure, augmentation of own resources, decentralisation of functions etc., with the academicians and researchers of KILA and made field visits to Thrissur District Panchayat, Adaat and Nedumbaserry Gram Panchayats and Guruvayur Municipality. The study and findings of the visit to Kerala have been suitably incorporated in the report.

A team consisting of Member-Secretary and Joint Secretary of Fourth SFC and Additional Director of Municipal Administration visited Karnataka on 11.7.2011 and 12.7.2011 and discussed various issues relating to tax structure, new avenues for augmentation of local resources, best practices, etc. with Secretaries to Government of Finance, RD&PR and Urban Development Departments, Chairman and Members of Third SFC of Karnataka and also with the elected/executive heads of Mysore Zilla Panchayat, Mysore Taluk Panchayat, Mysore City Corporation, Inakkal Village Panchayat and Maddur Town Municipal Council. The local body tax structure, decentralization of powers with '3 Fs' to local bodies and best practices prevailing in LSG of Karnataka were recorded by the Commission.

x) Commission's Web-site

Third State Finance Commission (TSFC) has already created a web site for it and the site contains details of its constitution, ToR, recommendations, Action Taken Report and fund flow based on the recommendations of TSFC. Besides, Tenth, Eleventh and Twelfth Central Finance Commission's recommendations on local bodies and links to other State Finance Commissions were also attempted. FSFC designed a common website (www.tn.gov.in/tnsfc) covering links to Rural Development Department (www.tnrd.gov.in) and Central Finance Commission (www.fincomindia.nic.in) also. The details on the constitution, ToR, questionnaires issued to local bodies and other stakeholders, schedule of activities including the District sittings of FSFC have been hosted in the web site, by this Commission. **After submission of the Commission's report, the website may be maintained by the Finance Commission wing of Finance Department by updating the site with Action Taken Report**

and G.Os issued by various Departments and other database till the constitution of next State Finance Commission. The website can be further updated by the next SFC.

xi) Commission's Meetings

The FSFC met at periodic intervals to address the issues placed before it. It conducted meetings as indicated below:

S.No	Commission's Meeting	Date of meeting
1.	First Meeting	22.01.2010
2.	Second Meeting	12.03.2010
3.	Third Meeting	03.05.2010
4.	Fourth Meeting	04.06.2010
5.	Fifth Meeting	16.07.2010
6.	Sixth Meeting	18.08.2010
7.	Seventh Meeting	28.09.2010
8.	Eighth Meeting	01.12.2010
9.	Ninth Meeting	04.02.2011
10.	Tenth Meeting	04.03.2011
11.	Eleventh Meeting	09.06.2011
12.	Twelfth Meeting	30.06.2011
13.	Thirteenth Meeting	18.07.2011
14.	Fourteenth Meeting	25.07.2011
15.	Fifteenth Meeting	20.08.2011
16.	Sixteenth Meeting	24.09.2011

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

8) In the light of the above background, the FSFC has identified the core issues which need to be analysed in the context of the ToR issued to the Commission. The desired measures and the reform packages are discussed in the subsequent chapters.

CHAPTER–III

STATUS OF IMPLEMENTATION OF THE RECOMMENDATIONS OF THIRD STATE FINANCE COMMISSION

> *"Putting off an easy thing makes it hard and putting off a hard one makes it impossible."*
>
> **-George H. Lonmer**

The Third State Finance Commission made 308 recommendations of which 22 relate to devolution of finances. The status report as on 31.7.2011 from the documents made available by the Departments concerned is placed in the following tables:

Table III-1

Status of acceptance										
Sl. No	**Chapter**	**Accepted**	**Deemed to be accepted**	**Accepted in principle**	**Accepted with modification**	**Not Accepted / status-quo continue**	**To be examined separately**	**To be examined by HLC**	**TOTAL**
1	**Chapter-III** Status of implementation of Eleventh FC recommendations	-	1	1	-	-	-	-	**2**
2	**Chapter - IV** Twelfth FC recommendations	-	-	4	-	-	-	-	**4**
3	**Chapter-V** Resource Base	46	11	4	12	44	-	-	**117**
4	**Chapter – VI** Assessment of civic needs and finances	3	-	-	-	-	-	-	**3**
5	**Chapter – VII** Better Fiscal Management	2	-	1	1	1	1	-	**6**
6	**Chapter – VIII** Debt Management	-	4	-	4	1	-	-	**9**
7	**Chapter - IX** Accountability and Audit	16	4	4	5	8	-	-	**37**
8	**Chapter - X** Basis of Classification	1	1	-	-	1	12	-	**15**
9	**Chapter - XI** Delegation of Powers to Local Bodies	2	-	-	-	-	-	23	**25**
10	**Chapter-XII** Role of Line Departments and Para statal agencies	13	6	5	5	20	2	14	**65**

11	**Chapter – XIII** State Finances	3	-	-	-	-	-	-	**3**
12	**Chapter – XIV** Devolution Mechanism	5	1	1	7	8	-	-	**22**
	Total	**91**	**28**	**20**	**34**	**83**	**15**	**37**	**308**

Source: Action Taken Report

Table III-(2)

Status of Recommendations of the Third SFC.

Sl.No.	Chapter	No. of recommendations	Orders issued							
			Accepted	Deemed to be accepted	Accepted in principle	Accepted with modification	To be examined separately	Not Accepted / status-quo continue	To be examined by HLC	TOTAL
Recommendations other than devolution of finances										
1	**Chapter-III** Status of implementation of Eleventh FC recommendations	2								**0**
2	**Chapter - IV** Twelfth FC recommendations	4								**0**
3	**Chapter-V-** Resource Base	117	11	2		6				**19**
4	**Chapter – VI –** Assessment of civic needs and finances	3								**0**
5	**Chapter – VII –** Better Fiscal Management	6	1							**1**
6	**Chapter – VIII –** Debt Management	9				4				**4**
7	**Chapter - IX -** Accountability and Audit	37			1					**1**
8	**Chapter - X -** Basis of Classification	15	1				4			**5**
9	**Chapter - XI -** Delegation of Powers to Local Bodies	25							15	**15**
10	**Chapter-XII -** Role of Line Departments and Para statal agencies	65	8			3	2		3	**16**
11	**Chapter – XIII –S**tate Finances	3	2							**2**
Recommendations relating to devolution of finances										
12	**Chapter – XIV –** Devolution Mechanism	22	5			6				**11**
	Total	**308**	**28**	**2**	**1**	**19**	**6**	**0**	**18**	**74**

Source: Action Taken Report / Government Orders.

TABLE-III-(3)

Status of Recommendations of the Third SFC.

Sl.No.	Chapter	No. of recommendations	Further action needed							
			Accepted	Deemed to be accepted	Accepted in principle	Accepted with modification	To be examined separately	Not Accepted / status-quo continue	To be examined by HLC	TOTAL
1	**Chapter-III** Status of implementation of Eleventh FC	2								**0**
2	**Chapter - IV** Twelfth FC recommendations	4								**0**
3	**Chapter-V-** Resource Base	117	22	2	3	5		1		**33**
4	**Chapter – VI –** Assessment of civic needs and finances	3	2							**2**
5	**Chapter – VII –** Better Fiscal Management	6	1			1	1			**3**
6	**Chapter – VIII –** Debt Management	9								**0**
7	**Chapter - IX -** Accountability and Audit	37	8			2				**10**
8	C**hapter - X -** Basis of Classification	15					4			**4**
9	**Chapter - XI -** Delegation of Powers to Local Bodies	25	1							**1**
10	**Chapter-XII -** Role of Line Departments and Para statal agencies	65	1		3				8	**12**
11	**Chapter – XIII –**State Finances	3	1							**1**
Recommendations relating to devolution of finances										
12	**Chapter – XIV –** Devolution Mechanism	22				1				**1**
	Total	**308**	**36**	**2**	**6**	**9**	**5**	**1**	**8**	**67**

Source: Action Taken Report / Government Orders.

TABLE-III (4)

ABSTRACT

Status of recommendations of Third State Finance Commission					
Sl. No	**Chapter**	**No. of recommendations**	**Orders Issued**	**Further action needed**	**No further action needed**
1	**Chapter-III** Status of implementation of Eleventh FC	**2**	**0**	**0**	**2**
2	**Chapter - IV** Twelfth FC recommendations	**4**	**0**	**0**	**4**
3	**Chapter-V** Resource Base	**117**	**19**	**33**	**65**
4	**Chapter – VI** Assessment of civic needs and finances	**3**	**0**	**2**	**1**
5	**Chapter – VII** Better Fiscal Management	**6**	**1**	**3**	**2**
6	**Chapter – VIII** Debt Management	**9**	**4**	**0**	**5**
7	**Chapter - IX** Accountability and Audit	**37**	**1**	**10**	**26**
8	C**hapter - X** Basis of Classification	**15**	**5**	**4**	**6**
9	**Chapter - XI** Delegation of Powers to Local Bodies	**25**	**15**	**1**	**9**
10	**Chapter-XII** Role of Line Departments and Parastatal agencies	**65**	**16**	**12**	**37**
11	**Chapter – XIII** State Finances	**3**	**2**	**1**	**0**
12	**Chapter – XIV** Devolution Mechanism	**22**	**11**	**1**	**10**
	Total	**308**	**74**	**67**	**167**

Source: Action Taken Report of concerned Departments / Government Orders.

2) Out of 308 recommendations, as per our record, Govt. Orders have been issued so far in respect of 74 recommendations only **(Table III-(2).** There is short fall in implementing the recommendations by the administrative departments of the Secretariat. In respect of 67 recommendations **(Table.III-(3)**, further follow up action is needed to be taken by departments

such as Rural Development and Panchayat Raj, Municipal Administration and Water Supply, Commercial Taxes and Registration, Environment & Forest and Housing & Urban Development. A list of such pending recommendations is placed at **Annexure III.** Out of 37 recommendations referred to the High Level Committee (HLC) headed by the then Hon'ble Minister for RD&LA, the HLC made recommendations in respect of 27 recommendations of Third SFC and 8 recommendations relating to the delegation of powers in respect of Public Libraries and 2 recommendations relating to CMDA were not considered by the HLC. Out of 27 recommendations of Third SFC for which HLC made its recommendations, Government orders seem to have been issued in respect of 18 recommendations only. In respect of 10 recommendations which were not considered by HLC (Ch.XI Para 18(i) to 18(viii) and Ch.XII 29(ii) and 29(iii)) and 8 recommendations for which further action is needed (Ch.XII- Para 20(i), (iii) and (iv), 29(v), 34(iii) and (iv), 38(i) and 42(iii) have to be reviewed by the concerned departments and decisions taken early.

3) In respect of 22 recommendations relating to the devolution mechanism, Government orders have been issued for 11 recommendations and it was decided by the Government not to take further action for 10 recommendations and ultimately, action is pending in respect of only one recommendation relating to the monitoring of follow up action on the recommendations of Third SFC, by the HLC headed by Chief Secretary. An abstract given in the table above shows a bird's eye view of the status of implementation of the recommendations of Third SFC.

4) Recommendations relating to:

i) the levy of tax on cell phone towers,(Ch.V-Para.23(viii)
ii) revision of average half-yearly income slab so as to facilitate the levy of maximum rate of Profession tax (Ch.V-Para.31(i),
iii) Tourist tax (Ch.V-Para.35(i),
iv) revision of track rent once in 3 years (Ch.V-Para.38(ii),
v) revision of D&O Trade license once in five years (Ch.V-Para.50(iii)

which would augment the revenue of local bodies were not accepted by the Government.

Certain recommendations relating to:

i) the levy of Property tax on Central Public Sector Undertakings like BSNL, VSNL etc.,(Ch.V-Para.23(vii),
ii) levy of maximum rate of Rs.2,500/- per annum as Profession tax on industrial establishments (Ch.V-Para.31(ii),
iii) restoration of powers to issue license and levy hoarding tax by ULBs (Ch.V-Para.36(i),
iv) transfer of tax proceeds realized from Cable TV from 2003-06 to the local bodies (Ch.V-Para.37(i),
v) levy of track rent on OFC feeders of BSNL (Ch.V-Para.45(i)

which were accepted by the Government were not implemented. The above recommendations were made by Third SFC with a view to augment the own resources of local bodies and to reduce the dependency syndrome to certain extent. Since such recommendations were either not accepted or not implemented by the Government, the local bodies have lost their available resource potential. C&AG has also pointed out the non-implementation of the accepted recommendations of Third SFC in the factual notes sent to the Government for the year 2009-10.

Monitoring Mechanism:

(a) Review of recommendations by HLC:

5) The delay in issuing Government orders on the accepted recommendations of Third SFC and the recommendations still pending with the Government even after the constitution of Fourth SFC necessitate a proper monitoring mechanism at the government level. In Karnataka, after submission of Report during December, 2008, the Chairman and members of Third SFC continue as Third SFC Recommendations-Implementation Task Force and monitor the implementation of the recommendations of the Third SFC of Karnataka. Though such a system is not warranted in Tamil Nadu, a proper monitoring mechanism at a high level is required.

6) In G.O.Ms.No.404, Finance (FC.I) Department, Dated: 28.10.2010, a High Level Committee (HLC) headed by Chief Secretary has been constituted to approve proposals and to review the implementation of schemes relating to the grants-in-aid, State specific grants and local body grants recommended by XIII Finance Commission. The said HLC needs to review the implementation of the accepted recommendations of Fourth SFC periodically and to sort out the inter-departmental issues relating to the recommendations so as to issue orders and to implement the recommendations early.

(b) Finance Commission Monitoring Cell:

7) As of now, Finance Commission wing in Finance Department consisting of 4 Sections with limited staff is working on the issues relating to Central Finance Commission and State Finance Commission. Considering the significance attached to the Central and State Finance Commissions, the existing wing has to be strengthened as a separate SFC Division with full staff strength under the control of a senior IAS officer either outside or within Finance department but exclusively for the purpose of preparation of action taken report and monitoring the implementation of the recommendations of FSFC and local body issues relating to Central

Finance Commission. Commission feels that a co-ordination by RD & PR / MA & WS Departments with Finance Department is also needed in taking follow up action on the recommendations of SFC/CFC. The experience gained in SFCs by the staff drafted from Finance Department needs to be utilized in the Finance Commission wing of Finance Department and vice-versa so as to have continuity in the smooth running of the time bound SFC and in taking follow up action in Finance Commission wing of Finance Department. The strengthened FC wing in Finance Department has to monitor the follow up action taken on the recommendations of SFC and update the data base/web site for the use of future SFCs.

8) Taking into account all the issues mentioned above, the Commission recommends the following:

i) **The departments concerned shall take follow-up action in respect of the balance 67 recommendations based on the decisions communicated in the ATR including those referred to the HLC and issue orders immediately.**

ii) **The existing FC wing in Finance Department be strengthened with full staff strength under the control of a senior IAS officer either outside or within Finance department but exclusively for the purpose of preparation of action taken report and monitoring the implementation of the recommendations of FSFC and local body issues relating to Central Finance Commission.**

iii) **The experience gained in SFCs by the staff drafted from Finance Department be utilized in the Finance Commission wing of Finance Department and vice-versa. The strengthened FC wing in Finance Department shall monitor the follow up action taken on the recommendations of SFC and update the data base/web site for the use of future SFCs.**

iv) **The subjects relating to the follow up action on the recommendations of State/Central Finance Commissions and monitoring their implementation have to be dealt with exclusively by a Section each in RD&PR/MA&WS departments with sufficient staff who gained experience and continuity in dealing with Finance Commission issues. That Section can liaise and co-ordinate with Finance and Stakeholder Departments/Heads of Departments concerned on the purpose mentioned above.**

CHAPTER–IV

ASSESSMENT OF FINANCES OF PANCHAYATI RAJ INSTITUTIONS

> *We didn't actually overspend our budget. The allocation simply fell short of our expenditure."*
>
> -***Keith Davis***

The Commission is mandates to review, among others, the financial position of rural local bodies viz., Village Panchayats, Panchayat Unions and District Panchayats and to make recommendations regarding the principles governing the distribution of net proceeds of the taxes, duties, toll and fees levied by the State Government between the State and the local bodies, to determine the taxes, duties, tolls and fees to be assigned to local bodies and the grants-in-aid to be transferred to local bodies from the Consolidated Fund of the State. Para 3 (b) necessitates the Commission to recommend on the measures needed to improve the financial position of local bodies and to suggest possible new avenues for tapping resources in local bodies. The tier wise financial position of rural local bodies is analysed and presented in this Chapter.

District Panchayats

Revenue Receipts

2) The main sources of revenue to District Panchayats are SFC devolution grant at 8% from the share of rural local bodies and pooled assigned revenue transferred from the State Government. Assigned Taxes such as Local Cess and Local Cess Surcharge, Entertainment tax and surcharge on stamp duty intended for Village Panchayats and Panchayat Unions have been pooled at the State level with effect from 2007-08 and instead of 'at source' adjustment to those 2 tiers, they are sanctioned to all the 3 tiers of PRIs based on the SFC devolution ratio on quarterly basis. Central Finance Commission grants are not allocated to the District Panchayats. District Panchayats also get revenue from properties and deposits which is not significant. The trend in the fund flow to District Panchayats is as follows:

Table-IV–(1)
Fund flow to District Panchayats

(Rs. in crore)

Year	SFC Devolution	Pooled Assigned Revenue	Others	Total
2005-06	53.97	-	1.29	55.26
2006-07	91.81	-	1.82	93.63
Third State Finance Commission				
2007-08	105.47	13.55	2.76	121.78
2008-09	76.02	27.54	2.06	105.62
2009-10	74.03	14.45	1.74	90.22

Source: Data collected from local bodies.
Note **:** In 2005-06 there were 28 District Panchayats and thereafter 29.

The amount of SFC devolution and pooled assigned revenue shown above is net amount after impounding shares towards various tied purposes/funds. After the Government's decision of pooling the assigned revenue from 2007-08 and apportioning a share to District Panchayats as per the SFC devolution ratio, the resources of the District Panchayats have improved further. However, there is a dip in the quantum of SFC devolution received by the District Panchayats from 2008-09 which is due to the sharing of funds for Rural Infrastructure Scheme and Panchayat Union School Renovation Programme by District Panchayats.

3) The Commission is of the view that the fund flow to local bodies should be predictable by them each year as they heavily depend on SFC devolution. It should not be reduced in any year by diverting portions of SFC devolution towards various schemes. Otherwise, such schemes should be identified in the first year of the five year award period and there should not be any new diversion in the middle of the five year period.

4) Among the District Panchayats, Villupuram (7.21%) accounted for a higher share in SFC devolution during 2009-10 and The Nilgiris accounted for the lowest share of 0.91 percent due to the adoption of population only as the criterion for sharing SFC devolution. In respect of pooled assigned revenue, Vellore received the highest share of 6.23 percent in 2009-10 and Theni received the lowest share of 0.87 percent.

Revenue Expenditure

5) The expenditure can be broadly grouped under two heads viz. administrative and work expenditures. The administrative expenditure consists of pay and allowances, sitting fee for members, travelling allowances, telephone charges, fuel charges, stationeries, rent and others. The expenditure towards pay and allowances accounts for 48% (Rs.160.11 lakh) of

total administrative expenditure in 2005-06 and the ratio increased to 62% (Rs.290.16 lakh) in 2009-10 in view of the implementation of VI Pay Commission recommendations.

6) The number of staff of District Panchayat ranges from 6 to 11 comprising the posts of District Panchayat Secretary, Deputy BDO, Assistant, Assistant Statistical Inspector etc. The staff working in District Panchayats are drafted from Govt. departments. The salary claim is met from District Panchayat's funds. The pension liability is taken care of by the State Government as they are State Government employees.

7) The total expenditure of the District Panchayats is given below:

Table-IV–(2)
Expenditure of the District Panchayats

(Rs. in crore)

Year	Total expen-diture	Administration Expenditure			% in total expen-diture	Expen-diture on works	% in total expen-diture
		Pay & Allowa nces	Others	Total			
2005-06	59.76	1.60	1.77	3.37	5.64	56.39	94.36
2006-07	76.74	1.87	1.78	3.65	4.76	73.09	95.24
2007-08	104.82	1.95	2.24	4.19	4.00	100.63	96.00
2008-09	95.00	2.59	2.44	5.03	5.29	89.97	94.71
2009-10	77.86	2.90	1.79	4.69	6.03	73.17	93.97

Source: Data collected from local bodies.

8) The share of administrative expenditure in total expenditure had increased from 5.64 percent in 2005-06 to 6.03 percent in 2009-10. Correspondingly the share of expenditure for works had come down from 94.36 percent to 93.97 percent. The major portion of SFC devolution intended for District Panchayats is spent on capital or maintenance works taken up in Village Panchayats. The work wise expenditure incurred from SFC devolution is as follows:

Table-IV–(3)
Work wise expenditure incurred from SFC grant
District Panchayats

(Rs. in crore)

Sl. No.	Work	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Cement road	9.47	14.31	19.60	16.29	14.49
2.	BT road	18.19	20.23	25.58	28.84	21.83
3.	Drainage	1.65	1.20	3.69	3.70	2.12
4.	Drinking water	5.83	7.57	13.67	11.80	9.65
5.	Street light	1.93	0.49	3.88	2.94	1.20
6.	Others	19.32	29.29	34.21	26.40	23.88
	Total	**56.39**	**73.09**	**100.63**	**89.97**	**73.17**

Source: Data collected from local bodies.

A consolidated financial statement for District Panchayats is shown at **Annexure-IV-(1)**

9) According to G.O.Ms.No.138, RD&PR (C2) Department, Dated 09.08.2007, in each financial year, the District Panchayats can utilise 10 percent of total SFC grant or Rs.15 lakh, whichever is less for administrative expenditure. An analysis of District Panchayat-wise data reveals the following:

- Among the District Panchayats, in The Nilgiris (14.36%) and Theni (11.70%), the proportion of administrative expenditure was more than 10 percent of total SFC grant in 2009-10 and in the previous years it exceeded 10% for Districts viz., Kanniya kumari and Sivaganga.

- In absolute terms, the administrative expenditure was above Rs.15 lakh in 16 District Panchayats viz. Coimbatore, Cuddalore, Dharmapuri, Erode, Kancheepuram, Madurai, Perambalur, Salem, Sivaganga, Thanjavur, Trichy, Tirunelveli, Thiruvannamalai, Vellore, Villupuram and Virudhunagar in 2009-10.

Taking into account the Pay Commission impact, sanction of D.A etc, the norms for administrative expenditure have to be revised. The study reveals that a norm of 15% of SFC grant or Rs.30.00 lakh whichever is less would be suitable to accommodate the growing administrative expenditure.

10) The revenue surplus position of District Panchayats discussed in **Chapter-X** is due to the transfer of higher quantum of SFC devolution by virtue of vertical sharing ratio which is more than that required for salary and maintenance expenditure of District Panchayats. Second SFC recommended to restrict the quantum of SFC devolution to District Panchayats so as to meet the salary and maintenance requirements and the balance share could be distributed to Panchayat Unions and Village Panchayats. But this recommendation was not accepted and 8% of SFC devolution from the rural share is transferred to District Panchayats. As such, the District Panchayat Councillors take up works in their wards lying in Village Panchayat areas, from out of the SFC funds. This results in the duplication of works by District Panchayats and Village Panchayats, in certain cases. During the District sittings of the Commission, the Presidents of Village Panchayats represented that the sale of properties is abundant in Panchayats but they lose their revenue through surcharge on stamp duty because of the introduction of Pooled Assigned Revenue System. After elaborate discussions with RD & PR Department, the Commission views that there is no need to share Pooled Assigned Revenue with District Panchayats since all the civic works are implemented at the Village Panchayat level.

11) The Commission recommends the following:

i) A norm of 15% of SFC grant or Rs.30.00 lakh whichever is less be adopted for the administrative expenditure of each District Panchayat.

ii) There is no need to share Pooled Assigned Revenue with District Panchayats since all the civic works are implemented at the Village Panchayat level.

Panchayat Unions

12) Panchayat Unions numbering 385 are at the intermediate level of PRIs and are playing an important role in the development of rural areas. The average number of Panchayat Unions per District works out to 13. In the State, out of 385 Panchayat Unions, 21 Panchayat Unions have less number of Village Panchayats ranging from 1-10 and at the extreme end, 54 Panchayat Unions have more than 50 Village Panchayats as shown in the table below:

Table-IV-(4)

Distribution of Panchayat Unions by number of Village Panchayats

No. of Village Panchayats (Range)	Number of Panchayat Unions	Percentage
1-10	21	5.4
11-30	160	41.6
31-50	150	39.0
> 50	54	14.0
Total	**385**	**100.0**

In the 385 Panchayat Unions, there are a total number of 6066 Panchayat Union staff and 10113 Government employees in position as on 31.03.2010. On an average, there are 16 Panchayat Union staff and 26 Government staff employed in a Panchayat Union. The proportion of vacant posts was 27.2 percent for Panchayat Union staff and 25.7 percent for Government employees. While sanctioning the posts and filling the same, the work load in terms of number of Village Panchayats covered by a Panchayat Union has to be taken into consideration.

Table-IV-(5)

Staff Strength of Panchayat Unions

Sl. No.	Category	Posts sanctioned	No. in position	No. of vacant posts
1.	Panchayat Union employees	8332	6066 (72.8)	2266 (27.2)
2.	Government employees	13604	10113 (74.3)	3491 (25.7)
	Total	**21936**	**16179**	**5757**

(a) Revenue Receipts

13) The sources of funds for the Panchayat Unions are non-tax revenue such as building license fee, fishery rentals, rents, revenue from remunerative assets, lease revenue etc, assigned revenue such as local cess surcharge, sharing from entertainment tax and lease amount from minor minerals, share from social forest receipts and pooled assigned revenue with effect from 2007-08. Under SFC devolution, a minimum lump sum grant of Rs.30.00 lakh per year is sanctioned to each Panchayat Union since 2007-08. A separate allocation of Rs.350.00 crore from SFC devolution for PRIs for every year since 2008-09 has been made towards rural infrastructure scheme. Village Panchayats, Panchayat Unions and District Panchayats contribute Rs.200.00 crore, Rs.100.00 crore and Rs.50.00 crore respectively from the SFC allocation to the respective tier. Each Panchayat Union is getting Rs.10.00 lakh per year and also a share on population basis from the contribution of Rs.100.00 crore for rural infrastructure scheme. The funds are utilized for capital works on small buildings, CC roads and the maintenance of assets created through NREGS. From the gross allocation of SFC devolution to the Panchayat Unions and District Panchayats, a share of Rs.48.00 crore and Rs.12.00 crore respectively is allocated towards Panchayat Union School Renovation Programme under which repair works relating to all the Panchayat Union schools are made. From out of the vertical sharing of 32% of SFC devolution to Panchayat Unions, SFC grants are allocated to each Panchayat Union on population basis. Minimum lump sum grant of Rs.30.00 lakh per year, population based grant and grants towards Rural Infrastructure Schemes and Panchayat Union School Renovation Programme all these sources of funds from SFC devolution had improved the status of weaker Panchayat Unions. Development grants under Centrally Sponsored Schemes and State Schemes are also devolved to Panchayat Unions. The revenue receipts of Panchayat Unions are broadly grouped under six accounts as shown below:

Table-IV-(6)
Revenue Receipts of Panchayat Unions

Account	Category	Items covered
Account - I	General Fund	1. Assigned revenue 2. Non-tax revenue 3. SFC Grant 4. Other Grants 5. Deposits & Advances
Account III	Education Fund	1. Salary of Conductress 2. Deposits 3. Advances
Account V	Nutritious Noon Meal Programme Fund	Grant for Nutritious Noon Meal Centres
Account IX	State Welfare Schemes	Grants for State Schemes
Account X	NABARD	Panchayat & Panchayat Union Market Development Scheme, BRGF & Others.
Central Welfare Schemes	Central Welfare Schemes	Grant for Central Welfare Schemes, Central Finance Commission Grant.

The account wise total revenue of Panchayat Unions is as follows:

Table-IV-(7)
Total Receipts: Consolidation (Excluding Opening Balance)
(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Account I	527.16	693.20	819.27	1045.85	965.55
Account III	4.62	6.74	7.49	6.49	5.60
Account V	245.44	299.86	334.32	429.54	490.57
Account IX	247.88	623.53	800.05	813.65	822.10
Account X	7.76	7.99	56.55	88.36	152.84
Central Schemes	513.90	534.55	734.38	868.85	1053.16
Total	**1546.76**	**2165.87**	**2752.06**	**3252.74**	**3489.82**

Source: Data collected from Panchayat Unions

Table-IV-(8)

Average Receipt per Panchayat Union

(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Account I	1.37	1.80	2.13	2.72	2.51
Account III	0.01	0.02	0.02	0.02	0.01
Account V	0.64	0.78	0.87	1.12	1.27
Account IX	0.64	1.62	2.08	2.11	2.14
Account X	0.02	0.02	0.15	0.23	0.40
Central Schemes	1.33	1.39	1.91	2.26	2.74
Total	**4.01**	**5.63**	**7.16**	**8.46**	**9.07**

Source: Data collected from Panchayat Unions

The total quantum of revenue receipts of the Panchayat Unions had increased from Rs.1546.77 crore in 2005-06 to Rs.3489.83 crore in 2009-10. On an average, the receipts of a Panchayat Union had improved from Rs.401.76 lakh in 2005-06 to Rs.906.45 lakh in 2009-10.

Table-IV-(9)

Average Own Receipts per Panchayat Union

(Rs. in lakh)

Sl. No.	Receipts	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Taxes & Assigned Revenue	3.56	5.43	22.78	21.71	18.97
2.	Non-Tax Revenue	16.52	19.27	22.91	21.99	20.87
3.	Deposits & Advances	30.92	38.52	42.86	48.79	45.23
	Total	**51.00**	**63.22**	**88.55**	**92.49**	**85.07**
	Total Panchayat Union Receipts	**401.76**	**562.56**	**714.82**	**844.87**	**906.45**

It is observed from the table that the own receipts per Panchayat Union improved from Rs.51 lakh in 2005-06 to Rs.88.55 lakh in 2007-08 and dipped to Rs.85.07 lakh in 2009-10. In the total receipts of the Panchayat Union, own receipts account for 12.7 percent in 2005-06, 12.4 percent in 2007-08 and 9.4 percent in 2009-10. Apart from own resources, the Panchayat Unions receive grants from SFC and also other grants. The details are shown below.

Table-IV-(10)

Average grants received per Panchayat Union

(Rs. in lakh)

Sl. No.	Details	2005-06	2006-07	2007-08	2008-09	2009-10
1.	SFC Grants*	74.99	100.14	109.74	167.26	157.31
2.	Other Grants	10.93	16.70	14.51	11.90	8.41
	Total	**85.92**	**116.84**	**154.16**	**179.16**	**165.72**
	Total Panchayat Union Receipts	**401.76**	**562.56**	**714.82**	**844.87**	**906.45**

* Net after impounding shares towards certain schemes
Source: Data obtained from local bodies

The flow of funds to Panchayat Unions from SFC grants has increased from Rs.74.99 lakh per Panchayat Union in 2005-06 to Rs.157.31 lakh in 2009-10. In the total Panchayat Union receipts, SFC grants accounted for 18.67 percent in 2005-06 and 17.35 percent in 2009-10.

(b) Revenue Expenditure

14) Revenue expenditure comprises of salaries, other establishment expenditure and maintenance expenditure on civic facilities such as roads, buildings, M.I tanks, rural dispensaries, minor bridges, drinking water supply systems, vehicles etc met from General Fund.

Table-IV-(11)

Average Expenditure per Panchayat Union : General Fund

(Rs. in lakh)

Sl.No	Head	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Administrative Expenditure	32.23 (24.84)	38.44 (23.36)	39.66 (21.23)	40.65 (19.17)	47.35 (22.58)
2.	Capital Expenditure	48.35 (37.26)	65.64 (39.90)	76.07 (40.71)	88.40 (41.68)	85.64 (40.84)
3.	Maintenance Expenditure	19.15 (14.76)	24.27 (14.75)	27.83 (14.89)	38.76 (18.28)	39.09 (18.64)
4.	Deposits & Advances	28.74 (22.15)	32.90 (20.00)	42.27 (22.62)	43.32 (20.42)	36.54 (17.43)
5.	Others	1.28 (0.99)	3.28 (1.99)	1.03 (0.55)	0.95 (0.45)	1.06 (0.51)
	Total	**129.75 (100.00)**	**164.53 (100.00)**	**186.86 (100.00)**	**212.08 (100.00)**	**209.68 (100.00)**

Note: Figures in parentheses denote percentage in total expenditure

In absolute terms, though the administrative expenditure per Panchayat Union had increased between 2005-06 and 2009-10, in relative terms its share in total expenditure under General Fund had come down from 24.84 percent in 2005-06 to 22.58 percent in 2009-10. While there was not much change in the proportion of Capital expenditure over the years, the share of maintenance expenditure had gone up from 14.76 percent in 2005-06 to 18.64 percent in 2009-10. The own resources of the Panchayat Unions are more or less sufficient to meet the administrative and maintenance expenditures. While this is an aggregate picture, there are likely to be inter-panchayat union disparities in terms of income and expenditure where in certain cases expenditure would be more than the income and vice versa in respect of certain other cases. In the event of filling up of the vacant posts, the Panchayat Unions may need more funds for administrative expenditure.

Administrative Expenditure

15) Out of the total administrative expenditure under General Fund (Account I), of Rs.12408.55 lakh in 2005-06 and Rs.18229.75 lakh in 2009-10, salaries alone accounted for 46.9 percent and 53.29 percent respectively. The break-up details of administrative expenditure per Panchayat Union is given below.

Table-IV–(12)

Average Administrative Expenditure: Component-wise

(Per Panchayat Union)

(Rs. in lakh)

Sl. No.	Head	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Salaries	15.12	16.57	18.35	21.18	25.23
2.	T.A.	0.83	0.79	0.84	0.96	1.19
3.	Pension Contribution	0.57	0.41	0.35	0.32	0.38
4.	Stationeries	0.91	0.99	1.09	1.06	1.08
5.	Telephone	0.59	0.62	0.63	0.68	0.65
6.	Rent	0.10	0.04	0.07	0.07	0.06
7.	Fares / Exhibitions	0.69	0.22	0.29	0.26	0.44
8.	Forms & Registers	0.55	0.44	0.47	0.46	0.55
9.	Contingency	3.19	3.71	4.18	4.13	4.37
10.	Electricity	0.72	0.86	0.92	1.00	1.27
11.	Sitting Fee	0.26	0.27	0.31	0.38	0.41
12.	Fixed T.A.	0.41	0.40	0.48	0.62	0.67
13.	Uniform	0.01	0.01	0.00	0.01	0.01
14.	Others	8.29	13.13	11.67	9.50	11.03
	Total	**32.23**	**38.44**	**39.66**	**40.65**	**47.35**

Maintenance Expenditure

16) Maintenance expenditure which accounted for 14.76 percent of total General Fund Expenditure in 2005-06 had risen to 18.64 percent in 2009-10. In absolute term, it went up from Rs.73.75 crore in 2005-06 to Rs.150.50 crore in 2009-10. The composition of average maintenance expenditure per Panchayat Union is shown in the following table:

Table-IV–(13)
Average maintenance expenditure per Panchayat Union
(Rs. in lakh)

Sl. No.		2005-06	2007-08	2009-10
1.	Roads	7.83	12.17	16.08
2.	Buildings	3.15	4.95	7.59
3.	MI tanks	0.99	1.14	1.32
4.	Rural dispensary	0.18	0.11	0.10
5.	Vehicles	0.71	0.75	0.69
6.	Minor bridges	0.66	1.15	1.50
7.	Drinking water	2.34	3.22	2.71
8.	Medicines	0.16	0.08	0.05
9.	Others	3.13	4.26	9.05
	Total	**19.15**	**27.83**	**39.09**

Under the maintenance expenditure also, roads accounted for a higher share of 40.89 percent in 2005-06 and 41.14 percent in 2009-10.

Capital Expenditure

17) Under the General Fund, capital expenditure accounts for a substantial share of 37.26 percent in 2005-06 and this had gone up to 40.84 percent in 2009-10. The capital expenditure by its components are shown below.

Table-IV–(14)
Average capital expenditure : per Panchayat Union

(Rs. in lakh)

Sl. No.	Head	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Buildings	6.15	8.42	9.47	12.29	11.63
2.	Roads	20.10	30.67	33.35	40.34	39.14
3.	Bridges / Dams	3.56	4.69	5.56	6.11	7.40
4.	Drinking water	8.39	8.62	12.53	11.63	11.85
5.	Instruments	0.33	0.18	0.17	0.14	0.17
6.	Others	9.82	13.06	14.99	17.89	15.45
	Total	**48.35**	**65.64**	**76.07**	**88.40**	**85.64**

The average capital expenditure per Panchayat Union had improved from Rs.48.35 lakh in 2005-06 to Rs.85.64 lakh in 2009-10. Under the capital expenditure, roads accounted for a major chunk of 41.57 percent in 2005-06 and 45.70 percent in 2009-10. A consolidated financial statement for Panchayat Unions is shown at **Annexure-IV-(2)**

Village Panchayats

18) The Village Panchayats have the power to levy tax. Apart from their own tax revenue, non-tax revenue, they receive SFC grants from State Government, funds from State Schemes etc. The details of revenues broadly grouped under Village Panchayat Fund Account, Earmarked Fund Account, Scheme Fund Account and NREGS are indicated below.

Table-IV–(15)

Accounts of the Village Panchayats

Account	Item
1. Village Panchayat Account	1. Own Tax Revenue 2. Assigned / Pooled Assigned Revenue 3. SFC Devolution & Other grants 4. Non-tax Revenue 5. Deposits and Interest.
2. Village Panchayat Earmarked Fund Account	1. Central Finance Commission Grant 2. Minimum SFC Devolution Grant 3. Interest
3. Village Panchayat Scheme Fund Account	1. SGRY 2. CRSP 3. IAY 4. Improvement to kutcha house 5. Rural Infrastructure Scheme 6. Interest 7. Others
4. NREGS Account	1. NREGS 2. Interest

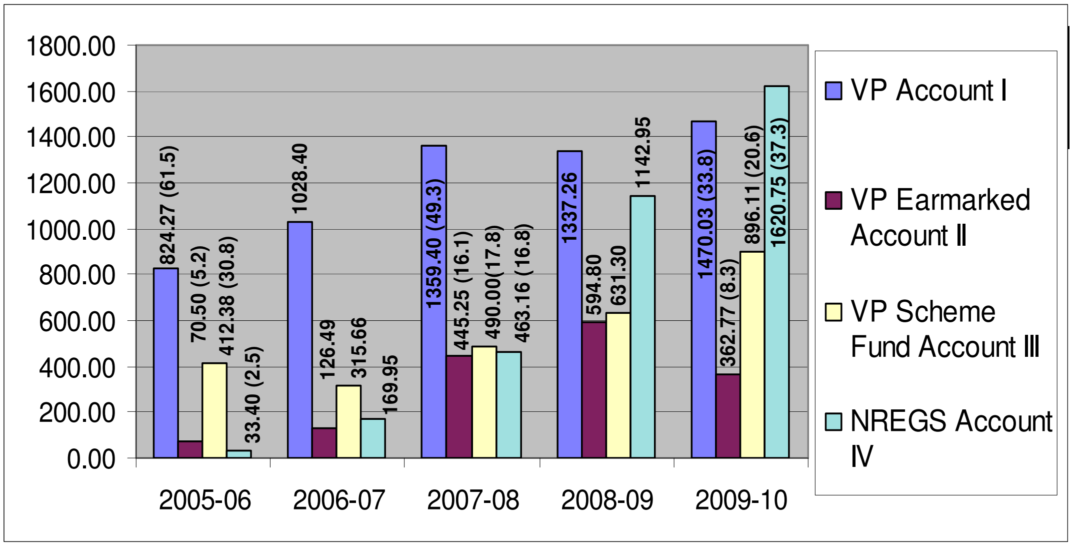
Revenue of Village Panchayats

19) The Account-wise revenue receipts are shown below.

Chart-IV –(1)

Total Revenue of Village Panchayats

(Rs. in crore)



The total revenue of the Village Panchayats had increased from Rs.1340.55 crore in 2005-06 to Rs.4349.66 crore in 2009-10 registering an annual average growth rate of 35.56 percent. The increase in the allotment under NREGS was the main contributing factor for such an increase in the growth of total revenue of the Village Panchayats. The share of Village Panchayat Account No.1, which stood at 61.5 percent in 2005-06 had come down to 33.8 percent in 2009-10, on the other hand, the share of NREGS had spurted from 2.5 percent in 2005-06 to 37.3 percent in 2009-10. The average revenue per Village Panchayat had increased from Rs.10.62 lakh in 2005-06 to Rs.34.47 lakh in 2009-10. The account-wise details are given below:

Table-IV–(16)
Overall average revenue per Village Panchayat

(Rs. in lakh)

	2005-06	2006-07	2007-08	2008-09	2009-10
Village Panchayat Account. I	6.53	8.15	10.77	10.60	11.65
Village Panchayat Earmarked Fund Account. II	0.56	1.00	3.53	4.71	2.87
Village Panchayat Scheme Fund Account.III	3.27	2.50	3.88	5.00	7.10
NREGS Account. IV	0.26	1.35	3.67	9.06	12.84
Total	**10.62**	**13.00**	**21.85**	**29.37**	**34.47**

Own Tax Revenue

20) Own tax revenue of a Village Panchayat consists of House Tax, Profession Tax and Advertisement Tax. A consolidated picture on the own tax revenue per Village Panchayat is shown below:

Table-IV–(17)
Own tax revenue per Village Panchayat

(Rs. in lakh)

Year	House Tax		Profession Tax		Advertisement Tax		Total	
	Total	Per VP	Total	Per VP	Total	Per VP	Total	Per VP
2005-06	5779.57	0.46	3440.52	0.27	36.81	0.003	9256.90	0.73
2006-07	6792.94	0.54	4086.51	0.32	58.27	0.005	10937.72	0.87
2007-08	8072.77	0.64	4903.27	0.39	58.15	0.005	13034.19	1.03
2008-09	8741.67	0.69	5823.68	0.46	56.06	0.004	14621.41	1.16
2009-10	10263.90	0.81	7003.86	0.55	75.11	0.006	17342.87	1.38

In absolute terms, though the quantum of House tax had improved from Rs.57.80 crore in 2005-06 to Rs.102.64 crore in 2009-10, its share in total own tax revenue had come down from 62.44 percent in 2005-06 to 59.18 percent in 2009-10. The share of Profession tax had improved from 37.17 percent to 40.39 percent and Advertisement tax from 0.40 percent to 0.43 percent in the corresponding period.

House tax

Basis for taxation

21) Section 172 of the Tamil Nadu Panchayats Act, 1994 empowers the Village Panchayats to levy tax on all houses on the basis on which such tax was levied in the area concerned immediately before the commencement of this Act or on the basis of classified plinth area at the rates specified in Schedule I of the Act. There is also a provision in the Act which empowers the Government to determine whether the house tax shall be levied half yearly or annually. Till now, in the absence of any specified direction from the Government, the tax is levied on annual basis. There are 12620 Village Panchayats of which most of them levied house tax on capital value basis which was in vogue prior to the commencement of the Act. The other tiers of PRIs, viz, Panchayat Unions and District Panchayats have no power to levy tax.

The house tax income in the last 5 years is as given below:

Table-IV–(18)

(Rs. in crore)

Years	Amount Collected
2005-06	57.80
2006-07	67.93
2007-08	80.73
2008-09	87.42
2009-10	102.64
2010-11	125.76

22) Third State Finance Commission recommended for switch over from capital value basis to annual rental value basis based on plinth area on the urban pattern for house tax in a phased manner so as to augment the own revenue of Village Panchayats. But, it was not accepted by the Government. Similarly, in respect of commercial/industrial buildings, the recommendation of TSFC for levying two to three times of house tax instead of surcharge has not been accepted. Further, TSFC's recommendation on doing away with Rule 14 which enables postponement of revision by the Inspector of Panchayats was also not accepted. The above decisions have come in the way of augmenting the own income of Village Panchayats.

23) Rule.3 of the Tamil Nadu Village Panchayats (Assessments and Collection of Taxes) Rules, 1999 empowers the executive authority to determine the capital value of houses and thereby house tax. In practice, the capital value of houses is fixed arbitrarily by the Village Panchayat Presidents without following any basis i.e. land value, value of building, area of house, type of house, age of the house etc. The number of houses covered under capital/plinth area basis are as under:

Table – IV–(19)

Assessment of House Tax and collection – 2009-10

Basis	Assessment		Collection	
	No. of houses	Per cent	Rs. in crore	Per cent
Capital value	6694802	60.1	45.36	44.2
Plinth area	4447349	39.9	57.28	55.8
Total	**11142151**	**100.0**	**102.64**	**100.0**

Even though capital value basis is adopted in the case of higher proportion of 60 per cent of the houses, its share in the collection of house tax is only 44 per cent whereas plinth area basis accounts for a lower share of 40 per cent of houses and 56 per cent in the collection of house tax.

24) During the field visit of E&AR Department on behalf of the Commission in Virudhu nagar district, it was found that in a sample village, the capital value of RCC roof houses was fixed in the range of Rs.8000/- to Rs.10000/- for all the houses irrespective of area of the houses, type and age of the houses. It was also observed that there was no information about the year in which the capital value was fixed. There was no revision either in the capital value or in the rate of house tax. The Village Panchayat Presidents are reluctant to make revision in the house tax and to ensure cent per cent collection of house tax. However, under plinth area basis, the Village Panchayat President can fix the house tax on the basis of plinth area of the house based on the approved building plan or by measuring the plinth area of the house in old cases. Commission also observed that the per capita collection of house tax under plinth area basis is higher than that under capital value basis.

25) Moreover, the minimum and maximum rates for various categories of houses were fixed long back under Schedule-I of the Act which need revision. There is every justification to increase the existing tax rates by 25% and to fix a flat rate of Rs.40/- per annum for terraced or tiled or thatched houses below 200 sq.ft. during next revision. Commission also observed that there is no uniformity on the date of revision of house tax in Village Panchayats. But in Urban Local Bodies, the general revision is done once in five years on a common date viz., 1st October, except a few ULBs. Such uniformity may augment the resources of Village Panchayats and the reluctance of Village Panchayats to revise the tax will be put to an end. The Tamil Nadu Panchayat Act, 1994 and the rules framed there under may have to be amended to achieve the above objective. The uniform general revision for all Village Panchayats has to be brought in right from April 2013, after making amendments to the Act.

Assessment of Properties

26) Field visits of the Commission and the feedback obtained from the District Collectors reveal that the houses are not enumerated every year and the tax assessments not updated. The Deputy BDO (Audit) who has to audit the Village Panchayats is also not looking into this issue seriously which hampers the augmentation of own revenue of Village Panchayats. Hence, there is a need for updating the details on the assessment of house tax. The present D.C.B. register of House Tax needs improvement. There should be an abstract indicating the number of old assessees and new assessees with the details of residential, commercial and industrial buildings for the assessment year. The amount collected and the balance to be collected and the percentage of collection should also be indicated as on 31st March of each year. This should be verified by the Deputy Block Development Officer (Audit) during the audit of Village Panchayats.

Service Charges from Central Government Properties

27) The Supreme Court has upheld the right of levying service charges by local bodies on Central Government properties. But in the absence of specific directions from Ministry of Rural Development, Government of India, no amount could be collected from Central Government properties. This may be taken up with Government of India in MORD for issue of suitable instructions.

Cell Phone Towers

28) During the District sittings of the Commission, certain District Collectors and elected heads of local bodies viewed that the cell phone towers are growing like mushrooms but no revenue could be earned from the mobile service providers and hence suggested for levy of tax/license fee on cell phone towers. It was observed that in Delhi Municipal Corporation, the mobile service providers have to get a local license from the Corporation and if the towers are situated in Corporation/Government lands, they have to pay rent also. E&AR Department suggested in its report that the owners of buildings on which cell phone towers are erected can be subjected to pay a percentage of rent received by them from the service providers. In G.O.Ms.No.2, Information Technology Department, Dated: 01.04.2002, orders were issued permitting any licensed telecom company to install Base Trans receiver Station (BTS) Towers, equipment room and generator room on roof top or on the ground/premises and buildings belonging to Government on certain terms and conditions. Subsequently, BTS Towers were also permitted to be installed on private land/buildings. In G.O.Ms.No.302, Housing and Urban Development Department, Dated: 12.12.2002, the installation of BTS Towers were permitted in all land use zones in the Master Plan. Orders were also issued in G.O.Ms.No.177, MA & WS (MA-I) Department, Dated: 17.12.2002, to exempt the BTS Towers from the Tamil Nadu District Municipalities Building Rules 1972 and Multistoried and Public Building Rules, 1973. Energy Department, in its letter No.5742/C3, Dated: 26.03.2009 had suggested to RD & PR/MA & WS Department so as to instruct the local bodies not to insist upon building permission from the cell phone companies for erection of BTS Towers. However, the Government Orders do not prohibit the local bodies from levying house tax/property tax. Municipal Corporation of Delhi levies a license fee of Rs.5.00 lakh per tower and if the towers are erected in Municipal building Rs.25/- per sq. ft per month is charged towards license fee for the space to be used for erecting the temporary structure subject to a minimum of Rs.Rs.25,000/- per month. The license fee is payable for 3 months in advance and thereafter by 10th day of each month. Commission feels that there is a need to consider

the levy of additional House tax/Property tax on the owners of the buildings having cell phone towers as applicable to commercial buildings.

29) After taking into account the above factors, the Commission recommends the following:

i. **The house tax in respect of terraced or tiled or thatched buildings with plinth area not exceeding 200 sq. ft be fixed at Rs 40/- per annum.**

ii. **In respect of houses with plinth area of more than 200 sq. ft, the existing rates be increased by 25% under plinth area based taxation and in respect of assessment on capital value basis, the existing rates be increased by 25% subject to a minimum of Rs.40/- per annum during the next revision.**

iii. **For Self financing educational institutions, the house tax shall be levied on the basis of the revision suggested for plinth area based assessment.**

iv. **The recommendation of Third SFC to revise the unit measurement in Square Decimetres into square metres under Schedule-I of the Act is reiterated.**

v. **The quinquennial revision in respect of all Village Panchayats invariably be brought to a common date i.e., 1st April 2013 so as to overcome the situation of Village Panchayats in postponing/not revising the house tax. The Act and Rules be amended suitably.**

vi. **The Government in Rural Development and Panchayat Raj Department shall take up the issue with Ministry of Rural Development of Government of India for levying service charges on Central Government properties.**

vii. **The buildings on which or the premises in which the cell phone towers are erected be levied with house tax as applicable to commercial buildings.**

Profession Tax

30) Article 276 read with Schedule VII of the Constitution empowers the State to levy Profession Tax. However, the local bodies were empowered to collect the tax through a State

Legislation. But the revenue realized was meager because of the inherent weakness in enforcement among local bodies. This has been partly addressed through the Presidential Ordinance issued in 1976 which prescribed recovery at source. Again, the Government of India amended Article 276 to revise the ceiling from Rs.250/- to Rs.2,500/- in 1988 through Constitutional Amendment.

31) In Tamil Nadu, a State Act on Professions, Trade, Callings and Employment was enacted in 1992. The 1992 Act prescribed rates for salaried and non-salaried classes based on different criteria. But again the above Act was repealed in 1998 and the powers to levy and collect profession tax was vested with the local bodies.

32) Even though, the legislation prescribed revision once in 5 years commencing from October, 1998, the realization of revenue has been mainly from salaried classes. In respect of self employed professionals, the realization of income through this tax is meager or nil. This is because traders and professionals have been directed to file a return for their income and in the absence of any return, the executive authority shall prepare a return based on his/her assessment and send it to the concerned persons. But there is no penal provisions for non-payment of tax. This has emboldened the non-salaried and trading community to evade tax. The income derived from Profession Tax in the last 5 years is as follows:

Table-IV–(20)

(Rs. in crore)

2005-06	34.41
2006-07	40.87
2007-08	49.03
2008-09	58.24
2009-10	70.04

The maximum amount of Profession tax levied at different rates during the revision on 1.10.2008 is the following:

Table-IV–(21)

Percentage increase	Maximum amount levied
25%	Rs.938/-
30%	Rs.1014/-
35%	Rs.1095/-

Another revision at the different rates could not be possible on 1.10.2013 except the case of 25% increase which can be seen in the following table:

Table-IV-(22)

Profession Tax rates (In Rupees)

S.No	Average half yearly income slab	as on 1.10.2003			as on 1.10.2008			as on 1.10.2013		
		25%	30%	35%	25%	30%	35%	25%	30%	35%
1	Upto 21000	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2	21001 to 30000	75	78	81	94	101	109	117	132	148
3	30001 to 45000	188	195	203	235	254	274	294	330	370
4	45001 to 60000	375	390	405	469	507	547	586	659	738
5	60001 to 75000	563	585	608	704	761	821	880	989	1108
6	75000 and above	750	780	810	938	1014	1095	1172	1318	1476

Hence, during the next revision on 1.10.2013, the local bodies will be in a position to restrict the maximum amount of Profession tax at Rs.1250/- per half-year in view of the upper ceiling prescribed in the Constitution. Hence, there is a need to increase the maximum ceiling or to prescribe a minimum ceiling by Government of India and to let the local bodies to decide on the maximum ceiling depending on the capabilities.

33) The Commission recommends the following:

i) Government of India be addressed by the Government in RD & PR Department to increase the maximum ceiling or to prescribe a minimum ceiling on Profession tax and to let the local bodies to decide on the maximum ceiling depending on the capabilities of local bodies.

ii) In respect of self- employed professionals, private employers and private employees, experience and service oriented taxation as adopted by other States like Karnataka be adopted.

iii) During the next revision due on 01.10.2013, the rate of revision as decided by the Council between 25% and 35% be adopted and the maximum amount of Profession tax be restricted to Rs.1250/- per half-year, even in cases where the revision results in a profession tax assessment more than Rs.1250/- per half year.

Advertisement Tax:

34) Section 172-A of Tamil Nadu Panchayats Act, 1994 empowers levy and collection of Advertisement Tax to Village Panchayats. But this power to levy and collect advertisement tax on hoardings is now vested with the District Collectors. The District Collectors have to remit the license fee and advertisement tax on hoardings to the General Fund of Village Panchayats. But this has not been done. The realization of revenue from this levy is meager. The amount transferred to Village Panchayats as reported by them is as follows:

Table-IV–(23)

(Rs. in lakh)

2005-06	36.81
2006-07	58.27
2007-08	58.15
2008-09	56.06
2009-10	75.11

During the field visit of the Commission, it was informed that even the collected amount had not been passed on to the Village Panchayats. Lack of machinery for checking the erection of hoardings is cited as a reason for leakages in revenue on this count. In order to tap the tax-base, the Assistant Director (Panchayats), need to obtain the details of tax collected and arrange to pass on to the Village Panchayats. The Village Panchayats on their part shall furnish the details of Advertisement exhibited in their areas to the District authorities for levy and collection.

35) The Commission recommends the following:

i) The District Collectors through Assistant Director (Panchayats) shall arrange to pass on the amount collected from advertisement tax to the Village Panchayats concerned on quarterly basis.

ii) The Village Panchayats on their part shall arrange to send the details of advertisements exhibited in their areas to the District authorities through monthly reporting for levy and collection of license fees and advertisement tax.

Non-Tax Revenue

36) The major sources of Non-tax revenue are derived from water charges, lease on quarries, D & O trade license fees, building plan approval fee and others. Out of the non-tax revenue of the Village Panchayats, the major sources are Building Layout approval fee, lease on quarries, water charges and 'others'. The average receipts from non-tax revenue per Village Panchayat had improved from Rs.72253/- in 2005-06 to Rs.162374/- in 2009-10. The composition of average non-tax revenue per Village Panchayat is shown below.

Table–IV-(24)
Average non tax revenue per Village Panchayat

(Rs.)

Source	2005-06	2006-07	2007-08	2008-09	2009-10
Building Layout approval fee	14738	16893	20056	22223	25687
D & O Trades	1914	2253	3181	3790	3750
Water Charges	9318	12648	22157	25773	27767
Lease on Quarries	12052	7059	9942	17920	14974
2C Tree Patta	1329	674	894	892	761
Encroachment fee	111	214	595	782	591
Rent	665	779	967	1388	1615
Seizure and Warrant fee	69	96	185	208	144
Fine & Penalty	122	140	300	376	283
Market / Shop rent	1521	1890	1989	1852	2398
Rent from marriage / community hall	337	344	531	1118	759
Fishery Rental	1277	1532	1589	2207	2077
Fee from useful trees	1401	1913	1439	2325	1230
Rent from shops	408	577	645	582	1023
Slaughter house	191	293	360	338	570
Lease from land	131	185	345	723	997
Ferries	95	151	408	422	497
Income from Choultries / guest houses	91	71	133	272	511
Cycle / cart / auto stand	125	181	433	379	644
Fares & Festivals	281	377	418	403	450
Library cess	4515	5395	6436	11610	8539
Income from Tools and Plants	156	427	329	484	404
Income from solid waste	249	246	255	791	354
Income from social forestry	1274	3643	1815	5802	2324
Funeral Right Grants	577	1402	1128	1186	1448
Interest	2791	2398	4255	5098	7037
Income from bus stand	382	2438	2708	3303	4613
Surcharge proceedings	452	462	569	624	1013
OFC charge	145	137	365	481	390
Other income	15534	19711	32683	30825	49523
Total	**72253**	**84530**	**117109**	**144175**	**162374**

The share of 'other' income had hiked from 21.5 percent in 2005-06 to 30.5 percent in 2009-10. The share of building layout approval fee and lease on quarries had declined from 20.4 percent to 15.8 percent and 16.7 percent to 9.2 percent respectively in the said period whereas water charges had improved from 12.9 percent to 17.1 percent.

Water Charges

37) In Village Panchayats apart from providing drinking water through public taps, house hold connections are also provided. For this, a deposit of Rs.1000/- and a monthly water charge of Rs.30/- is collected. 1374713 house hold connections, 7746 commercial/institutional connections and 2689 industrial connections are available in Village Panchayats. In addition to this, it is anticipated that additional 838657 connections would be required during the award period of the Commission. The income derived from water charges and operation and maintenance expenditure for water supply are compared below:

Table–IV-(25)

(Rs. in crore)

Item	2005-06	2006-07	2007-08	2008-09	2009-10
Income					
Monthly water supply charges	11.76	15.96	27.96	32.53	35.04
Expenditure					
CC charges for water pumps	54.96	67.99	41.55	20.90	19.75
Amount paid to TWAD	5.23	13.81	26.59	72.69	52.78
Maintenance of Hand / Power pumps, water supply sources.	95.19	113.58	174.82	203.22	247.14
Total	**155.38**	**195.38**	**242.96**	**296.81**	**319.67**
Percentage of coverage	7.57	8.17	11.51	10.96	10.96

Water charges collected are not sufficient to meet atleast 50% of the cost of O & M expenses for water supply. This is due to the fact that most of the Panchayats supply water through public taps. Wherever the water source is sufficient, house connections are given. Under combined water-supply scheme operated by TWAD, they are charging Rs.3/- per kilo litre for Village Panchayats. Many Village Panchayats could not settle the bills on water charges claimed by TWAD owing to paucity of funds and doubting the genuinity of the claims. The water charges now levied at Rs.30/- p.m was fixed in 1996. Even after 13 years, the user charges have not been revised. In the case of supply through public fountains, no user charge is collected. This situation has added burden on the Village Panchayats. During the interaction with District Officials and CRD & PR, they informed that house service connection is not possible in remote and poor villages where people would always prefer to have public fountains. For individual connections, the rate of water charge may be increased from Rs.30/- p. m to Rs.50/- p. m. The deposit collected while giving water connections has to be increased from Rs.1000/- to Rs.2000/- for new house hold connections and Rs.3000/- for new commercial/industrial connections. In doing so, an additional revenue of Rs.33.00 crore per annum would be realized from the existing house hold water connections and Rs.50.00 crore per annum from the new connections. The deposit amount in respect of new connections would fetch a revenue of Rs.168.00 crore.

38) Universally, it is recognized that water is a precious commodity and its usage is to be properly monitored. At the same time, supply of potable water to the people is one of the basic responsibilities entrusted to the Village Panchayats. Given the large gap between the revenue and expenditure in the water supply account, it is difficult for any local body to attain break-even level. In the light of the above analysis, the Commission feels that wherever house service connections are provided, the user charges may be revised. At the same time, big Panchayats which are supplying water through public taps have to be advised to move over to house service connection for better utilization and collection of water charges. The accumulated arrears payable to TWAD Board amounting to Rs.87.00 Crore shall be settled as onetime payment from the arrears of devolution payable to Village Panchayats. The Third SFC has recommended for removal of ceiling on water charges and fixing of user charges for business establishment on kilo litre basis. The Government have accepted the recommendations but no orders have been issued.

39) The Commission recommends that,

i) **the ceiling on the rate of water charges fixed by the Government earlier be modified and that Rs.50/- be fixed as the minimum for domestic connections. The user charges be revised with effect from 1st October, 2012 and periodically once in 5 years. The deposit amount to be collected while giving water connection be increased from Rs.1000/- to Rs.2000/- for new house hold connections and Rs.3000/- for commercial/industrial connections;**

ii) **in respect of business, commercial, institutional and industrial establishments, the water charges be levied with reference to the quantum of supply made by prescribing rate per kilo litre and by installing quality water meters.**

D & O Trade License fees

40) Under Tamil Nadu Panchayats Act, 1958, purposes which are likely to be offensive or dangerous to human life and eligible for levy of license fee were listed. Based on the provisions in the said Act, the Government had lastly published the notification listing the D&O trades in G.O.Ms.No.1269, RD&LA Dept., dated: 26.07.1977. Now, Sec.159 of Tamil Nadu Panchayats Act, 1994 empowers Village Panchayats to issue licenses for D&O trade.

41) Third SFC has made 7 recommendations for augmenting the revenue from this source. Some of them are:

i) The minimum and maximum fee for each class of trade shall be fixed initially by the Government by taking First SFC recommendations as the basis.

ii) The name D & O trade license may be changed suitably covering all trades viz. Village level Business Activity Licensing.

iii) The license fee shall be revised once in 5 years.

The Government have accepted the first two recommendations and did not accept the third one. Even for the accepted recommendations, no orders have been issued. Earlier the SSFC had also recommended for revision and inclusion of all trades, but no orders have been issued. The Fourth SFC also analysed and favoured the possibilities of tapping new revenue resources from cell phone towers by way of license fees from the mobile service providers.

42) In view of the above situation, the Commission recommends the following:

i) License fees for all trades be revised with the rates prescribed by First SFC as the basis for revision.

ii) The nomenclature viz. D&O trade license fees be revised as Trade License fees as in the case of Chennai Corporation.

iii) **Necessary rules incorporating the rates, periodicity of revision, etc. be framed in this regard. The fees be revised once in 5 years starting from 1st April, 2013.**

iv) **License fees be levied on mobile service providers by the local bodies as in the case of Municipal Corporation of Delhi by making suitable provisions in the concerned Act.**

Bus Stand fees

43) The Second SFC recommended for revision of Bus-Stand fees. Based on the recommendations, orders were issued in G.O.Ms.No.175, Home (Transport-III) Dept., dated: 04.03.2002 and amendment was made in 2004 to the Tamil Nadu Panchayats (Public Landing Places, halting places, Cart stands) Rules, 1999 so as to levy the following fees;

For every motor vehicle (Heavy) --------

Class A Bus stand	……..	………..	Rs.15.00
Class B Bus stand	……..	………..	Rs.12.00
Class C Bus stand	……..	………..	Rs. 8.00
Class D Bus stand	……..	………..	Rs. 5.00

For every motor vehicle (Light) --------

Class A Bus stand	……..	………..	Rs.10.00
Class B Bus stand	……..	………..	Rs. 8.00
Class C Bus stand	……..	………..	Rs. 5.00
Class D Bus stand	……..	………..	Rs. 5.00

For every auto rickshaw and two wheeler Rs. 4.00

No revision has been done in the last 7 years. Taking into account the growing cost of maintenance of bus stands, cost of collection staff, etc. it is time for the revision of bus stand fees.

44) The Commission therefore recommends that the bus stand fees be revised during the year 2012-13 by 25%.

Tamil Nadu Rural Road Development Fund:

45) As per Section.10 of the Tamil Nadu Motor Vehicles Taxation Act, 1974 a fund called 'The Tamil Nadu Rural Road Development Fund' has been constituted to which such percentage of tax not exceeding 10 percent, as may from time to time, be fixed by the Government is credited. The fund constituted as per the Act has to be expended for the development and maintenance of public roads in the rural areas. 7.5 per cent of the Motor Vehicle Tax collected by the Government is allotted to Tamil Nadu Rural Road Development Fund (TNRRDF) and given to Highways Department for taking up maintenance of rural roads. However, a constant sum of Rs.25.22 crore per annum had earlier been passed on to the fund since 1997-98 to 2001-02. Subsequently, this was corrected by reckoning 7.5% of the proceeds under Tamil Nadu Motor Vehicles Taxation Act. Now, from 2007-08 to 2009-10, again a lumpsum amount of Rs.79.93 crore per annum is being transferred to the fund. It is a question as to how the same amount of Rs.79.93 crore could be booked for the years 2007-08, 2008-2009 and 2009-2010 when the receipts under the Tamil Nadu Motor Vehicles Taxation Act, 1974 are increasing year after year. The corpus of the fund for 2011-12 RBE is Rs.179.98 crore. Commission views that the concerned departments should ensure making provision at 7.5% of the receipts under Tamil Nadu Motor Vehicles Taxation Act, to Tamil Nadu Rural Road Development Fund. Moreover, as per the Act, this amount is intended for the development and maintenance of rural roads. RD & PR Department stated that no amount has been transferred from this fund to that Department so far. Previously when the rural roads were attached to Highways Department that Department took care of rural roads also in addition to ODR and now the Rural Roads Wing is with CRD & PR and hence there is a justification in transferring the corpus of the fund to RD & PR Department. Third SFC recommended that 50% of the Tamil Nadu Rural Road Development Fund shall be given to the District Panchayats only and works identified by the Panchayats should be taken up for utilizing the fund. This recommendation was not accepted by the Government.

46) Commission recommends that the corpus of the Tamil Nadu Rural Road Development Fund be transferred to RD & PR Department so as to develop and maintain the public roads in rural areas.

Assigned / Pooled Assigned Revenue:

Assigned Revenue

47) The taxes, duties, cesses and surcharges collected by the State Government on behalf of local bodies and assigned to them are called as Assigned Revenue. The following are included under this category:

i) Entertainment Tax.
ii) Surcharge and Stamp Duty.
iii) Local Cess/Surcharge.

The assigned revenue is a part of the resource base of the local bodies. But, time and again, the resource base has been either eroded or modified thereby depriving the local bodies of their legitimate dues. The following are some of them:

- Abolition of compounded Entertainment Tax and exemptions in Entertainment tax.
- Abolition of local cess/local cess surcharge. Earlier, compensation was given by the Government for waiver of land revenue along with LC/LCS during the remission period. Now, the entire land revenue along with LC/LCS has been taken away but without any consultation with local bodies or offering any compensation.
- Pooling of the assigned revenue at State level in respect of RLBs and apportioning 1/3 of the revenue to them on population basis and 2/3 for priority schemes at the State level.

Table–IV-(26)

Assigned Revenue per Village Panchayat

(Rs. in lakh)

Source	2005-06	2006-07	2007-08	2008-09	2009-10
Local Cess	0.01	0.03	0.03	-	-
Entertainment Tax	0.06	0.05	0.04	-	-
Surcharge on Stamp Duty	0.88	1.22	1.78	-	-
Pooled Assigned Revenue	-	-	0.61	1.25	0.79
Total	**0.95**	**1.30**	**2.46**	**1.25**	**0.79**

Entertainment Tax

48) The collection of entertainment tax has been dwindling over the years consequent on the changes effected in the Entertainment Tax Act, 1939. It has started from 2004 with the reduction of ET from 25% of the gross payment for admission for new films to 15% and from 20% of the gross payment for old films to 10% in Municipal Corporations and Special Grade Municipalities. Further, the compounding system has been done away with and a simple system of levy of 10% of the gross payment for admission in the areas of Municipalities, Town Panchayats and Village Panchayats was brought in. Further in 2006, the Government have ordered for exemption of tax for new films named in Tamil and also for old films named in Tamil (vide G.O. Ms.No.72, dated: 22.07.2006 and G.O.Ms.No.147, dated: 20.11.2006.) To compensate the loss due to this waiver, Rs.30 crore per annum is granted by the Government as E.T. compensation fund. The share of RLBs from out of this fund is Rs.3 crore per annum. Prior to this, the actual transfers to local bodies were in the range of Rs.45 crore and now apart from E.T. compensation fund, the balance amount of Rs.15 crore is transferred to local bodies. In G.O.Ms.No.89, Commercial Taxes and Registration Dept., dated 21.07.2011, certain additional conditionalities have been fixed for films named in Tamil to get the waiver of E.T. Those conditionalities will not favour waiver simply because of the films named in Tamil. Hence, it is expected that the E.T. revenue will grow up slowly in the coming years.

49) The amount due from E.T. has been pooled at State level in respect of Rural Local Bodies with effect from 2007-08 and 1/3 of the dues had been passed on to them till 2010-11 and the balance 2/3 allocated towards the fund for priority schemes. Now, it has been decided by the Government to distribute 2/3 of E.T to RLBs on population basis and 1/3 for priority schemes from 2011-12. The Government has also taken a policy decision to exempt tax on Cable TV Operators and waived the tax dues from 2003 to 2006 from Cable TV in G.O.Ms.No.34, Commercial Taxes and Religious Endowment Department, dated: 27.03.2008 and G.O.Ms.No.126, Commercial Taxes and Religious Endowment Department, Dated: 19.12.2008. The Government has taken a policy decision to run the cable TV operations by the State without affecting the interest of the local cable TV operators. In view of the above position, the sharing of tax on cable TV, as was before, is a question.

Surcharge on Stamp Duty

50) The Surcharge on Stamp Duty is collected under the Indian Stamp Act, 1899 and the rate is 2% with effect from November, 2003. Surcharge amount transferred to Village Panchayats during 2005-06 to 2009-10 is given below:

Table - IV-(27)

(Rs. in crore)

Year	Amount transferred to VPs
2005-06	146.24
2006-07	228.73
2007-08	277.61
2008-09	360.63
2009-10	296.44
Total	**1309.65**

The Third SFC has recommended that the difference in the entitlement and the amount actually transferred to local bodies from 2002-03 to 2005-06 has to be adjusted in 2007-08. During the Commission's interaction with the Registration Department, that Department explained that the difference in adjustment during the said period was due to the adoption of the reduced rate retrospectively from 21.11.2003 and the actual difference in amount is being adjusted by the Registration Department in a phased manner. Similarly, the Third SFC has recommended for levy of surcharge on 5 items, viz., i) Agreement ii) Power of Attorney, iii) Release of benami right, iv) Release of right in favour of partner and v) Settlement. But the Government is yet to decide on the issue.

Adjustment of surcharge

51) In respect of Rural Local Bodies, the concept of pooling of assigned revenue at State level and allocating a portion of it for priority schemes does exist from 2007-08. The Government while announcing the pooling of assigned revenue at State level, allocated the pooled assigned revenue comprising E.T, Surcharge on Stamp Duty and LC/LCS at 1/3 for priority schemes and 2/3 for distribution among the three tiers of RLBs based on SFC devolution ratio. Subsequently, the allocation towards the fund for priority schemes was revised at 2/3 of the rural share in assigned revenue and 1/3 for distribution to RLBs. This change in allocation has substantially reduced the share of RLBs distributed on population basis. Several elected heads of Village Panchayats stated before the Commission that the actual collections on Surcharge on Stamp Duty realized in their areas due to growth in real estate activities are not received by the concerned Village Panchayats. Now, it is heartening to note that the Government has decided to allocate 1/3 of Pooled Assigned Revenue for priority schemes and 2/3 for distribution to RLBs based on population. Apparently, this is an exercise to achieve equalization and mobilizing funds for priority schemes. As equalization is already achieved by bringing in the concept of minimum lumpsum grant, there is no need to pool Assigned Revenue on this count. As far as the need to allocate funds for priority

schemes is concerned, the same may be attempted through Infrastructure Gap Filling Fund. **In effect, the Assigned Revenue may be distributed as per entitlement, as at the local body level it reflects the need for higher investments for creating infrastructure facilities and for maintenance.**

52) After taking into account the above factors, **the Commission recommends the following:**

The recommendation of Third SFC to levy surcharge on i) Agreement ii) Power of Attorney, iii) Release of benami right, iv) Release of right in favour of partner and v) Settlement is reiterated.

i) **In respect of Rural Local Bodies, the assigned revenue be transferred to RLBs as per the entitlement.**

Local Cess/Local Cess Surcharge

53) Local Cess is leviable under Section 167 and Local Cess Surcharge is leviable under Section 168 of the Tamil Nadu Panchayat Act, 1994. The normal income under Local Cess is Rs.6.00 crore and Local Cess Surcharge is Rs.30.00 crore per year. The pooled assigned revenue covers local cess also. But the Government while abolishing the land revenue has also abolished local cess/local cess Surcharge. No compensation has been provided to RLBs in this regard. This has also deprived the legitimate income of RLBs.

Shared Revenue

Fishery Rental

54) The Third SFC recommended 50% of the fishery rental in Panchayat Union tanks be shared with Village Panchayats and 25% of the proceeds of fishery rental in respect of PWD tanks be shared with Village Panchayats. The Government while agreeing to the first recommendation has modified the sharing pattern in respect of PWD tanks. It was decided that the sharing from PWD tanks would be with reference to the area of submergence. Orders are yet to be issued on the above issues.

55) **Commission recommends that orders be issued for sharing the proceeds of fishery rental from Panchayat Union tanks as well as PWD tanks with the Village Panchayats as decided by the Government. The adjustment of the proceeds be monitored by CRD & PR periodically.**

Social Forestry

56) Third SFC recommended for sharing the Social Forestry receipts at 50:50 on the basis of gross proceeds. But the Government accepted the recommendation with a modification that the proceeds would be shared in the ratio of 75 : 25 among Village Panchayats and Forest Department respectively on the net proceeds with a capping on wage expenditure at 35% of the gross collection beyond which the wage expenditure would be borne by the Government. Accordingly, the shares of Village Panchayats from 2004-05 to 2008-09 have been released by the Government as stated below:

Table-IV-(28)

(Rs. in crore)

Year	**Amount released.**
2004-05 & 2005-06	10.5887
2006-07	5.3200
2007-08	4.6994
2008-09	3.5400

It is noticed that there is an abnormal delay in the releases made by Environment and Forest Department to Village Panchayats. For example, the share for 2007-08 was released during October 2010 and for 2008-09 during January 2011. The releases from the proceeds of Social Forestry are made directly to Panchayats and not through RD&PR Department which does not help the HoD in monitoring the timely release of the shares and also in assessing the overall transfer of resources to Village Panchayats. Hence, it was viewed that the estimates on the share in the proceeds of Social Forestry has to be routed by the DFOs to CRD & PR and he would verify the estimates and claim for reimbursement from the Government in Environment and Forests Department with the concurrence of Finance Department.

57) Commission recommends the following:

i) **The entitlement on the share of Social Forest proceeds to Village Panchayats for the previous year be released as early in the first quarter of the subsequent year.**

ii) **The release of share of Village Panchayats from the proceeds of Social Forests be routed through the CRD & PR as stated above.**

Mines & Minerals

58) During the interaction held by the Commission, the Geology and Mining department stated that the revenue from granite quarries, penalty fees, etc. are deducted from the gross collection of revenue from mines and minerals and the balance amount constitutes the entitlement to local bodies. The year-wise details of the collection, entitlement to local bodies and the amount actually adjusted to the local bodies are given below:

TABLE-IV-(29)

Details of collection

(Rs. in crore)

Year	Lease Amount	Seigniorage fees		Total
		Rural	Urban	
2005-06	37.71	31.60	2.81	**72.12**
2006-07	35.57	47.30	3.97	**86.84**
2007-08	41.79	72.97	5.71	**120.47**
2008-09	36.93	77.81	7.78	**122.52**
2009-10	39.14	74.46	9.77	**123.37**

TABLE-IV-(30)

Details on entitlement

(Rs. in crore)

Year	Lease Amount	Seigniorage fees		Total
		Rural	Urban	
2005-06	15.65	23.98	2.96	**42.59**
2006-07	12.65	40.02	4.20	**56.87**
2007-08	10.36	58.29	6.82	**75.47**
2008-09	23.07	70.47	12.91	**106.45**
2009-10	21.91	67.01	10.62	**99.54**

TABLE-IV-(31)

Details on adjustments made

(Rs. in crore)

Year	Lease Amount	Seigniorage fees		Total
		Rural	Urban	
2005-06	15.50	23.96	2.96	**42.42**
2006-07	14.54	37.98	4.20	**56.72**
2007-08	10.40	56.21	6.82	**73.43**
2008-09	19.24	67.25	12.28	**98.77**
2009-10	20.50	50.18	10.54	**81.22**

The entitlement of seigniorage fees for urban local bodies shown in the statement furnished by the department is observed to be higher than the collection figures for all the years during 2005-06 to 2009-10 for which the department stated that it is due to the reconciliation and release of funds for the last quarter of each year in the subsequent year. The department stated that the difference between the entitlement and actual adjustment from 2005-06 to 2009-10 amounting to Rs.28 crore has since been released in 2010-11.

59) A separate refund head of account has already been opened under the Receipt major head "0853-Non ferrous mining and metallurgical industries" for the remittance of seigniorage fee from sand quarries (0853 00 900 AB) so as to remit the entitled amount exclusively to the local bodies and proceedings for the sanction of seigniorage fee from the said head of account are issued by the Geology & Mining Department. However, the treasuries while admitting the bills, debit the amount to another head, viz. "0853 00 102 AB – Rents and Royalties" which leads to problems in reconciliation and the exact amount apportioned to local bodies could not be derived from the actuals under the refund head of account. This issue has to be sorted out by Industries Department in consultation with Finance Department.

60) During the District sittings of the Commission, various District Collectors have viewed that 50% of the seigniorage fees collected may be transferred to the concerned Panchayat and the remaining 50% of the proceeds may be transferred to the Collector's Discretionary Fund so as to provide basic amenities to the financially weaker local bodies. Some of the District Collectors suggested that the seigniorage fee may be revised once in 4 years as was done by the Government of India for major minerals.

61) Field visit made by the team of officials of the Commission to Naduveerapattu Village Panchayat, a quarry village, reveals the following picture on the receipt and expenditure of lease amount and seigniorage fees collected by the Village Panchayat for the year 2008-09:

Table-IV–(32)

Receipts:	**2008-09**	**Rs.**
	Opening balance	**1353914**
i)	House Tax	59680
ii)	Library cess	5968
iii)	Profession Tax	28850
iv)	Deposits	64928
v)	SFC Devolution	836583
vi)	Interest	87457

vii)	Seigniorage fee	10205652
viii)	Others	43671
	Sub-Total	**11332789**
	Total	**12686703**
Expenditure:		
i)	Salaries	49765
ii)	Hand pump maintenance	6088
iii)	OHT operators wages & materials	865000
iv)	Maintenance of street lights	452000
v)	Funeral rites	9500
vi)	Festivals	7000
vii)	Roads & culverts maintenance	1509859
viii)	Library cess remittance	---
ix)	Refund of deposits	24519
x)	New roads	364724
xi)	Extension of street lights	173552
xii)	Extension of water supply	616000
xiii)	Others	207783
	Total	**4285790**
	Closing balance	**8400913**

It is seen from the statement that the expenditure accounts for 34% of the receipts for 2008-09. The Panchayat President stated that the bills for sizeable amount were pending at the close of the financial year and the expenditure was carried over to the next financial year.

62) It is evident that the major revenue to the Panchayat is through seigniorage fee and SFC devolution ranks second in the quantum of receipts. Since the village is having mostly huts, house tax revenue is very meager. As there is no much transaction of properties, no revenue from surcharge on stamp duty is received by this Panchayat. Thus, the Panchayat is not having sizeable revenue from any other source on a par with the civic needs and depending only on seigniorage fee and lease amount for its civic works. The Panchayat President is not taking arbitrary decisions in utilizing the money received as seigniorage fee. Instead, he sends proposal to the District Collector seeking administrative sanction for the works to be taken up utilizing the money and after getting administrative sanction, tenders are floated and works awarded to the contractors. Since there is a quest for basic amenities in this Panchayat, the seigniorage fee is utilized year after year for the said purpose and no saturation of civic needs is reported by the Panchayat. The team witnessed the very bad condition of the Panchayat roads owing to the frequent plying of lorries carrying the minor minerals. These roads need frequent repair which brings a major commitment to the Panchayat. The wayside villages like Erumaiyur, Malaipattu, Sethupattu and Manimangalam are also having quarries and getting seigniorage fee from the department concerned.

63) But there has been a demand for sharing the revenue with other local bodies in view of the excessive usage of roads of way side Village Panchayats. This issue has been discussed with the District Collectors and RD & PR Department. Many District Collectors viewed that several Village Panchayats which receive lease amount and seigniorage fee have surplus funds in their General Fund and they could not find ways to spend the money properly for civic services. The claim of other wayside Village Panchayats to share the proceeds from mines and minerals from a particular Village Panchayat having quarries cannot also be ignored because of the frequent usage and damage to the roads of way side Village Panchayats.

64) Hence, the Commission recommends that 75% of the revenue from seigniorage fee due to a particular Village Panchayat having quarries be passed on to the respective Village Panchayat and the balance 25% be pooled by the District Collector concerned and shared with Village Panchayats identified as having to bear the brunt of mining/quarrying activity in the particular Village Panchayat.

SFC Devolution:

65) The existing vertical sharing ratio for RLBs is 58% of the divisible pool of SFC devolution. From out of this share, the sharing ratio for District Panchayats, Panchayat Unions and Village Panchayats is 8 : 32 : 60. From out of the share of Village Panchayats, 5% is allocated for Infrastructure Gap Filling Fund (IGFF). 50% of the IGFF was utilized for AGAMT and from out of the balance, 25% was retained by CRD & PR and 75% by the District Collector for providing basic amenities in the Districts depending on the needs and at their discretion. Commission observed that the IGFF need not be distributed to all Village Panchayats and the IGFF works have to be project based and spent on weak/needy Panchayats. Since AGAMT has been concluded, that portion has now been allocated to the 'Tamil Nadu Village Habitation Improvement Scheme' (THAI).

66) From out of the 55% share of Village Panchayats in SFC devolution, a minimum lumpsum grant of Rs.3.00 lakh per Panchayat per annum is sanctioned by the Government in order to meet the requirements towards EB / TWAD bills. The gross SFC grants transferred to each tier of RLBs are as follows:

Table-IV-(33)
State Finance Commission Grant

(Rs. in crore)

Commissions	Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
Second SFC	2005-06	499.27	426.25	69.23	**994.75**
	2006-07	596.62	548.06	80.08	**1224.76**
Third SFC	2007-08	950.15	506.75	126.69	**1583.59**
	2008-09	1029.86	549.26	137.31	**1716.43**
	2009-10	1073.20	577.38	275.97	**1926.55**
	2010-11(R.E)	1688.93	900.76	225.19	**2814.88**
	2011-12(RBE)	1999.48	1066.39	266.60	**3332.47**

Source: Budget documents.

Till 2006-07, 8% of SOTR was shared among the local bodies. From 2007-08 to 2011-12, the global sharing ratio was increased to 9%, 9%, 9.5%, 10% and 10% respectively. The hike in devolution percentage increased the quantum of SFC devolution to each tier of RLBs significantly.

Table – IV-(34)

SFC Devolution and other grants per Village Panchayat

(Rs. in lakh)

Year	SFC Devolution*	Other Grants	Total
2005-06	2.55	0.96	3.51
2006-07	3.40	1.17	4.57
2007-08	4.40	0.94	5.34
2008-09	4.43	1.16	5.59
2009-10	5.22	1.56	6.78

- Excluding minimum lumpsum grant of Rs.3.00 lakh

During the District sittings and interactions with the Heads of Departments concerned, it was proposed to increase the quantum of minimum lumpsum grant, IGFF and sharing ratios for each tier of PRIs. The Commission examined all the issues put forth before it and suitable recommendations have been made in the chapter on Scheme of Devolution.

Central Finance Commission Grant:

67) The 12th Central Finance Commission grants for the five year period from 2005-2010 was Rs.870.00 crore at the rate of Rs.175.00 crore per year. During 2005-06 and 2006-07 the amount was shared by Village Panchayats and Panchayat Unions. From 2007-08 onwards, the entire amount has been transferred to Village Panchayats. The following are the breakup of the Central Finance Commission Grant to the 2 tiers of Panchayat Raj Institutions.

Table – IV-(35)
Twelfth Central Finance Commission Grant
(Rs. in crore)

YEAR	Panchayat Unions	Village Panchayats	Total
2005-06	34.80	139.20	174.00
2006-07	17.40	156.00	174.00
2007-08	0.00	174.00	174.00
2008-09	0.00	174.00	174.00
2009-10	0.00	174.00	174.00
Total	**52.20**	**817.80**	**870.00**

The XIII Finance Commission grant consists of two components namely General Basic Grant of Rs.2016.32 crore and General Performance Grant of Rs.1067.49 crore for 5 years. For the year 2010-11, General Basic Grant of Rs.287.10 crore was released and the General Performance Grant due from 2011-12 has not been released by GOI since the 9 conditionalities are yet to be fulfilled by the State Government.

68) The General Basic Grant is released to the Village Panchayats on the basis of population for utilization towards operation and maintenance of water supply, street lights, sanitation and for payment of electricity charges for water supply and street lights. For release of General Performance Grant, XIII Finance Commission laid down 9 conditionalities of which those relating to PRIs and their present status are discussed below:

i) **The State Government must put in place a supplement to the budget documents for local bodies (separately for PRIs and ULBs) furnishing the details (other than those relating to Finance Accounts). PRIs to maintain accounts consistent with the Model Panchayat Accounting System.**

At present, statements showing the transfer of funds from the State/Central Government to all local bodies are appended to the Budget Memorandum of the State Government. A separate supplementary document to the budget covering all fund transfers to both PRIs and ULBs including those transferred from Government of India directly to PRIs through DRDA, has to be placed in the State Legislature. Regarding the maintenance of Accounts in compliance with the Model Panchayat Accounting System, the issues are dealt with separately under Chapter. VIII.

ii) **Annual Technical Inspection Report as well as the Annual Report of the Director of Local Fund Audit must be placed before the State Legislature. Certification from the C&AG will demonstrate compliance with this condition.**

Commission observed that proposals are under examination of the Government.

iii) **The State Government must put in place a system of independent local body ombudsmen who will look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials, and recommend suitable action. This system should be made applicable to all elected functionaries and officials in all municipal corporations, municipalities and zilla parishads at least.**

Commission observed that proposals are under examination of the Government.

iv) **The State Government must put in place a system to electronically transfer local body grants provided by the Central Finance Commission to the respective local bodies within five days of their receipt from the Central Government.**

As of now, the CFC grants are released by the CRD & PR to the District Collectors electronically through the core banking/real gross settlement systems. The District Collectors in turn release the funds to the Village Panchayats electronically to the branches of the nodal banks wherever feasible. The entire process of electronic fund release is completed within 3 to 5 days. For other branches, the funds are transferred through Demand Drafts by the District Collectors. Commission observed that the condition is already complied with.

v) **The State Government must prescribe through an Act the qualifications of persons eligible for appointment as members of the SFC consistent with Article 243 I (2) of the Constitution.**

Commission observed that the issues are already complied with.

vi) **All local bodies should be fully enabled to levy property tax (including tax for all types of residential and commercial properties) and any hindrances in this regard must be removed.**

As per the Tamil Nadu Village Panchayats (Assessment and collection of Taxes) Rules, 1999, the Inspector of Panchayats may for sufficient cause, postpone the general revision of assessment book or stay the proceedings relating the general revision for a period of one or more half years at a time but not exceeding in any case four half years. This impediment has to be reviewed and remedied. Even in cases where there is no order for postponement from the Inspector of Panchayats, the Village Panchayat Presidents are not revising the house tax periodically. Alternate solution to this problem is discussed elsewhere in the Chapter.

69) **The Commission recommends the following:**

i) A separate supplementary document to budget covering all fund transfers to both PRIs and ULBs including those transferred from Government of India directly to PRIs through DRDA, be placed in the State Legislature.

ii) In respect of placing of annual report of DLFA on local bodies in the legislature, constitution of ombudsman as in Kerala and Karnataka and to remove the hindrance in the general revision of house tax, the issues be positively addressed by the government and orders issued so as to keep fiscal discipline and to enable augmentation of own resources.

Earmarked Fund Account:

70) The total funds received from the 12th Finance Commission was fully allotted to Village Panchayats from the year 2007-08, as a result, the average funds received from the Central Finance Commission by a Village Panchayat had gone up from Rs.53419/- in 2005-06 to Rs.140904/- in 2009-10. From the year 2007-08, the Government is allotting Rs.3.00 lakh as minimum lumpsum grant from SFC devolution to all the Village Panchayats which goes to the earmarked fund account for the purpose of payment of EB/TWAD bills. The details are given below.

Table – IV-(36)
Revenue per Village Panchayat from Earmarked Fund Account
(In Rupees)

	2005-06	2006-07	2007-08	2008-09	2009-10
Central Finance Commission Grant	53419	96109	134538	160948	140904
Minimum SFC devolution Grant	--	--	212703	300754	140321
Interest	2444	4118	5572	9613	6234
Total	**55863**	**100227**	**352813**	**471315**	**287460**

Scheme Fund:

71) The Village Panchayats receive funds from various schemes such as IAY, CRSP, etc. The average receipts in scheme fund per Village Panchayat had gone up from Rs.3.27 lakh in 2005-06 to Rs.7.10 lakh in 2009-10. More funds flow to the Village Panchayats under IAY. The details are presented below.

Table – IV-(37)
Average Revenue per Village Panchayat from Scheme Funds
(In Rupees)

	2005-06	2006-07	2007-08	2008-09	2009-10
SGRY	126396	111046	109930	25469	-
CRSP	7958	5346	9230	11368	20074
IAY	101751	88153	199112	251449	403598
Kutcha House improvement	14634	9234	15119	21319	31757
RIS	-	-	-	112854	137048
Interest	3321	3942	8921	5498	9394
Others	72708	32405	45956	72283	108202
Total	**326769**	**250126**	**388269**	**500239**	**710073**

NREGS Account:

72) The Village Panchayats are maintaining a separate account for National Rural Employment Guarantee Scheme. The flow of funds from this scheme had substantially increased from Rs.0.26 lakh in 2005-06 to Rs.12.84 lakh in 2009-10, as indicated below.

Table – IV-(38)
Average Revenue from NREGS per Village Panchayat
(In Rupees)

Year	NREGS	Interest	Total
2005-06	18105	8365	**26469**
2006-07	127178	7489	**134667**
2007-08	363963	3038	**367002**
2008-09	897213	8454	**905667**
2009-10	1273512	10760	**1284272**

STATE SCHEMES

Rural Infrastructure Scheme

73) After the discontinuance of Sampoorna Grameen Rozgar Yojana, a new scheme called Rural Infrastructure Scheme was introduced with an allocation of Rs.350.00 crore. The above scheme was continued in 2009-10 with an allocation of Rs.380.00 crore from SFC devolution intended for each tier which was shared by Village Panchayats (Rs.200 Crore), Panchayat Unions Rs.120.00 crore and District Panchayats (Rs.60.00 crore). This scheme is primarily intended to create basic infrastructure facilities like cement concrete roads and

buildings. In 2009-10, maintenance of minor irrigation tanks was taken as a priority work by Panchayat Unions and District Panchayats. This is met from the SFC devolution to PRIs.

Anaithu Grama Anna Marumalarchi Thittam (AGAMT)

74) This scheme was introduced from 2006-07. The scheme aims at substantial flow resources into the Village Panchayats in five years so that they can provide the statutory services as envisaged under the Tamil Nadu Panchayats Act, 1994 and to provide infrastructure in rural areas. Under this scheme, works will be selected by a committee consisting of BDO (Village Panchayat), Assistant Engineer (R.D.) / Block Engineer, Village Panchayat President and Village Administrative Officer. The works should be approved by Grama Sabha. The works taken up under this scheme are:

i) C.C. Roads
ii) One pond / oorani at a cost not exceeding Rs.3.00 to 5.00 lakh
iii) Burial ground improvement
iv) School Sports Centre
v) Construction of library or modification of existing building
vi) Purchase of books worth at least Rs.50,000/-
vii) Village Shandies.

The funds for the schemes are partly met from the Infrastructure Gap Filling Fund of SFC devolution meant for Village Panchayats. Year-wise allocation for AGAMT is as given below:

Table–IV-(39)

(Rs. in crore)

Year	Total allocation for AGAMT	Amount met from IGFF
2006-07	513.08	-
2007-08	511.87	39.59
2008-09	509.04	42.90
2009-10	507.02	51.62

Source: CRD&PR.

Rural Infrastructure Development Fund

75) NABARD assisted Rural Infrastructure Development Fund to the tune of Rs.414.58 crore has been spent during 2008-09 to upgrade the Panchayat and Panchayat Union roads to the length of 2691.73 kms. In 2009-10, Rs.200.00 crore has been spent for upgrading the roads to a length of 1495 kms.

Namakku Naame Thittam

76) Namakku Naame Thittam is implemented as a State sponsored scheme with a minimum of 1/3 amount from public contribution and 2/3 by Government. This scheme is

intended for construction of Government/local body school buildings, libraries, primary health centers, noon meal centers, creation of water supply sources, bridges and culverts etc. A sum of Rs.50.00 crore was allotted by Government for 2009-10 and 2010-11.

Agency functions:

Pradhan Mantri Gram Sadak Yojana

77) The Govt. of India assisted Pradhan Mantri Gram Sadak Yojana scheme has been in operation from December, 2000 to provide all-weather roads to all rural habitations with population of more than 1000. From 2003 onwards, this is extended to all rural habitations with population between 500 and 1000. This is a 100% centrally assisted scheme and it is executed by State Rural Road Development Agency under Rural Development Department. The details of year-wise allocation and the length of kms for which works were taken up are furnished below:

Table – IV-(40)

Year	Amount released (Rs. in crore)	Length in k.m.
2005-06	58.95	799.69
2006-07	20.00	
2007-08	71.02	2082.54
2008-09	88.68	
2009-10	520.00	3031.09

Source: RD Department.

Other Government of India Grants

a) Total Sanitation Campaign

78) Government of India restructured Total Sanitation Programme has been in operation from April, 1999. Under this scheme, funding is 80 : 20 by Government of India and State Government respectively for construction of houses, household toilets, school toilets, Anganwadi toilets and for information, education and communication activities, administrative cost and rural sanitary marts. In respect of individual household toilet, it is in the range of 60 : 28 : 12 whereby beneficiary contributes 12%, State Government 28% and Central Government 68%. In respect of School and Anganwadi toilets, the funding is 70 : 30 by the Central and State Government respectively. Year-wise allocation under the scheme is as below:

Table–IV-(41)

(Rs. in crore)

Financial Year	Amount released			
	Centre	State	Beneficiary contribution	Total
2005-06	77.87	24.47	18.34	**120.68**
2006-07	48.74	46.17	11.31	**106.22**
2007-08	22.43	23.68	20.02	**66.13**
2008-09	4.73	19.97	9.69	**34.39**
2009-10	61.66	22.16	6.60	**90.42**

Source: D.R.D.

Expenditure

79) The Village Panchayats are incurring expenditure for maintenance, administration, capital formation etc. The total expenditure of the Village Panchayats had gone up from Rs.1101.47 crore in 2005-06 to Rs.2102.98 crore in 2007-08 and further to Rs.3953.00 crore in 2009-10 recording an annual average growth rate of 38.0 percent. The details of Account-wise expenditure incurred by the Village Panchayats are presented below.

Table–IV-(42)

Account-wise Expenditure of Village Panchayats

(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Account I	728.09	875.21	1106.24	1204.51	1535.28
Account II	62.52	124.09	168.72	442.47	297.03
Account III	297.52	260.27	380.79	427.04	603.79
Account IV	13.34	122.56	447.23	905.57	1516.90
Total	**1101.47**	**1382.13**	**2102.98**	**2979.59**	**3953.00**

Composition of Village Panchayat Expenditure:

General Administration:

80) In the General Administration head, the expenditure is incurred towards payment of salary to the staff, rent for buildings, telephone charges, meeting expenses, purchase of stationery and other contingent expenditure. On an average each Village Panchayat is spending Rs.1.39 lakh towards salary and wages out of Rs.2.15 lakh of the general administration expenditure. This accounts for 64.97% of the total general administration

expenditure. This is due to the grant of scale of pay for Panchayat Assistants and Makkal Nala Paniyalar and Sweepers. Similarly, the consolidated pay of overhead tank operator has been enhanced to Rs.2,000/- per month. This will add burden in the coming years with the grant of D.A and annual increments to the above staff, particularly during the award period of Fourth SFC.

Table–IV-(43)
Composition of average expenditure per Village Panchayat
(In Rupees)

	2005-06	2006-07	2007-08	2008-09	2009-10
General Administration					
Pay & Allowances	49222	55425	69182	87291	139406
Allowances for elected representatives	6975	6810	8025	8804	9149
Stationery	4678	5572	6042	6161	7010
Rent for buildings	378	472	540	407	608
Insurance amount paid for employees	2675	3077	3220	3237	4462
Bonus	362	1522	2649	3660	3847
Pay arrears for employees	306	310	711	3324	16778
Telephone charges	564	672	1093	1208	1395
Grama Sabha meeting	1385	1196	1543	1891	2304
Advertisement expenditure	1924	1457	3154	3791	4677
Other administrative expenditure	13316	15830	21360	19837	24918
Total	**81785**	**92341**	**117520**	**139610**	**214554**

Electricity Charges:

81) Under electricity charges, street lights, water pumps, buildings accounted for a major chunk of 96.44 percent in 2005-06 and this had come down to 83.37 percent in 2009-10. However in absolute terms, the expenditure doubled from Rs.1.12 lakh per Village Panchayat in 2005-06 to Rs.2.10 lakh in 2009-10. The table presents the average electricity charges paid by a Village Panchayat.

Table–IV-(44)
Average Electricity Charges per Village Panchayat
(In Rupees)

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Electricity Charges					
Street lights	47113	60496	32261	20108	20035
Water pumps	43554	53875	32926	16561	15650
Village Panchayat buildings	6517	7142	4578	2359	2427
CC charges	15031	47584	79455	167707	171581
Total	**112214**	**169096**	**149221**	**206736**	**209692**

Maintenance Expenditure:

Operation & Maintenance:

82) The expenses incurred under the head are:

a. Electricity charges towards street lights, water supply and building maintained by Village Panchayats.

b. Repairs and maintenance for hand pump, power pump, mini motors and purchase of spares for street lights and for buildings maintained by Village Panchayats.

c. Maintenance of roads, bridges, and streets.

The average expenditure towards O & M which was at Rs.2.81 lakh per Village Panchayat in 2005-06 went up to, Rs.6.20 lakh in 2009-10. This is due to increase in the number of assets every year and the increased necessity to maintain those assets. The details of expenditure incurred towards salary and O & M for the period from 2005-06 to 2009-10 are given below:

Table–IV-(45)

(**Rs. in crore**)

Head	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
General Administration	103.21	116.53	148.31	176.19	270.77
Electricity Charges	146.84	227.21	214.91	333.59	317.41
Maintenance	355.36	430.91	599.36	649.43	782.19
Others	15.91	22.62	20.83	127.62	14.45
Total:	**621.32**	**797.27**	**989.31**	**1286.83**	**1384.82**

Source: D.E.A.R. Report

The Village Panchayats have to spend a substantial amount for maintenance so as to safeguard the assets created. In 2005-06, on an average, a Village Panchayat had spent Rs.2.81 lakh towards maintenance and this had improved to Rs.6.20 lakh in 2009-10. In 2009-10, major amount was spent for the purchase of spare parts for hand pumps / power pump / mini motors (Rs.1.96 lakh), followed by purchase of spare parts for street lights (Rs.1.37 lakh). The Village Panchayats were spending around Rs.88190/- for the maintenance of streets / roads / bridges. The details are given below.

Table–IV-(46)
Average maintenance expenditure per Village Panchayat
(In Rupees)

	2005-06	2006-07	2007-08	2008-09	2009-10
Maintenance of open wells / tanks	9550	10443	15915	16993	21500
Purchase of spare parts for hand pump / power pump / mini motors	75425	90001	138529	161029	195829
Purchase of spare parts for street lights	59244	74971	98879	112235	137446
Maintenance of TV and radio	2751	2127	3096	2301	2495
Maintenance of women sanitary complex	2247	2231	3827	3771	6619
Maintenance of street / roads / bridges	58019	63066	86919	82394	88190
Remittance of Library Cess	3077	3302	4800	4262	5288
Maintenance of VP buildings	4492	5693	8380	8374	10131
Maintenance of burial / burning ground	2298	3054	5026	5523	7404
Maintenance of tools and plants	1940	3127	4641	4254	4762
Maintenance of panchayat properties	1496	1585	2262	2135	2738
Maintenance of drainage	4035	4040	7249	7485	9381
Purchase of sanitary materials	11444	14158	22834	24826	29079
Maintenance of playground	389	704	1965	3588	8511
Expenditure for sports competition	311	417	719	1484	9680
Funeral rights grants	2226	2734	2974	2996	3293
Maintenance of VP markets	776	1009	1483	1808	2915
Drainage	3162	4403	2732	3829	1714
Public toilets	1007	1140	1285	2866	364
Anganvadi buildings	515	648	760	2596	651
Noon meal centres	521	802	1023	2464	790
Other expenditure	36664	51792	59626	57409	71021
Total	**281587**	**341446**	**474926**	**514604**	**619800**

Capital Expenditure:

83) The Village Panchayats at the grass root level have to provide the basic civic amenities to the public for which they are spending on capital works. The average amount spent by a Village Panchayat on capital works had increased from Rs.3.57 lakh in 2005-06 to Rs.8.01 lakh in 2009-10. In 2005-06, Streets, Roads and Bridges accounted for a higher proportion of 43.7 percent followed by IAY with 25.49 percent. In 2009-10, a major portion was towards IAY (44.36%) followed by Streets, Roads & Bridges (22.47%). One of the reasons for this shift may be after the introduction of Pooled Assigned Revenue, many of the

Peri Urban Panchayats did not get their due share from stamps and registration. Due to lack of fund, they were unable to take up new road works. The details are presented below.

Table–IV-(47)

Average Capital Expenditure per Village Panchayat

(In Rupees)

	2005-06	2006-07	2007-08	2008-09	2009-10
Tools & Plants	2962	2284	3793	4110	4459
Open Well / Tanks	3564	4242	5570	6273	8998
Hand Pump	4488	4876	7452	11060	12269
Power Pump	9344	11175	16969	20799	28948
Mini Motors	3163	3731	6427	7939	11783
Extension of Water Supply	19797	24068	42845	50910	61198
Extension of Street Lights	12061	15936	22995	25812	29819
TV & Radio	1329	1295	1149	1722	2061
Drainage	19058	18663	23339	26948	25554
Public Toilets	6599	6135	7083	9595	11774
VP Buildings	4230	5383	6224	7997	11648
Street / Roads / Bridges	156199	153722	160490	167962	179939
Library	921	775	799	1426	2179
School Buildings	4239	3081	3513	5307	8762
Noon Meal Centres	4634	3936	4372	8391	9676
IAY	91108	77862	180293	218844	355191
Others	13737	15534	21258	28511	36447
Total	**357433**	**352698**	**514570**	**603607**	**800704**

A consolidated financial statement for Village Panchayats is shown at **Annexure-IV-(3)**

Peri Urban Panchayats - Need for special focus

84) The Village Panchayats closer to the Municipalities or Municipal Corporations within a radius of 7 K.ms, the so called Peri-Urban Panchayats reflect the urban features and demand for basic facilities are also on the increase due to growth of such Village Panchayats on a par with neighbouring urban local bodies. The District Collectors identified and reported to the Commission 671 numbers of Peri Urban Panchayats. 2011 Census classified 374 Village Panchayats having urban characters as Census Towns. The issues influencing the finances of such Peri Urban Panchayats and which attracted the attention of the Commission are the following:

- Heavy influx of people from the neighbouring ULBs to these Panchayats due to higher cost of living, congestion, water scarcity etc. in the neighboring ULBs.

- Increased real estate activities resulting in more registration of properties but because of pooling of surcharge on stamp duty at State level, the share of Peri Urban Panchayats has been reduced as against the actual collections.

- There is no special consideration by the Department on administrative and financial issues of Peri Urban Panchayats since the staff strength and the sharing pattern of SFC devolution and other grants are on the same scale as applied for other Village Panchayats.

- The residents of those Panchayats need infrastructure facilities on a par with the neighbouring urban local bodies and the pressure on infrastructure burdens such Village Panchayats.

- Certain Peri Urban Panchayats implement Solid Waste Management Schemes with the assistances of NGOs, SHGs and resident welfare associations with much financial strain. Such Panchayats cannot recruit conservancy staff for the vacant positions, in view of the low pay. If they want to outsource certain services, there has to be a policy back up from the Department.

Field Studies by E&AR Department on behalf of the Commission raise the following issues:

- In Ayapakkam Village Panchayat, road work was not carried out in the last two years and in Kattupakkam, no road work was executed in the last five years, for want of funds. As the road facilities were not provided, the residents resisted the revision of house tax. In Kattupakkam, only Re.0.50/- per sq. ft. has been collected as house tax from 1.4.2010.

- In Kattupakkam, as per 2001 Population Census, the total population was only 5439, whereas the current population is nearly 45000, roughly eight fold increase. On the contrary, the SFC grants have so far been released only on the basis of 2001 Census population, thus the fund flow is not on par with the growing population and civic needs.

- Another specific problem to the Peri-Urban Panchayats is the provision of drainage facilities much needed by the public. The funds available with the Peri Urban Panchayats are not sufficient to undertake drainage works.

- The Solid Waste Management poses a big problem to several Peri Urban Panchayats. These Village Panchayats do not have their own land to dispose off the garbage. Sanitation staffs are insufficient. Most of the Peri Urban Panchayats hire tractors to clear the garbage.

Considering the fact that the Peri Urban Village Panchayats eventually get merged with the neighboring ULBs and unless the infrastructure issues are addressed adequately and promptly, they soon become insurmountable problems. The Commission felt the need to address the issue comprehensively including administrative issues. Commission views that the financial burden and the administrative issues stressing the Peri Urban Panchayats need to be sorted out by the State Government through additional sanctions of funds and functionaries as well as by the Peri Urban Panchayats through augmentation of own resources. The administrative issues relating to the engagement of additional sanitation staff towards solid waste management activities have to be looked into by the HOD by relaxing the norms for appointment. The guide line and market value of lands in Panchayat areas in the vicinity of ULBs are nowadays appreciating fastly. When such lands are kept idle by the plot owners, it affects the generation of revenue by such Peri Urban Panchayats. Moreover, civic services like road, street lighting etc have to be provided by such Panchayats covering the vacant lands also. Hence, there is a need to empower the Peri Urban Panchayats to levy vacant land tax based on plinth area as in ULBs by amending the Tamil Nadu Panchayats Act, 1994. Suitable and reasonable relief package is also suggested by the Commission in **Chapter. XI.**

85) Considering the issues mentioned above, Commission recommends the following:

i) **The norms for appointment of sanitation staff in Peri Urban Panchayats be revised by CRD & PR so as to facilitate the Peri Urban Panchayats to appoint additional sanitation staff to meet the growing needs on solid waste management activities.**

ii) **Commissioner of Rural Development and Panchayati Raj may also issue guidelines for engaging NGOs or outsourcing solid waste management activities following the best practices already in vogue in some Village Panchayats.**

iii) **The Peri Urban Panchayats be empowered to levy vacant land tax (VLT) for house sites other than agricultural lands based on plinth area as in ULBs by amending the Tamil Nadu Panchayats Act, 1994.**

CHAPTER-V

ASSESSMENT OF FINANCES OF URBAN LOCAL BODIES

> *"City is dependent on a sophisticated population that makes a hundred compromises daily so that they can benefit from the collective energy that a city generates."*
>
> *-Robert N. Davis.*

The Commission has to review, among others, the financial position of urban local bodies viz., town panchayats, municipalities and municipal corporations and to make recommendations regarding the principles governing the distribution of net proceeds of the taxes, duties, toll and fees levied by the State Government between the State and the local bodies, to determine the taxes, duties, tolls and fees to be assigned to local bodies and the grants-in-aid to be transferred to local bodies from the Consolidated Fund of the State. Para 3 (b) of the ToR necessitates the Commission to recommend on the measures needed to improve the financial position of local bodies and to suggest possible new avenues for tapping resources in local bodies. The tier wise financial position of urban local bodies is analysed as under.

2) While studying the tier wise financial position of urban local bodies, the Commission observed that the resource base of local bodies is not elastic as revision of all taxes and non taxes is done once in 5 years. The buoyancy in property tax is through increase in property stock which is dependent on market conditions. Besides, the local bodies have been subjected to control over their tax domain through the powers vested with the Government. As a result, the local bodies are unable to bear the increase in expenditure without augmenting own income on par with the growing expenditure. Further, the elected Councils are also reluctant to increase the tax base for various reasons. The Government needs to play a pro-active role to contain the recalcitrant attitude of the local bodies which fail to undertake the statutory functions and raise resources.

3) After the enactment of 73rd and 74th Constitutional amendments, three State Finance Commissions have analysed the resource base of the Urban Local Bodies and made recommendations. The main income from own-tax revenue of Urban Local Bodies comes from property tax. However, various studies have established that the property tax has not been exploited to its full potential owing to improper valuation, absence of regular updating of assessments and apathy of the enforcement wing.

4) The basic details on each tier of ULBs are shown below:

Table-V-(1)

Tier	No.of ULBs	2011 Census Population*	Percentage in total urban population	Area (Sq. Kms)
Municipal Corporations	10	14251794	45.25	1675.61
Municipalities	150	9075672	28.82	2605.19
Town Panchayats	559	8167559	25.93	7011.94
Total	**719**	**31495025**	**100.00**	**11292.74**

*Provisional population after factoring expansion of ULBs.

Revenue receipts

(I) Own Tax Revenue

(A) Property Tax

Municipal Corporations

5) The main source of own tax revenue is from Property tax followed by Profession tax and vacant land tax. The DCB for property tax is as follows:

Table-V-(2)

Property tax

(Rs. in crore)

		2005-06	2006-07	2007-08	2008-09	2009-10
Demand*	Current	368.57	390.50	406.74	477.43	499.59
	Arrear	395.52	408.51	396.29	346.35	345.67
Total		**764.09**	**799.01**	**803.03**	**823.78**	**845.26**
Collection*	Current	210.62	268.25	313.57	357.66	406.78
	Arrear	138.51	109.67	125.69	137.24	188.26
Total		**349.13**	**377.92**	**439.26**	**494.90**	**595.04**
Balance	Current	157.95	122.25	93.17	119.77	92.81
	Arrear	257.01	298.84	270.60	209.11	157.41
Total		**414.96**	**421.09**	**363.77**	**328.88**	**250.22**
Percentage of Collection	Current	57.15	68.69	77.09	74.91	81.42
	Arrear	35.02	26.85	31.72	39.62	54.46
No. of assessments		1510398	1558241	1599359	1639509	1688316
Percentage of growth		--	3.17	2.64	2.51	2.97

*** Demand and collection include library cess.**

The current demand shows a growth at 5.95% in 2006-07, 4.16% in 2007-08, 17.38% in 2008-09 and 4.64% in 2009-10. It can also be seen that the arrear demand as a percentage of current demand though has come down from 107% in 2005-06 to 69% in 2009-10 is still very high and highlights the need to pay adequate attention to collection effort. The minimum increase during general revision should be at 25% but the growth in current demand during 2008-09 is less than 25% which is due to non-revision of property tax in Chennai Corporation, under assessments and non-assessments. The full effect of general revision is not exhibited in terms of growth in assessment during the general revision year and also the subsequent year. It is to be noted that even after the implementation of self-assessment method way back in 1993 in Chennai Corporation and in 1998 in other Municipalities, the under and non-assessments do exist since enumeration of properties are not done effectively and seriously every year in most of the ULBs. Moreover, there is no system for the enumeration of property tax assessees every year. Even the existing practice of getting monthly revision lists from the bill collectors and maintenance of check registers by the wing of Revenue Department and Town Planning Department is not effectively followed. Field visit of the consultant engaged by the Commission shows that whatever the monthly lists furnished by the bill collectors are accepted in toto by the executive authorities without causing any inspection of the properties and taxes calculated as per the norms by such authorities. Studies reveal that the revision lists are prepared on the basis of the representations of the owners of buildings only and not on the basis of regular field visits made by the bill collectors. Hence, it cannot be taken as granted that the lists furnished by the bill collectors covered all the new buildings, additional constructions etc.

6) It is observed that among the three tiers of ULBs, the growth in revenue from property tax is the least among the Corporations. This is mainly due to non revision of property tax in Chennai. It is also observed that the water charges in Chennai are also not revised for a very long time for a majority of domestic consumers.

7) The Chennai Corporation which has to meet a huge gap in infrastructure provision should feel financially bold to plan for future demand and improve its maintenance functions. Given this requirement, non revision of property tax will seriously affect the revenue mobilization effort of the Corporation and consequently will be a contributing factor for infrastructure gaps and deficiency in maintenance. A situation of no revision in the Corporation, while the surrounding Municipalities, Town Panchayats and Village Panchayats keep revising property tax and user charge is also inexplicable.

8) The following table shows the composition of property tax in total own income of Municipal Corporations:

Table-V-(3)
Property Tax - Receipts

(Rs. in crore)

Details	2005-06	2006-07	2007-08	2008-09	2009-10
Property Tax*	338.15	364.93	422.40	479.42	575.54
Total Own Income	647.40	724.52	829.84	915.18	1069.12
Percentage of Property tax in Own Income	52.23	50.37	50.90	52.39	53.83

*Excluding library cess

Own income other than property tax covers Profession tax, Vacant Land Tax, Advertisement tax and Non-tax revenue.

Table-V-(4)
No. of assessees as on 31.3.2010 (Property Tax)

S.No	Type	No.of assessees
1	Residential	1448159
2	Commercial	214700
3	Industrial	15389
4	Others	7319
5	Exempted	2749
	Total	**1688316**

Municipalities

Table-V-(5)
Property tax

(Rs. in crore)

		2005-06	2006-07	2007-08	2008-09	2009-10
Demand*	Current	200.11	209.50	220.66	296.69	316.43
	Arrear	212.30	235.08	228.23	223.00	263.10
Total		**412.41**	**444.58**	**448.89**	**519.69**	**579.53**
Collection*	Current	132.82	148.15	158.05	198.78	233.57
	Arrear	46.52	60.53	57.36	60.69	91.56
Total		**179.34**	**208.68**	**215.41**	**259.47**	**325.13**
Balance	Current	67.29	61.35	62.61	97.91	82.86
	Arrear	165.78	174.55	170.87	162.31	171.54
Total		**233.07**	**235.90**	**233.48**	**260.22**	**254.40**
Percentage of Collection	Current	66.37	70.72	71.62	67.00	73.81
	Arrear	21.91	25.75	25.13	27.22	34.80
No. of Assessments		2299178	2371956	2460787	2531027	2627767
Percentage of growth			3.17	3.75	2.85	3.74

***Including library cess**

The current demand shows a growth at 4.69% in 2006-07, 5.33% in 2007-08, 34.46% in 2008-09 and 6.65% in 2009-10. The full effect of general revision is exhibited during 2008-09 in terms of current demand during the general revision year. Arrear demand as a percentage of current demand has come down from 106% in 2005-06 to 83% in 2009-10 but comparatively increased arrear collection in 2009-10 constitutes only 35% of arrear demand. The status of arrear collections highlight the need to significantly improve collection effort.

Table-V-(6)

Property Tax - Receipts

(Rs.in crore)

Details	2005-06	2006-07	2007-08	2008-09	2009-10
Property tax*	164.45	191.38	197.39	238.50	298.79
Total own income	421.69	506.55	527.53	575.22	677.22
Percentage of Property tax in own income	39.00	37.78	37.42	41.46	44.12

***Excluding library cess**

The no. of assessees in different categories for 2009-10 is given below:

Table-V-(7)

No. of assessees of property tax as an 31.3.2010

Category	Numbers
Residential	22,51,568
Commercial	3,10,802
Industrial	37,507
Others	16,332
Exempted	11,558
Total	**26,27,767**

Town Panchayats

Table-V-(8)

Property tax

(Rs. in crore)

		2005-06	2006-07	2007-08	2008-09	2009-10
Demand	Current	49.89	53.27	58.44	95.10	101.98
	Arrear	35.40	37.21	38.50	35.55	58.68
Total		**85.29**	**90.48**	**96.94**	**130.65**	**160.66**
Collection	Current	39.07	43.02	48.87	62.84	82.48
	Arrear	9.00	9.58	12.68	8.46	23.86
Total		**48.07**	**52.60**	**61.55**	**71.30**	**106.34**
Balance	Current	10.82	10.25	9.57	32.26	19.50
	Arrear	26.40	27.63	25.82	27.09	34.82
Total		**37.22**	**37.88**	**35.39**	**59.35**	**54.32**
Percentage of Collection	Current	78.31	80.76	83.63	66.08	80.87
	Arrear	25.42	25.75	32.94	23.81	40.66
No. of Assessments		2192016	2256356	2327051	2471172	2487937
Percentage of growth		--	2.94	3.13	6.19	0.71

The current demand shows steady growth from 2005-06 to 2007-08 and the spurt in 2008-09 is due to the general revision. The full effect of general revision is exhibited in 2008-09 in terms of current demand which shows a growth of 63%. However, the percentage of collection shows a dip in 2008-09 i.e. the general revision year due to various processes in the revision and the actual collections including arrears during 2009-10 shows the effect of general revision. Arrear demand as a percentage of current demand in 2005-06 was 71% whereas the same for 2009-10 is 58%. The arrear collection in 2009-10 constitutes 41% of arrear demand. The current collection as a percentage of current demand in 2009-10 is 81% which shows better collection efforts by Town Panchayats.

Table-V-(9)
Property Tax - Receipts

(Rs. in crore)

Details	2005-06	2006-07	2007-08	2008-09	2009-10
Property Tax	48.07	52.60	61.55	71.30	106.34
Total Own Income	195.62	229.23	252.67	279.36	347.34
Percentage of Property tax in Own Income	24.57	22.95	24.36	25.52	30.61

Table-V-(10)

No. of assessees as on 31.3.2010 (Property Tax)

S.No	Type	No.of assessees
1	Residential	2244438
2	Commercial	204480
3	Industrial	24345
4	Others	12456
5	Exempted	2218
	Total	**2487937**

a) Check Register

9) As per the Municipal Manual, a register of building licenses issued has to be maintained by recording all licenses issued for construction and reconstruction of buildings, date of completion or occupation and the proper assessment of tax. There is no system adopted in ULBs to furnish a report about the cases of unauthorized construction, additional construction made from the Town Planning Wing to Taxation Wing. Though the previous Commissions recommended to bring in co-ordination between these two wings, it has not been given effect to. Field visit shows that a copy of building license issued is marked to taxation wing but not actually received by that wing and recorded for bringing into assessment. Thus, there is lack of co-ordination between these two wings. This resulted in loss in revenue under building license fee and property tax.

10) During the Commission's interaction with CMA, he stated that a centralized web based application software has been developed to sort out the problems in linking the planning wing and the revenue wing of ULBs. Using this technology, the planning and revenue wings of ULBs can access the data base/application via secured intranet and the public also can have access to the required information over internet.

b) Self-assessment

11) Self-assessment of property tax was introduced in Tamil Nadu in 1998. Even after 13 years of its implementation, the response from the property owners for this system is not very encouraging. Either most of the assessees are not aware of this system or ULBs are not taking adequate efforts to create awareness among the building owners about this system. As a result, assessment of property tax is at the mercy of bill collectors in most cases. This also leads to loss in revenue to Municipal Corporations. Hence, there is a need to enforce self-assessment system compulsorily with field inspection by the assessing authorities.

c) General Revision

12) According rule-8 (1) of Schedule IV of the Tamil Nadu District Municipalities Act, 1920, the assessment books shall be completely revised by the executive authority once in 5 years. But on the contrary, general revision of property tax has not been conducted regularly once in 5 years due to intervention by the Government. The earlier general revisions made were during 1969, 1987, 1993, 1998 and 2008. The last revision on 01.04.2008 was not done by Chennai Corporation, Municipalities such as Kallakurichi, Villupuram, Periyakulam and Paramakudi. Section 8(1)(A) of schedule IV of the Act provides for the postponement of general revision by the State Government for a period of one or more half years at a time but not exceeding in any case seven half years. This provision will be a hindrance to the quinquennial revision by ULBs leading to loss in own revenue. The Commission feels that this provision has to be suitably amended not to come in the way of quinquennial revision by ULBs.

13) The general practice of conducting revision in the earlier years was that the executive authority shall conduct the revision who will be assisted by a Special Revision Officer. The Special Revision Officer inspected each and every house / building in the entire town, personally fixed the annual rental value and assessed the tax. It is a house to house enumeration and therefore there will be no chance for escaped assessments and under assessments. For the general revisions conducted in 1998 and 2008, no special revision officer was appointed and also no house to house enumeration was done. Building owners were requested to file self assessment returns under section 89 of Tamil Nadu District Municipalities Act, 1920 since it is an obligation on the part of each house owner to give notice to the executive authority within 15 days from the date of completion or occupation of the building whichever is earlier. In cases where no returns were received by the ULBs, the collection staff had to be deputed to obtain the returns from the assessees which pave way for the unholy compromise between the owners and bill collectors. Hence, there is a need to compulsorily enforce the system of filing self assessment returns by the assessees and incase of default a fine may be imposed on such assessees.

d) Ceiling on property tax revision

14) The guidelines issued by the Government during the general revision on 1.4.2008 prescribed the following ceiling for enhancement of property tax consequent on the quinquennial revision:

i.	Residential buildings (whether owner occupied or rented)	-	25%
ii.	For industrial buildings	-	100%
iii.	For commercial buildings	-	150%

The above ceiling is applied on the gross tax arrived after calculating the annual value of the property and allowing concession for the age and nature of the building. The loss in revenue to the ULBs due to this ceiling can be quantified by citing an example as given below:

"For an old residential building measuring 890 sq.ft. in ground floor and 890 sq.ft. in first floor, totaling to 1780 sq.ft, the annual value was arrived at Rs.21,104/- after allowing all the exemptions and the gross tax was arrived at Rs.2617/- per half year. The property tax fixed for this building prior to revision was Rs.470/- per half year. On applying the ceiling of 25%, the assessee had to pay only Rs.588/- per half year by applying 25% increase over the previous tax as against the actual gross tax of Rs.2617/- per half year. It is evident that in this single case the loss to local body is more than Rs.2,000/- per half year. Such assessees avail both the exemption for age of the building and also lesser payment due to ceiling. However, a new building constructed after the general revision on 1.4.2008 with the same area has to pay more than Rs.2617/- per half year".

15) Thus the uniformity in the rate of property tax could not be adopted on all buildings in Municipal areas as per section 84 of the Act. Though the intention of the Government is to curtail the exorbitant increase in tax due to revision and to avoid hardship to the assessees, the magnitude of loss due to this ceiling is a great concern to ULBs. Hence, taking cognizance of the issues mentioned above and having a responsibility to suggest on the augmentation of own revenue of local bodies, the Commission views that the ceilings on the fixation of tax provided in the guidelines have to be removed.

e) Incentive/Penalty on payment of property tax

16) Chennai Corporation has resolved to offer a rebate of 1% of property tax to the assessees who pay the tax promptly within fifteen days after commencement of the half year i.e. on or before 15th April and 15th October. Similarly, in case of belated payment of property tax, it has been proposed to charge 1% interest per month on any amount of tax unpaid within the half year. The proposals are under consideration of the Government. Commission feels that the concept of incentive/disincentive would work in collecting the property tax including arrears within the half year and hence there is a need to incentivize the prompt payment of property tax within 15 days from the commencement of the half year in respect of Chennai Corporation and 30 days in respect of other Corporations and Municipalities at 5% of the net

property tax subject to a maximum of Rs.5,000/- per half year per assessment and to penalize the defaulters at 2% interest per month on any amount of tax unpaid within the half year.

f) Collection Mechanism

17**)** Collection of municipal taxes at the door steps of the assessees has to be completely avoided so as to arrest defalcation if any. The assessees have to be motivated to pay the municipal taxes only at the collection centres. Moreover, collection through banks, post offices and online has to be encouraged in all ULBs. HDFC bank is doing the collection job successfully on behalf of Coimbatore Corporation thereby saving the staff cost and improving the collection performance. Similar efforts may be taken in all the urban local bodies.

g) Service Charges from Central Government Properties

18) The Supreme Court has upheld the right of levying service charges by local bodies on Central Government properties. Ministry of Urban Development, Government of India, had earlier issued guidelines to all State Governments citing the disposal of civil appeal filed by Rajkot Municipal Corporation and others versus Government of India before Hon'ble Supreme Court, for regulating the payment of service charges in respect of Central Government properties in the ratio of 75%, 50%, or 33 1/3% of Property tax depending on the utilization of full or partial or nil services. Eleventh Central Finance Commission observed that the payment of service charges by Central and State Governments should be regulated by suitable legislation. Thirteenth Finance Commission also agreed for this in its report and observed that bringing Central Legislation would take much time and hence suggested to the Central and State Governments to issue executive instructions to their respective departments to pay appropriate service charges to the local bodies. These instructions have been circulated among all ULBs in Tamil Nadu so as to facilitate the levy of service charges on Central Government properties. But still the levy of service charges on Central Government properties could not be given effect by ULBs and no amount could be collected from Central Government properties. This issue may be taken up with Government of India in MOUD for issue of suitable instructions or to bring in Central legislation as mentioned by the XI and XIII Central Finance Commissions.

h) Self-financing Educational Institutions

19) As per Section.83 (1) (c) of Tamil Nadu District Municipalities Act, 1920, the buildings used for educational purpose including hostels attached thereto shall be exempt from Property tax. The feedback obtained from Districts and various fora showcase the untapped tax potential from this source citing the heavy fees and donations collected by such institutions when compared to the Government Educational Institutions. In rural areas, the self-financing education institutions except a few exemptions are covered under house tax. The Commission observed that there is already a proposal to amend the Act in this regard which is under examination of the Government. Commission views that all the self-financing educational institutions other than those covered under charitable purpose in ULB areas have to be brought under tax net.

i) Implementation of GIS

20) The implementation of Geographical Information System (GIS) to map all properties in a city can significantly improve the coverage of properties as it provides the ULBs with a visual spatial tool for identifying the location of properties. Bangalore, Surat, Ahmadabad, Hyderabad, Delhi and Mumbai Municipal Corporations have completed GIS mapping and are beginning to use it for property tax assessment, although it needs to be supplemented with an updated register of assessees. The National Urban Information System (NUIS) of MOUD is engaging in an effort to develop and utilize GIS maps in 152 cities. In Tamil Nadu, action has been initiated to introduce GIS in Coimbatore, Madurai and Trichy Corporations, Rajapalayam and Gopichettypalayam Municipalities on a pilot basis. The scope of the project is to prepare property mapping and utility mapping with due linkage to Municipal Information System (MIS) for improving the collection of property tax and other taxes, infrastructure planning etc. The consultant appointed by the Government in this regard has prepared a web based GIS application for all the 5 ULBs. For the successful implementation of the GIS, cooperation of the property owners is essential. Since the cooperation from the property owners is not forthcoming as expected, the implementation of GIS would take much time and need to be pursued to its logical end. Commission views that GIS property mapping would significantly improve the property tax revenue in ULBs and hence GIS needs to be extended to bigger Municipalities and other Corporations.

j) Cell Phone Towers

21) The issues on taxing the buildings where cell phone towers are erected have been discussed in Chapter-IV. ULBs may also be facilitated to levy property tax as applicable to commercial buildings, for the buildings on which or the premises in which the cell phone towers are erected.

22) The Commission recommends the following:

i) Given the requirements for general revision in Chennai Corporation as mentioned in para-7 above, general revision be made by Chennai Corporation during the next due date and incase the general revision is postponed by the State Government the loss in revenue to Chennai corporation and CMWSSB be compensated by the Government.

ii) In case Chennai Corporation decides not to revise property tax, Chennai Corporation shall compensate CMWSSB on the income foregone by CMWSSB.

iii) The self-assessment system be enforced compulsorily with field inspection of self assessed properties by the assessing authorities and in case of default in filing returns, a fine of 100% of property tax be imposed on such assessees.

iv) The provision in the Tamil Nadu District Municipalities Act, 1920 towards the postponement of general revision by the State Government for a period of one or more half years at a time but not exceeding in any case seven half years be suitably amended so as to avoid hindrance to the quinquennial revision by ULBs.

v) The ceiling on the fixation of property tax fixed for general revision in respect of all categories of buildings provided in the guidelines issued by the Government be removed.

vi) The prompt payment of property tax within 15 days after the commencement of the half year in respect of Chennai Corporation and 30 days in respect of other Corporations and Municipalities be incentivized at 5% of the net property tax subject to a maximum of Rs.5,000/- per half year per assessment and the defaulters be penalized at 2% interest per month on any amount of tax unpaid within the half year.

vii) **Collection of property tax through banks, post offices and online be encouraged in all ULBs.**

viii) **Since GIS property mapping would significantly improve the property tax revenue in ULBs, GIS be extended to bigger Municipalities and other Corporations.**

ix) **The issues in the collection of service charges from Central Government properties be taken up with Government of India in MOUD for issue of suitable instructions or to bring in Central legislation as mentioned by the XI and XIII Central Finance Commissions.**

x) **All the self-financing educational institutions other than those covered under charitable purpose be brought under property tax net by suitably amending the Act.**

xi) **ULBs be facilitated to levy property tax as applicable to commercial buildings, for the buildings on which or the premises in which the cell phone towers are erected.**

(B) Profession Tax

Municipal Corporations

23) Profession tax is levied by 24 States. In States like Andhra Pradesh and Karnataka the tax is collected by the Government and a share of revenue is passed on to local bodies. A number of States like, Bihar, Kerala, Rajasthan, Gujarat and Tamil Nadu delegated powers to local bodies to levy, collect and appropriate the tax proceeds with them. In Karnataka, the experience and service oriented tax rates are adopted for collection by the Government.

24) The category wise details on the demand and collection of profession tax in respect of Municipal Corporations are the following:

Table-V-(11)
Profession tax for the year 2009-10

(Rs. in crore)

Category	*No. of assessments	Annual Tax demand	Annual collection
State/Central/Quasi Govt. employees	43916	52.81	52.73
Traders	123981	90.14	89.39
Self employed professionals	8266	1.61	1.33
Private employers/Companies	66137	6.82	5.99
Private employees	23307	4.32	1.70
Total	**265607**	**155.70**	**151.14**

***Indicates no. of organizations.**

The table shows a clear picture on the untapped potential in respect of traders, self-employed, private employers and private employees. The ULBs are not taking sincere efforts to bring all the above mentioned assessees under profession tax net.

25) The demand, collection and balance on Profession tax are the following:

Table-V-(12)
Profession Tax – Demand, Collection & Balance

(Rs. in crore)

		2005-06	2006-07	2007-08	2008-09	2009-10
Demand	Current	75.59	83.24	96.20	108.66	155.70
	Arrear	11.54	11.45	11.91	13.01	14.64
Total		**87.13**	**94.69**	**108.11**	**121.67**	**170.34**
Collection	Current	70.58	80.30	90.97	104.15	151.14
	Arrear	2.50	1.37	2.88	8.81	2.13
Total		**73.08**	**81.67**	**93.85**	**113.06**	**153.27**
Balance	Current	5.01	2.94	5.23	4.51	4.56
	Arrear	9.04	10.08	9.03	4.20	12.51
Total		**14.05**	**13.02**	**14.26**	**8.71**	**17.07**
Percentage of Collection	Current	96.94	96.57	96.64	95.85	97.07
	Arrear	21.87	20.75	22.37	37.14	39.77
No. of assessments		215944	228450	240506	253416	265607
Percentage of growth		--	5.79	5.28	5.37	4.81

Table-V-(13)
Profession Tax – Receipts

(Rs. in crore)

Details	2005-06	2006-07	2007-08	2008-09	2009-10
Profession Tax	73.08	81.67	93.86	113.06	153.27
Total Own Income	647.40	724.52	829.84	915.18	1069.12
Percentage of Property tax in Own Income	11.29	11.27	11.31	12.35	14.34

Municipalities

Table-V-(14)

Profession Tax – Demand, Collection and Balance

(Rs. in crore)

		2005-06	2006-07	2007-08	2008-09	2009-10
Demand	Current	30.33	33.60	36.36	42.43	53.38
	Arrear	22.71	24.40	25.37	26.71	30.94
Total		**53.03**	**58.00**	**61.73**	**69.14**	**84.32**
Collection	Current	25.65	28.71	30.69	35.64	47.35
	Arrear	3.33	4.11	5.38	4.67	8.73
Total		**28.98**	**32.82**	**36.07**	**40.31**	**56.09**
Balance	Current	4.68	4.90	5.67	6.79	6.08
	Arrear	19.38	20.29	19.99	22.04	22.22
Total		**24.06**	**25.18**	**25.66**	**28.83**	**28.30**
Percentage of Collection	Current	84.58	85.43	84.41	84.00	88.71
	Arrear	14.65	16.84	21.21	17.49	28.23

Table-V-(15)

Profession Tax – Receipts

(Rs. in crore)

Details	2005-06	2006-07	2007-08	2008-09	2009-10
Profession tax	28.98	32.82	36.07	40.31	56.09
Total own income	421.69	506.55	527.53	575.22	677.22
Percentage of Profession tax in own income	6.87	6.48	6.84	7.01	8.28

Table-V-(16)

No. of assessees as on 31.3.2010

S.No	Type	*No. of assessees
1	State / Central / Quasi Government Employees	136403
2	Traders	145299
3	Self Employed Professionals	12688
4	Private employers/companies	47389
5	Private employees	17439
	Total	**359218**

***Indicates no. of organizations.**

Out of the total number of assessees, 40% constitutes traders and 3.5% self-employed professionals. Collection of profession tax from them continues to be a problem and the primary reason for this appears to be frequent shift in the location of business and professional services.

Town Panchayats

Table-V-(17)
Profession Tax

(Rs. in crore)

		2005-06	2006-07	2007-08	2008-09	2009-10
Demand	Current	17.97	20.96	24.89	32.13	39.23
	Arrear	4.72	4.26	3.97	3.79	4.52
	Total	**22.69**	**25.22**	**28.86**	**35.93**	**43.75**
Collection	Current	16.86	19.62	23.63	29.89	37.18
	Arrear	1.51	1.55	1.72	1.64	2.71
	Total	**18.37**	**21.17**	**25.35**	**31.53**	**39.89**
Balance	Current	1.11	1.34	1.26	2.24	1.99
	Arrear	3.21	2.71	2.25	2.15	1.81
	Total	**4.32**	**4.05**	**3.52**	**4.39**	**3.80**
Percentage of Collection	Current	93.83	93.60	94.93	93.02	94.78
	Arrear	31.95	36.36	43.21	43.30	59.89

At an average, 94% of current demand is collected by Town Panchayats in the past five years. The percentage of arrear demand increased from 32% to 60% over a period of five years in the past which shows the efforts taken by Town Panchayats in collecting the arrears.

Table-V-(18)
Profession Tax – Receipts – Town Panchayats

(Rs. in crore)

Details	2005-06	2006-07	2007-08	2008-09	2009-10
Profession Tax	18.37	21.17	25.35	31.53	39.89
Total Own Income	195.62	229.23	252.67	279.36	347.34
Percentage of Property tax in Own income	9.39	9.23	10.03	11.29	11.48

Table-V-(19)
No. of assessees as on 31.3.2010

S. No	Category	*No.of assessees
1	State / Central / Quasi Government Employees	34460
2	Traders	48890
3	Self Employed Professionals	--
4	Private employers / companies	21699
5	Private employees	117371
	Total	**222420**

***Indicates no. of organizations.**

26) Third SFC recommended that the maximum rate of Rs.2500/- per annum should be levied on industrial establishments and companies. This recommendation was accepted by the Government in principle. It is learnt that the CMA has sent a proposal to the Government to amend the Act so as to facilitate the levy of Rs.2,500/- per annum in respect of companies and industries. It is observed that the Commercial Taxes Department can easily be approached by the local bodies to get the list of traders coming under the purview of that Department. Similarly, Income tax Department, Labour Department, Provident Fund Commissioner, Bar Council, Medical Council, Merchants' Association etc can be approached by the local bodies to cover the escaped assessments. State Government can also come to rescue on this aspect. Even information on the number of employees and their salaries can be obtained by local bodies through RTI Act from other departments. These measures would significantly improve the number of assessments in all categories. The recommendations of Third SFC to approach Government of India to furnish the list of non-salaried Income Tax assessees and in the absence of any direction, to invoke the RTI Act have been accepted by the Government in principle. Further follow up action by the Government in this regard would improve the own resources of local bodies.

27) The maximum ceiling on the rate of Profession tax prescribed in the Constitution of India is Rs.2500/- per annum. The maximum rate of Profession tax collected by ULBs where 35% increase was given during the general revision on 01.10.2008 was Rs.1095/- per half year. In such case, another revision at the different rates i.e., at 30% and 35% increase may not be possible during the next general revision on 01.10.2013. Hence, there is a need to either increase the maximum ceiling or to prescribe a minimum ceiling in the Constitution by the Government of India and to let the local bodies to decide on the maximum ceiling depending on the capabilities. Till then, the next revision on 01.10.2013 can be made within the minimum increase of 25% and maximum increase of 35% depending on the decision of the Council but the maximum amount so derived can be restricted to Rs.1250/- per half year.

28) The Commission recommends the following:

i) **The Departments of State/Central Governments which can furnish data needed for bringing various categories of untapped assessees of Profession tax be approached by the Government to furnish such data to the local bodies as and when demanded.**

ii) **During the next revision due on 01.10.2013, the rate of revision as decided by the Council between 25% and 35% be adopted and the maximum amount of Profession tax be restricted to Rs.1250/- per half year.**

iii) **The Government of India may be addressed by MA & WS Department to increase the maximum ceiling or to prescribe a minimum ceiling on profession tax and to let the local bodies to decide on the maximum ceiling depending on their capabilities.**

(C) Vacant Land Tax (VLT)

29) Earlier, the Vacant Land Tax on lands which are not used exclusively for agriculture purposes and are not occupied by or adjacent and appurtenant to buildings was levied on capital value basis on such percentage not exceeding 6% of the capital value of such lands. Since August 2009, the VLT is levied on plinth area basis with a minimum of 0.20 paise and a maximum of 0.60 paise per sq. ft. per half year.

30) The demand, collection and balance on Vacant Land tax are the following:

Table-V-(20)
Vacant Land Tax – Demand, Collection and Balance
Municipal Corporations

					(Rs. in crore)	
		2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Demand	Current	8.69	8.34	9.32	8.87	9.51
	Arrear	18.67	21.57	26.55	31.88	33.14
Total		**27.36**	**29.91**	**35.87**	**40.74**	**42.65**
Collection	Current	4.71	5.02	4.54	4.71	4.27
	Arrear	9.82	9.60	12.62	14.44	13.92
Total		**14.54**	**14.62**	**17.16**	**19.15**	**18.19**
Balance	Current	3.98	3.32	4.78	4.16	5.24
	Arrear	8.85	11.97	13.93	17.43	19.22
Total		**12.82**	**15.29**	**18.71**	**21.59**	**24.46**
Percentage of Collection	Current	54.23	60.21	48.70	53.09	44.89
	Arrear	52.62	44.52	47.54	45.31	42.00

Table-V-(21)
Vacant Land Tax – Demand, Collection and Balance
Municipalities

(Rs. in crore)

		2005-06	2006-07	2007-08	2008-09	2009-10
Demand	Current	7.64	10.45	11.13	11.67	12.97
	Arrear	5.25	6.69	7.55	8.37	10.48
Total		**12.89**	**17.14**	**18.68**	**20.03**	**23.45**
Collection	Current	5.89	8.91	8.89	8.97	9.78
	Arrear	0.74	1.06	1.40	1.45	2.49
Total		**6.62**	**9.97**	**10.28**	**10.41**	**12.27**
Balance	Current	1.75	1.54	2.24	2.70	3.18
	Arrear	4.52	5.63	6.16	6.92	8.00
Total		**6.27**	**7.17**	**8.40**	**9.62**	**11.18**
Percentage of Collection	Current	77.07	85.30	79.87	76.84	75.45
	Arrear	14.02	15.83	18.48	17.30	23.71

31) There is no systematic approach of listing out vacant lands within the ULBs limit and assessing the tax promptly. It is observed that the Registration Department has to send 'M Notices' to the local bodies concerned indicating the change of ownership by registration of sales, transfers etc. This is not watched by the ULBs. Only when the people approach for building plan, the local bodies insist for payment of VLT. Instead, the details on the registration of properties have to be obtained from the Registration Department periodically by the ULBs and VLT levied.

32) The Commission recommends that the details on change of ownership by registration of sales, transfers etc of properties be obtained from the Registration Department periodically by the ULBs and VLT levied.

(D) Advertisement Tax

33) At present, the District Collector issues license to erect hoardings taking into account the size of the hoardings, the road width and consent from the land owners as per the Advertisement Tax Act/Rules.

34) Commission observed that after the transfer of powers to the District Collectors during 2003, as per Section.285-B of the Tamil Nadu District Municipalities Act 1920, to issue license, levy and collect hoarding tax, no revenue was earned by the District administration. During 2003, it was ordered to transfer 75% tax proceeds to the ULBs by the District Collector and the hoarding rules were further amended during 2008 to give effect to the transfer of 100% tax proceeds of ULBs. ULBs reported before the Commission during its District sittings that no receipts had been received from the District Collectors in this regard. Certain District Collectors viewed that the taxation powers may again be restored with ULBs. There was also

a view to constitute a District Level Committee to monitor the erection of hoarding, to bring them under tax net and also to impose penalty on unauthorized hoardings. Commission views that the sites for hoardings can be identified by the District Collectors and permission for erection of hoardings given by the executive authorities of ULBs and the hoarding tax levied by them under the overall monitoring and guidance of the District Collectors and that the hoardings should not be allowed in places other than those identified by the District Collectors. District Collectors can also encourage PPP mode of advertisements and hoardings with investments on infrastructure from the private companies/establishments.

35) 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 107 (A) of District Municipalities Act, 1920, and Section 129 (A) 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 326 (C) and 326 (CC) 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).

36) In 2003, the Government enacted a law by which the powers under 285 (C) and 285 (CC) of District Municipalities Act and other similar provisions in other Municipal Corporation Acts were entrusted to the District Collectors for levying and collection of Advertisement Tax on hoardings. But the provision available under Section 107 (A) of District Municipalities Act and similar provisions in other Municipal Corporations Act empower the Municipalities/Municipal Corporations to levy tax on Advertisement through lamp posts, telephone posts, posters on wall, writing on walls and through buses and vehicles. But the tax potential under advertisement tax on lamp posts etc is not tapped by ULBs. This resulted in meager income from this source.

37) The Commission recommends the following:

i) **The sites for hoardings be identified by the District Collectors and permission for erection of hoardings given by the executive authorities of ULBs and the hoarding tax levied by them under the overall monitoring and guidance of the District Collectors and that the hoardings not to be allowed in places other than those identified by the District Collectors.**

ii) **PPP mode of advertisements and hoardings with investments on infrastructure from the private companies/establishments be encouraged by the District administration.**

iii) **The hoarding tax proceeds collected by the District Collectors in the past years be passed on to the concerned ULBs as per the ratios prescribed during 2003 and 2008.**

iv) **The provisions available under Section 107 (A) of the District Municipalities Act, 1920 and similar provisions available in Municipal Corporation Acts be fully made use of by ULBs to raise income from Advertisement including those on lamp posts, telephone posts, posters and walls, writing on walls and buses and vehicles.**

(II) Non-tax Revenue

Table-V-(22)
Municipal Corporations

(Rs. in crore)

Heads of Income	2005-06	2006-07	2007-08	2008-09	2009-10
D & O trade license fees	5.79	5.48	6.47	7.75	8.42
Building license fees	20.30	26.62	26.11	24.95	32.05
Parking fees					
Bus stand fees	4.66	5.19	5.22	5.45	5.50
Development charge	5.57	40.30	12.07	5.65	5.50
Road cutting restoration charge	2.53	4.17	2.41	2.21	2.70
Toll collection / Parking fees	0.58	0.35	0.52	0.74	0.78
Library cess	10.98	12.98	16.86	15.47	19.50
Income from investments	4.41	5.43	12.60	9.45	8.53
Income from properties	28.22	27.17	30.47	37.51	33.94
Water supply	45.84	45.29	56.94	56.43	65.38
Sewerage	6.43	7.93	8.70	8.80	8.97
Others	86.71	83.17	118.71	130.13	131.76
Total Non tax income (NTR)	**222.02**	**264.08**	**297.08**	**304.54**	**323.03**
Total Revenue Income	**1102.27**	**1176.70**	**1446.66**	**1508.72**	**1747.66**
Percentage of NTR in total Revenue Income	**20.14**	**22.44**	**20.54**	**20.19**	**18.48**

Table-V-(23)

Municipalities

(Rs. in crore)

Heads of Income	2005-06	2006-07	2007-08	2008-09	2009-10
D & O trade license fees	3.92	4.34	4.36	4.97	8.05
Building license fees	10.14	15.44	16.33	17.48	20.56
Parking fees	0.59	1.47	1.54	0.95	1.07
Bus stand fees	11.12	11.63	12.77	12.49	12.87
Development charge	8.22	18.51	9.91	7.30	6.51
Road cutting restoration charge	2.69	1.85	2.51	2.92	2.49
Toll Collection / parking fees	0.81	0.16	0.31	0.29	0.45
Library cess	15.24	17.50	18.25	21.26	26.71
Income from investments	9.22	9.11	15.34	15.14	9.18
Income from properties	46.67	50.90	53.17	58.46	65.91
Water supply	52.69	60.76	64.69	67.97	77.54
Sewerage	2.63	2.26	2.05	1.97	2.97
Others	55.41	77.09	80.50	73.36	75.18
Total Non tax income	**219.35**	**271.02**	**281.73**	**284.56**	**309.49**
Total Revenue Income	**759.81**	**842.66**	**1050.73**	**1186.77**	**1276.83**
Percentage of NTR in total Revenue Income	**28.87**	**32.16**	**26.81**	**23.98**	**24.24**

Table-V-(24)

Town Panchayats

(Rs. in crore)

Heads of Income	2005-06	2006-07	2007-08	2008-09	2009-10
D & O trade license Fees	1.63	1.85	1.93	1.96	2.53
Building license fees	19.22	30.66	26.63	27.18	34.64
Parking fees	1.01	1.26	1.52	1.58	1.77
Bus stand fees	4.53	4.82	5.06	5.68	5.55
Development charge	0.00	0.00	0.00	0.00	0.00
Road cutting restoration charge	0.77	0.47	0.62	0.89	0.61
Toll collection / parking fees	0.00	0.00	0.00	0.00	0.00
Library cess	4.83	5.44	5.92	6.76	9.41
Income from investments	0.36	0.57	0.61	0.77	0.63
Income from properties	25.44	27.18	30.78	33.24	36.25
Water supply	46.11	48.87	56.29	58.79	63.68
Sewerage	0.32	0.78	0.37	0.95	0.82
Others	21.39	27.44	29.87	31.10	34.93
Total Non tax income	**125.61**	**149.34**	**159.60**	**168.90**	**190.82**
Total Revenue Income	**383.48**	**503.17**	**595.67**	**721.66**	**718.36**
Percentage of NTR in total Revenue Income	**32.76**	**29.68**	**26.79**	**23.40**	**26.56**

(A) Water Charges

38) User charges are the best instruments for meeting the cost of public services. Urban services such as water supply, sewerage and garbage collection require not only major investments in urban infrastructure assets but also regular maintenance for efficient operation and delivery. User charges for these services ensure that the assets are maintained and delivery of services sustained. The following table shows the income through water charges and the O&M expenditure on water supply:

Table-V-(25)

Income and Expenditure from Water Supply

Other Municipal Corporations

(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Income (Except Chennai)	45.84	45.29	56.94	56.43	65.38
O & M Expenditure (Except Chennai)					
Salaries to water supply staff	8.50	10.20	13.12	16.72	19.49
Power charges	17.97	18.74	21.53	21.05	21.60
Payment to TWAD	28.87	32.77	30.77	42.81	45.42
Maintenance	9.29	9.35	10.12	6.21	7.98
Others	3.23	4.26	4.54	4.22	5.20
Total	**67.86**	**75.32**	**80.08**	**91.01**	**99.69**
Percentage of income on expenditure	**67.55**	**60.13**	**71.10**	**62.00**	**65.58**

Table-V-(26)

Income and Expenditure from water supply

Municipalities

(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Income	52.69	60.76	64.69	67.97	77.54
O & M Expenditure					
Salaries to water supply staff	14.81	18.26	20.35	25.15	29.67
Power charges	36.55	38.16	39.33	41.46	42.37
Chemicals	2.62	2.80	4.07	3.08	3.55
Payment to TWAD	16.94	20.62	26.67	33.83	26.84
Water supply through private lorries	5.22	3.82	5.24	4.12	5.48
Maintenance	15.51	17.43	19.92	21.03	22.93
Repairs & Maintenance charges	6.62	5.98	6.94	8.42	8.71
Others	1.57	0.77	2.19	3.14	4.99
Total	**99.84**	**107.84**	**124.71**	**140.23**	**144.54**
Percentage of income in expenditure	**52.78**	**56.33**	**51.87**	**48.47**	**53.65**

Table-V-(27)
No. of connections in water supply
Municipalities

2005-06	2006-07	2007-08	2008-09	2009-10
806785	854842	902325	966791	1032294

Table-V-(28)
Income and Expenditure from water supply
Town Panchayats

(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Income	31.46	33.72	38.60	38.92	45.95
O & M Expenditure					
Salaries to water supply staff	7.17	9.98	12.54	15.40	18.28
Power charges	23.06	25.29	26.13	29.18	32.09
Materials	2,28	3.13	3.77	4.22	4.73
Payment to TWAD – Water charges	17.09	18.62	21.08	21.91	22.70
Maintenance	3.70	4.14	5.01	5.34	6.13
Royalties to PWD	0.59	0.19	0.17	0.43	0.40
Repairs & Maintenance charges	29.68	34.80	43.78	49.29	55.90
Hire charges for supply of water through private lorries & tractors	0.16	0.14	0.18	0.19	0.68
Others	0.46	0.79	0.95	2.29	1.66
Total	**84.19**	**97.18**	**113.61**	**128.25**	**142.57**
Percentage of income on expenditure	37.37	34.70	33.98	30.35	32.23

Table-V-(29)
No. of connections in water supply
Town Panchayats

2005-06	2006-07	2007-08	2008-09	2009-10
539595	574985	618694	667922	720278

The income includes excess water charges, tap rate charges and other income from water supply through lorries. The O&M expenditure does not include the loan repayments. In such a situation, the income from water supply meets about 32% to 65% of O&M expenditure during 2009-10. If the water supply loan repayment component is added, the percentage would further go down. User charges should be so structured as to at least meet the O&M cost, and depreciation. The water charges collected by ULBs except Chennai range from Rs.50/- to Rs.150/- per month and Rs.10/- per KL in Municipal Corporations and Rs.15/- per KL in Municipalities in respect of metered supply. In Town Panchayats, in view of failure in the working of meters, flat rates are adopted even for metered connections. Installation of quality meters and outsourcing the maintenance of water supply meters would fetch more revenue under water charges.

(B) Sewerage Charges

39) Sewerage charges are being collected only by a few municipal corporations like Madurai and Trichy. The income from sewerage charges and O&M expenditure are the following:

Table-V-(30)
Income from Sewerage Charges and O&M expenditure.
Other Municipal Corporations

(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Sewerage Charges	6.43	7.93	8.69	8.80	8.97
O & M Expenditure (Except Chennai)					
Salaries to sewerage staff	11.00	13.00	13.00	18.00	20.00
Materials	0.11	0.38	0.16	0.30	0.22
Others	1.76	1.70	1.51	2.57	2.20
Total	**12.87**	**15.08**	**14.67**	**20.87**	**22.42**
Percentage of income on expenditure	**49.96**	**52.59**	**59.24**	**42.17**	**40.00**

It is pertinent to note that the recurring maintenance cost of sewerage systems has to be met from the sewerage income but only 40 to 50% of the O&M expenditure is met from sewerage charges. There is a need to expedite the completion of sewerage schemes wherever they are in pipeline and to collect sewerage charges so as to meet the O&M cost in full.

Table-V-(31)

Sewerage Charges Income and O&M expenditure

Municipalities

(Rs. in crore)

Name of Local Bodies	2005-06	2006-07	2007-08	2008-09	2009-10
Income from sewerage charges	2.63	2.26	2.05	1.97	2.97
O & M Expenditure					
Salaries to sewerage staff	7.86	9.21	9.86	11.82	14.59
Materials	0.56	0.94	0.99	0.99	0.89
Others	0.09	0.31	0.05	0.41	0.93
Total	**8.61**	**10.46**	**10.90**	**12.22**	**16.41**

(C) D & O Trade License Fees

40) The First SFC identified the trades for inclusion and also recommended for fixing fees for grant of license after taking into account the market conditions. Some local bodies revised the license fees but many have not done owing to the absence of Government Orders. In fact, the First SFC rates can be taken as the basis for revision. The SSFC and TSFC have also recommended for adoption of those rates. The suspended ULBs Act also changed the D & O trade license as Trade License fee and also fixed the license fees payable for all trades (whether temporary or regular). But it is yet to see the light of the day. Schedule-V of the Tamil Nadu District Municipalities Act, 1920 covers certain trades only and it may not be feasible to revise the list frequently, covering all the area specific trades by the Government. Hence, the list of trades covered for licensing may be notified by the Council and the license fee collected. For this powers have to be vested with local bodies without cataloging the list of trades in the rules since it will be a constraint when a new trade is started. Moreover, the rates have to be revised once in three years by amending the relevant rules.

41) The Commission recommends the following:

i) **The rates of trades be fixed taking the First SFC rates as the basis.**

ii) **The nomenclature 'D & O Trade License fees' be revised as 'Trade License fee' as in the case of Chennai Corporation.**

iii) **Rule provisions in Schedule-V in Tamil Nadu District Municipalities Act, 1920 and the relevant schedules in respect of other Municipal Corporation Acts be amended to notify the list of trades by the Council and to revise the rates once in 3 years.**

(D) Building license fees

42) Even though ULBs are collecting license fees while according approval for plans for building, seldom they inspect the construction area with the result that there are more violations than adherence. If proper monitoring is done, open space regulations and deviations can be avoided. Moreover income from additional structure constructed can be derived.

43) The Commission recommends that effective monitoring and detection mechanism for unauthorized construction be enforced strictly and in case of detection of violation heavy penalty be levied apart from collecting building license fee.

(E) Bus Stand Fees

44) The observations and recommendation made in Chapter-IV is applicable for ULBs also.

(F) Track Rent on OFC Feeders

45) TSFC recommended that BSNL should be subjected to track rent like other OFC feeders since it has become a separate entity and distinct from Central Government Departments. This recommendation was accepted by the Government. BSNL was assessed for track rent by Municipalities but it is not remitting the rent. It is also observed that audit objection on the non-remittance of track rent by BSNL has been raised by Accountant General.

46) **Commission recommends that the issue be taken up with BSNL and Government of India by RD & PR/MA & WS Departments.**

(III) Assigned Revenue

(A) Entertainment Tax

47) As per the Tamil Nadu Entertainments Tax Act, 1939, 90% of the proceeds of the tax under Section 4 (a), Section 4-F and Section 4-H collected every year in respect of entertainments held within the jurisdiction of any local authority should be assigned to the local authority and the balance 10% credited to the State Government.

48) The E.T transferred to Municipal Corporations is the following:

Table-V-(32)

(Rs. in crore)

2005-06	23.23
2006-07	14.21
2007-08	24.87
2008-09	12.33
2009-10	12.97

49) During 2006-07, it was decided by the Government to exempt the films named in Tamil from the E.T fully and orders issued accordingly as per the powers of the State Government provided in sub-section 2 of Section 8 of the Tamil Nadu Entertainments Tax Act, 1939 with effect from 22.7.2006. The loss to local bodies in view of this exemption was worked out by the Government as follows:

i)	Municipalities and Corporations (except Chennai)	..	Rs.29.32 crore
ii)	Chennai Corporation	..	Rs.10.00 crore
iii)	Town Panchayats	..	Rs. 1.84 crore

Consequently, to compensate the loss met by local bodies in view of this exemption, Rs.30.00 crore was allocated as Entertainment Tax Compensation Fund and the fund was shared between ULBs and RLBs in the ratio of 90 : 10 respectively. The share of ULBs i.e., Rs.27.00 crore is allocated for priority schemes in ULBs. The distribution of E.T compensation fund among the tiers of ULBs in the past three years is as follows:

Table-V-(33)

(Rs. in crore)

Year	Chennai Corporation	Other Corporations & Municipalities	Town Panchayats	Total
2007-08	7.00	12.00	8.00	27.00
2008-09	8.00	17.25	1.75	27.00
2009-10	8.00	18.85	0.15	27.00
Total	**23.00**	**48.10**	**9.90**	**81.00**

50) The Political Parties and elected heads of local bodies with whom the Commission had interacted opined that the benefits on exemption granted to the films named in Tamil do not reach the public and hence pleaded the Commission to review the unwarranted and needless exemption on E.T given to films named in Tamil at the cost of revenue to the local bodies. Recently the Government have framed certain additional conditionalities for films named in Tamil to get the waiver of E.T which will not favour waiver as a simple one. Hence, it is expected that the E.T. revenue will grow up slowly in the coming years.

51) The classification of Entertainment Tax under the Major Head 0045 is as follows:

Table-V-(34)

0045 00 101 AA 01 - Tax paid in cash		**0045 00 101 AB - Other receipts**	
Shareable	Non-shareable	Shareable	Non-shareable
Sec.4(A)-Tax on payments for admission to cinematographic exhibition	Sec.4(B) – Tax on Horse Race	Sec.4(F)-Tax on amusements	Sec.4(E)-Tax on cable TV
Sec.4(H) – Tax on dubbed film			Sec.4(G)-Tax on Recreation Parlour

52) It is observed that the taxes collected under Section 4 (A) and 4 (H) of the Tamil Nadu Entertainment Tax Act, 1939 which are sharable and tax under Section 4 (B) – “Tax on Horse Race” which is not sharable are booked under the receipt major head: 0045 00 101 – AA – 01- ‘Tax paid in cash’ and tax under Section 4 (F) which is sharable, tax on Cable TV under Section 4 (E) which is waived now and tax on Recreation Parlour under Section 4 (G) are booked under receipt major head: ‘0045 00 101 AB 02’. If the sharable components of the tax collected under Entertainment Tax are booked by Commercial Taxes Department under the sub-head AA – 01 ‘Tax paid in cash’ and other non-sharable taxes under the sub-head AB-02 – Other Receipts, it would facilitate cross verification of the entitlement and the shares transferred to local bodies.

53) As of now, no tax on recreation parlour is levied since certain firms /organizations claimed that only E.T could be levied on those firms/organizations. However, the issues are being sorted out by the Commercial Taxes Department and the Department stated during the interaction with the Commission that the tax on the recreation parlour would be levied on suitable firms but to assign those collection to local bodies, amendments to Tamil Nadu Entertainment Tax Act, 1939 and Tamil Nadu Financial Code, Volume-I are needed.

54) Regarding the past arrears on E.T referred by the TSFC, the C.T Department clarified that the arrear dues on E.T mentioned by Third SFC related to certain non-sharable components and also dues owing to non-amendment of Tamil Nadu Financial Code and that all the dues from the entitled E.T have now been settled.

55) The Commission recommends the following:

i) **In case the levy of E.T prevailed prior to 2006-07 is revived, the sharable components under Section 4 (A) – "Taxes on payments for admission to cinematographic exhibition", Section 4-(H) – "Taxes on dubbed films", Section 4-(F) – "Taxes on amusements" and Section 4-(G) – "Tax on recreation parlour" (on its sharing) shall be booked under the receipt major head : 0045 00 101 AA 01 – "Tax paid in cash" and tax under Section 4 (B) – "Tax on horse race" which is not sharable be booked under 0045 00 101 AB 02 – Other Receipts.**

ii) **The tax under Section 4-(G) – "Tax on recreation parlour" be shared with local bodies by amending the Tamil Nadu Entertainment Tax Act, 1939 and Tamil Nadu Financial Code, Volume-I.**

(B) Surcharge on Stamp Duty

56) A duty on transfer of property in the form of surcharge at the rate of 2% of stamp duty is levied with effect from 21.11.2003 on five instruments such as sale, exchange, gift, mortgage with possession and lease in perpetuity of immovable property. The data on the collection of stamp duty and surcharge and assignment of surcharge to local bodies collected and compiled from Inspector General of Registration (IGR) is as follows:

Table-V-(35)
SURCHARGE COLLECTED

(Rs. in lakh)

Year	Municipal corporation	Municipalities	Town Panchayats	Total
2005-06	14219.42	8829.10	5760.67	**28809.19**
2006-07	17073.16	11182.76	8937.08	**37193.00**
2007-08	18654.02	13565.11	10997.86	**43216.99**
2008-09	15367.00	13492.00	11299.00	**40158.00**
2009-10	16126.00	13474.00	10553.00	**40153.00**

Table-V-(36)
AMOUNT OF SURCHAGE TRANSFERRED TO LOCALBODIES

(Rs. in lakh)

Year	Municipal corporation	Municipalities	Town Panchayats	Total
2005-06	13508.46	8387.64	5587.82	**27483.92**
2006-07	16219.51	10623.71	8668.86	**35512.08**
2007-08	17721.32	12886.85	10667.92	**41276.09**
2008-09	14906.00	13087.00	10960.00	**38953.00**
2009-10	15642.00	13070.00	10236.53	**38948.53**

It is reported that the lease in perpetuity is a rare document and no document was registered during the past five years and hence no surcharge could be levied on this instrument.

57) The figures on the transfer of surcharge furnished by IGR were compared with budget documents and the following difference was observed:

Table-V-(37)
Surcharge transferred

(Rs. in lakh)

Sl.No	Year	As per IGR	As per Budget document
1.	2005-06	42108	40668
2.	2006-07	58385	54499
3.	2007-08	69037	76852*
4.	2008-09	75016	97846*
5.	2009-10	68593	70944*

*including the surcharge assigned to RLBs through State level pooling.

The Registration Department reported that the figures furnished by the IGR reflect the allotment of surcharge made by the Department in the respective years for which the amount could not have been drawn in the same year due to various reasons whereas the figures in the budget document show the actual encashment made in the respective years.

58) During 2009-10, the Government decided to implement the Tamil Nadu Urban Road Infrastructure Projects in the ULBs at an estimated cost of Rs.1,000 crore per annum. The project has multiple source of financing which includes a portion from the assigned revenue payable to ULBs on account of surcharge on stamp duty. To give effect to this decision, a separate Act viz., The Tamil Nadu Duty on Transfers of Property (in Municipal Areas) Act, 2009 was enacted. As per the Act, 50% of the transfer duty collected in urban areas has to be credited to Tamil Nadu Urban Road Infrastructure Fund (TURIF) and the balance 50% adjusted to ULBs in such manner as may be prescribed.

59) In G.O.Ms.No.62, MA & WS (Election) Department, Dated: 28.02.2011, the Tamil Nadu Town Panchayats, Third Grade Municipalities, Municipalities and Municipal Corporations (Duty on Transfers of Property) Rules, 2011 have been issued. In G.O.Ms.No.64, MA & WS (Election) Department, Dated: 28.02.2011, orders have been issued simplifying the procedures in the release of funds from the surcharge on stamp duty to ULBs. Accordingly, 50% of the surcharge on stamp duty collected in respect of Municipal Corporations, Municipalities and Town Panchayats will be placed at the disposal of DMA/DTP instead of IGR and District Collectors and the remaining 50% will be released as contribution to the Tamil Nadu Urban Road Infrastructure Fund (TURIF) by the DMA/DTP. New expenditure heads of account have also been opened to release the funds to ULBs as well to the TURIF.

60) Apparently, the allocation towards TURIF is an exercise to achieve mobilizing funds for road infrastructure schemes. As far as the need to allocate funds for TURIF is concerned, the need to mobilize funds towards road infrastructure may be attempted through Infrastructure Gap Filling Fund. **In effect, the Assigned Revenue may be distributed as per entitlement, as at the local body level it reflects the need for higher investments for creating infrastructure facilities and for maintenance by the local bodies.**

61) The Commission recommends that in respect of Urban Local Bodies, the assigned revenue be transferred to ULBs as per the entitlement without any diversion to TURIF or any other scheme.

(IV) SFC Devolution

62) From out of the 42% share of SFC devolution allocated for ULBs, the vertical sharing ratio for Municipal Corporations is 30% with effect from 2007-08. From out of the 30% share, 3% is allocated for infrastructure gap filling fund and 2% for O&M gap filling fund.

Table-V-(38)
Fund flow through SFC devolution
Municipal Corporations

(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Population based Devolution	216.41	274.94	327.85	354.24	396.10
IGFF			10.35	11.19	12.51
OMGFF			6.90	7.46	8.34
Devolution Arrears				69.00	
Total	**216.41**	**274.94**	**345.10**	**441.89**	**416.95**

Source: Budget documents

Table-V-(39)
Fund flow through SFC devolution
Municipalities

(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Population based Devolution	237.36	301.54	448.06	484.12	541.33
IGFF			14.15	15.29	17.09
OMGFF			9.43	10.19	11.40
Devolution Arrears				78.00	
Total	**237.36**	**301.54**	**471.64**	**587.60**	**569.82**

Source: Budget documents

Table-V-(40)
Fund flow through SFC devolution
Town Panchayats

(Rs. in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Population based Devolution	202.14	248.88	316.92	342.43	382.89
IGFF			10.01	10.81	12.09
OMGFF			6.67	7.21	8.06
Total	**202.14**	**248.88**	**333.60**	**360.45**	**403.04**

Source: Budget documents

63) In absolute term, the quantum of SFC devolution shown above is gross in nature. The net quantum of SFC devolution after effecting the 'at source' deductions, is reported by the ULBs to the Commission. Moreover, the releases made in the last quarter might have accounted for in the local body accounts during the next financial year. Hence, there may be differences in the quantum of SFC devolution shown above and those furnished in other statements.

(V) XIII FC Grants

64) XIII FC recommended a general basic grant of Rs.1550.98 crore and general performance grant of Rs.821.12 crore towards ULBs in Tamil Nadu for the period from 2010-11 to 2014-15. The allocation of this grant for each year is at 1.5% of the divisible pool of shareable resources of the Centre. Hence, the buoyancy in the Centre's resources would fetch more allocation to the local bodies in the State. The general basic grant is being utilized in ULBs for the following purposes:

i) Payment of ULB contribution for the completed / physically started water supply scheme and or underground sewerage scheme being implemented by TWAD Board / CMWSS Board.
ii) Payment of Electricity charges.
iii) Payment of water charges to TWAD Board/CMWSS Board.
iv) Payment to the outsourced agencies towards solid waste management activities.

The Commission is of the view that the distribution of the general basic grant needs to be based on the vertical sharing ratio for SFC devolution among the tiers of ULBs as recommended by the Fourth SFC.

65) FSFC considered issues like incentivization of revenue collection by local bodies, status of collection of service charges from Central Government properties, template for the preparation of report of SFC, best practices as identified by XIII FC etc in this report in pursuance of the recommendations of XIII FC.

66) The nine conditionalities laid down by XIII FC for getting General Performance Grant from Government of India are examined and further discussed with the HODs concerned. The position obtaining on those conditionalities in ULBs is the following:

No	Conditionalities of XIII FC	Commission's Observations
i)	The states should implement in all urban local bodies an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual. The State Government must put in place a supplement to the budget documents for local bodies separately for PRIs and ULBs) furnishing the details (other than those relating to Finance Accounts).	The observations and recommendations relating to the accounting frame work as suggested in National Accounts Municipal Manual are presented in **Chapter-VIII.** Regarding the supplement to budget document for local bodies, the issues are discussed and suitable recommendation is made in **Chapter-IV.**

ii)	Annual Technical Inspection Report as well as the Annual Report of the Director of Local Fund Audit must be placed before the State legislature.	Proposals are under examination of the Government.

a) Commission recommends that the annual reports mentioned above be placed in the State Legislature as in Kerala and Karnataka so as to review the accountability of the elected and executive heads of all local bodies.

iii)	The State Government must put in place a system of independent local body ombudsman who will look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials.	Proposals are under examination of the Government. Ombudsman is a semi-judicial mechanism to tackle the ever growing menace of irregularities, corruption and maladministration in public institutions. Independence from executive authorities, unimpeded access to information, power to examine any document, summon witness etc are the hallmark characteristics of ombudsman. The ombudsman will have the power to enquire into system failures in

		administration and order corrective measures. The decisions of the ombudsman are not subjected to normal judicial scrutiny, unless grave procedural violation is involved. Taking into account the instances of financial irregularities in local bodies, there is a need to constitute ombudsman in Tamil Nadu.

b) Commission recommends that a separate Ombudsman to look into the complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials be created.

No	Conditionalities of XIII FC	Commission's Observations
iv)	The State Governments must put in place a system to electronically transfer local body grants provided by this Commission to the respective local bodies within five days of their receipt from the Central Government.	Already in vogue.

v)	The State Governments must put in place a system to electronically transfer local body grants provided by this Commission to the respective local bodies within five days of their receipt from the Central Government	Already in vogue.

vi)	The State Governments must put in place a system to electronically transfer local body grants provided by this Commission to the respective local bodies within five days of their receipt from the Central Government	Taking cognizance of the issue, the FSFC has made its observations and recommendations in **Chapter-V.**

vii)	State Governments must put in place a state level Property Tax Board, which will assist all municipalities and municipal corporations in the state to put in place an independent and transparent procedure for assessing property tax. .	As per the recommendation of XIII FC the proposed Board will enumerate all properties within the jurisdiction of ULBs, make suggestions for adopting suitable basis for assessment and valuation of properties and make recommendations on modalities for periodic revision. The proposal sent by CMA in this regard is under examination of the Government.

c) **Commission recommends that Property Tax Board be constituted so as to eliminate the hurdles such as non-enumeration, under assessment, non-assessment, non-revision, unreasonable fixation of unit cost of zonal value of properties.**

No	Conditionalities of XIII FC	Commission's Observations
viii)	State Governments must notify or cause all the municipal corporations and municipalities to notify by the end of a fiscal year (31 March) the service standards for four service sectors-water supply, sewerage, storm water drainage, and solid waste management proposed to be achieved by them by the end of the succeeding fiscal year.	Proposals are under examination of the Government.
ix)	All municipal corporations with a population of more than 1 million (2001 census) must put in place a fire hazard response and mitigation plan for their respective jurisdictions.	Proposals are under examination of the Government. It is observed that the Director of Fire and Rescue Services Department has sent a project report for revamping the fire and rescue services in Chennai, Coimbatore and Madurai Corporations which are having more than one million population and the proposals are under examination of the Government. Since 'Fire Service' is one of the functions entrusted to ULBs in the Constitution, involvement of ULBs in fire hazard response and mitigation plan is very much needed.

d) Commission recommends that the fire hazard response and mitigation plan be implemented in Chennai, Coimbatore and Madurai Municipal Corporations.

67) The Commission also recommends the following:

i) **The distribution of the general basic grant be based on the vertical sharing ratio for SFC devolution among the tiers of ULBs as recommended by the Fourth SFC.**

ii) **Since the conditionalities laid down by Government of India would bring in fiscal discipline, those conditionalities be implemented within 2011-12 so as to get the general performance grant from Government of India.**

(VI) Revenue Receipts versus Expenditure

68) The trend of revenue receipts and Revenue Expenditure in Municipal Corporations in the past is as follows:

Table-V-(41)
Revenue Receipts - Municipal Corporations
(Rs. in crore)

S. No	Head of Income	2005-06	2006-07	2007-08	2008-09	2009-10
1	Taxes	425.38	460.44	532.76	610.63	746.10
2	Non Taxes	222.02	264.08	297.08	304.54	323.03
3	SFC Devolution (Net)	214.81	235.48	371.12	374.54	457.59
4	Assigned Revenue	167.97	184.05	210.15	171.99	182.80
5	Others	72.09	32.65	35.55	47.02	38.14
	Total	**1102.27**	**1176.70**	**1446.66**	**1508.72**	**1747.66**

Table-V-(42)
Revenue Expenditure - Municipal Corporations
(Rs. in crore)

S.No	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
1	Salaries	289.73	325.65	377.04	485.75	588.52
2	Terminal Benefits	112.67	119.87	160.62	199.54	220.09
	Total	**402.40**	**445.52**	**537.67**	**685.30**	**808.61**
	Operation and Maintenance					
1	General Administration	284.64	318.85	376.34	340.44	448.43
2	Water Supply	59.36	65.12	66.96	74.29	80.20
3	Public Health	8.17	8.88	10.02	10.26	8.80
4	Conservancy	75.46	75.76	77.43	82.78	79.90
5	Roads	10.62	15.03	17.38	26.38	10.54
6	Storm Water Drains	5.30	8.24	9.42	12.02	5.19
7	Street Lights	48.12	43.57	49.30	46.82	49.75
8	Sewerage	1.87	2.07	1.67	2.87	2.43
9	Library Cess	26.21	21.92	26.56	23.07	26.94
10	Discretionary Service and Others	20.76	17.14	19.03	20.67	22.85
11	School Buildings	0.62	0.15	0.60	1.57	0.44
	Total(Operation and Maintenance)	**541.12**	**576.72**	**654.70**	**641.16**	**735.47**
	Debt servicing – Interest	**5.87**	**6.15**	**5.84**	**4.93**	**5.38**
	Total Revenue Expenditure	**949.40**	**1028.40**	**1198.20**	**1331.39**	**1549.46**

Table-V-(43)
Revenue Receipts – Municipalities
(Rs. in crore)

S.No	Head of Income	2005-06	2006-07	2007-08	2008-09	2009-10
1	Taxes	202.33	235.52	245.80	290.66	367.73
2	Non Taxes	219.35	271.02	281.73	284.56	309.49
3	SFC Devolution (Net)	251.63	234.86	386.95	477.37	486.79
4	Assigned Revenue	84.66	94.43	122.45	129.37	108.87
5	Others	1.84	6.83	13.80	4.81	3.95
Total		**759.81**	**842.66**	**1050.73**	**1186.77**	**1276.83**

Table-V-(44)

Revenue Expenditure - Municipalities

(Rs. in crore)

S.No	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
1	Salaries	194.82	236.27	260.53	321.15	391.53
2	Terminal Benefits	47.69	55.81	79.90	114.79	123.86
	Total	**242.51**	**292.08**	**340.43**	**435.94**	**515.39**
Operation and Maintenance						
1	General Administration	105.38	121.03	147.02	151.96	152.25
2	Water Supply	85.03	89.60	104.36	115.08	114.86
3	Public Health	2.26	2.96	3.78	3.85	5.81
4	Conservancy	32.81	32.27	43.12	49.78	54.33
5	Roads	5.63	8.64	7.91	9.32	9.20
6	Storm Water Drains	2.30	2.07	2.09	3.15	2.90
7	Street Lights	46.50	52.27	55.63	57.79	60.98
8	Sewerage	0.65	1.25	1.03	1.40	1.82
9	Library Cess	12.56	13.49	13.11	17.73	19.37
10	Discretionary Service and Others	4.81	9.21	10.97	13.55	21.99
11	School Buildings	2.95	3.08	4.29	4.55	3.23
	Total(Operation and Maintenance)	**300.89**	**335.86**	**393.32**	**428.17**	**446.73**
	Debt servicing – Interest	**31.49**	**35.64**	**37.74**	**25.92**	**27.90**
	Total Revenue Expenditure	**574.89**	**663.59**	**771.49**	**890.03**	**990.02**

Table-V-(45)
Revenue Receipts – Town Panchayats

(Rs. in crore)

S.No	Head of Income	2005-06	2006-07	2007-08	2008-09	2009-10
1	Taxes	70.01	79.89	93.07	110.46	156.51
2	Non Taxes	125.61	149.34	159.60	168.90	190.82
3	SFC Develoution (Net)	127.78	197.44	264.92	320.60	280.22
4	Assigned Revenue	50.11	67.19	67.48	105.52	79.02
5	Others	9.97	9.31	10.60	16.18	11.79
	Total	**383.48**	**503.17**	**595.67**	**721.66**	**718.36**

Table-V-(46)
Revenue Expenditure – Town Panchayats

(Rs. in crore)

S.No	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
1	Salaries	74.84	93.93	118.94	151.32	181.85
2	Terminal benefits	0.25	0.84	1.15	2.67	2.96
	Total	**75.09**	**94.77**	**120.09**	**153.99**	**184.81**
	Operation & Maintenance					
1	General administration	25.56	34.52	38.33	46.14	47.88
2	Water supply	77.01	87.12	101.09	112.87	124.31
3	Public health	10.71	13.75	16.42	19.06	21.53
4	Conservancy	10.32	12.92	15.98	20.39	21.08
5	Roads	3.13	3.40	4.54	5.30	6.17
6	Storm water drains	1.25	1.65	1.72	1.85	2.23
7	Street lights	48.90	56.08	60.24	66.36	68.55
8	Sewerage					
9	Library cess	4.33	4.47	4.80	6.74	7.75
10	Discretionary service and others	64.55	87.96	94.72	134.97	135.68
11	School buildings	-	-	-	-	-
	Total (Operation and Maintenance)	**245.76**	**301.88**	**337.85**	**413.69**	**435.18**
	Debt servicing – Interest	**10.65**	**11.12**	**11.74**	**15.23**	**16.86**
	Total Revenue Expenditure	**331.50**	**407.77**	**469.68**	**582.91**	**636.85**

The trend in salaries and establishment shows a marked increase from the year 2007-08 largely due to Pay Commission recommendations. The ratio of salaries and terminal benefits in the total revenue receipts ranges from 36% to 46% in the past years in respect of Municipal Corporations, from 32% to 41% in respect of Municipalities and from 19% to 26% in respect of Town Panchayats. Augmentation of own revenue at its potential and buoyancy in SFC devolution would continue to maintain the said ratio within the 49% norm prescribed already by the Government.

69) In Municipal Corporations the percentage of O&M in total revenue expenditure shows a declining trend ranging from 57% in 2005-06 to 47% in 2009-10. The reason for this due to reduced allocation towards the operation and maintenance of public health centres, conversancy, roads and storm water drains. In Municipalities, the percentage of O&M in total revenue expenditure is 52% in 2005-06 and 45% in 2009-10. In Town Panchayats the ratio of O&M expenditure in total revenue expenditure decreased from 72% in 2007-08 to 68% in 2009-10, the reason being comparatively higher growth in salaries and terminal benefits owing to the pay commission recommendations. Similar condition prevails in respect of Municipal Corporations and Municipalities also.

(VII) Capital Receipts versus Expenditure

Table-V-(47)
Capital Income - Municipal Corporations

(Rs. in Crore)

Sl. No	Details	2005-06	2006-07	2007-08	2008-09	2009-10
1	Grants in aid from State Government	39.50	22.07	63.81	53.45	37.36
2	Grants from Central Government	37.97	28.49	38.05	85.75	224.59
3	Loan Account	218.60	217.44	213.55	261.20	304.38
	Total	**296.07**	**268.00**	**315.41**	**400.40**	**566.33**

Table-V-(48)
Capital Expenditure - Municipal Corporations

(Rs. in Crore)

S.No	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
1	Water Supply	23.21	21.32	21.39	49.50	43.09
2	Sewerage	2.41	1.90	2.74	2.05	3.33
3	Roads	151.36	205.63	262.53	333.14	343.22
4	Storm Water Drains	38.88	45.93	55.21	51.73	74.09
5	Street Lights	11.22	10.87	19.62	45.47	36.00
6	Public Health and Sanitation	6.85	9.21	14.62	9.12	10.60
7	Conservancy	2.24	5.81	5.00	42.25	27.30
8	Culverts	4.46	2.15	18.38	46.48	65.19
9	Debt repayment – Principal	64.16	29.75	32.14	37.43	39.70
10	Others	50.54	48.87	46.25	79.28	114.57
	Total	**355.33**	**381.44**	**477.88**	**696.45**	**757.09**

Loans contribute a major portion of capital income in respect of Municipal Corporations. Except 2005-06, capital expenditure is more than the capital income.

Table-V-(49)
Capital Income – Municipalities

(Rs. in Crore)

Sl. No	Details	2005-06	2006-07	2007-08	2008-09	2009-10
1	Grants from State Govt.	114.38	151.95	181.75	249.36	232.15
2	Grants from Central Govt.	39.48	94.34	123.39	151.49	234.94
3	Loan	102.47	83.34	93.69	101.94	154.42
4	Contribution from Municipal Funds	37.47	40.71	50.40	48.61	48.39
	Total	**293.80**	**370.34**	**449.23**	**551.40**	**669.90**

Table-V-(50)
Municipalities – Capital Expenditure

(Rs. in crore)

S.No	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
1	Water Supply	37.42	28.46	49.98	73.52	120.30
2	Sewerage	0.99	3.12	3.04	10.10	36.89
3	Roads	138.40	208.65	184.93	196.80	212.65
4	Storm Water Drains	25.22	22.07	31.22	36.76	40.00
5	Street Lights	8.47	12.72	16.41	12.70	15.15
6	Public Health and Sanitation	49.49	34.49	46.75	59.35	48.22
7	Conservancy	5.83	4.74	4.89	3.66	4.96
8	Culverts	28.96	23.75	34.33	43.50	46.04
9	Debt repayment – Principle	41.16	50.40	60.23	45.94	53.25
9	Others	29.32	42.50	47.13	90.54	95.88
	Total	**365.26**	**430.90**	**478.91**	**572.87**	**673.34**

Capital expenditure exceeded capital receipts in respect of Municipalities during the past five years. Loan repayment constitutes 40 to 65% of loan receipts during 2005-06 to 2008-09 and 34% in 2009-10.

Table-V-(51)
Town Panchayats - Capital Income

(Rs. in crore)

Sl. No	Details	2005-06	2006-07	2007-08	2008-09	2009-10
1	Grants from State Government	119.67	106.78	158.60	147.10	169.48
2	Grants from Central Government	45.65	67.24	103.58	80.67	109.56
3	Loan	6.61	6.79	11.39	22.99	35.25
4	Own Fund	58.62	75.19	97.71	143.21	138.74
	Total	**230.55**	**256.00**	**371.28**	**393.97**	**453.03**

Table-V-(52)
Town Panchayats - Capital Expenditure

(Rs. in crore)

S.No	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
1	Water supply	27.01	23.57	35.99	38.77	47.74
2	Sewerage					
3	Roads	128.34	148.19	197.34	182.01	190.34
4	Storm water drains	24.09	28.38	40.38	47.59	49.57
5	Street lights	4.13	7.61	12.25	10.57	9.93
6	Public health and sanitation	10.76	17.47	19.07	23.94	24.02
7	Conservancy	1.52	2.52	2.63	2.54	3.08
8	Culverts	3.75	4.62	5.91	6.28	5.82
9	Debt repayment – Principle	12.11	12.65	12.24	14.89	20.67
10	Others	17.10	20.32	48.28	98.74	98.78
	Total	**228.81**	**265.33**	**374.09**	**425.33**	**449.95**

Consolidated Financial Operating Plans for Municipal Corporations, Municipalities and Town Panchayats are placed at **Annexure-V-(1) to V-(3).**

(C) Debt Status

70) The debt burden of 150 Municipalities and 9 Corporations are examined with reference to their financial condition and found that Madurai, Salem and Thoothukudi Corporation and 41 Municipalities are having huge outstanding loan balance and overdue loan arrears compared to their own income.

71) The salary and pension commitment of the above mentioned 3 Corporations has exceeded their self generated income. That is, their self generated Income is not even sufficient to meet out the salary and pension commitment. Similarly, out of 41 Municipalities, the salary and pension commitment has exceeded the self generated income in 20 Municipalities. The salary and pension commitment has exceeded 49% of own Income in 17 Municipalities and 3 Corporations. Further the 3 Corporations and 41 Municipalities have to repay Rs.144.64 crore of overdue principal arrears and to pay Rs.149.27 crore of overdue interest to Government, TUFIDCO and DTCP. Due to non repayment of loan in time, these 41 Municipalities & 3 Corporations have to pay penal interest amounting to Rs.33.49 crore to Government, TUFIDCO and DTCP.

72) Certain other Corporations and Municipalities are also having huge outstanding loan balance / overdue loan arrears but they can repay the overdue loan arrears from the SFC grant to be released to those Municipalities in future. But those 41 Municipalities and 3 Corporations are not in a position to repay the loan either from their own fund or from SFC grant. Further the lending agencies (TUFIDCO, TNUDF) have not come forward to sanction fresh loan to these Municipalities and Corporations for the implementation of various schemes. Hence, there is a need to find a solution for the debt burden of these Municipalities/Corporations.

73) A statement showing debt outstanding as on 31.03.2011 in respect of 41 Municipalities and 3 Municipal Corporations is placed as **Annexure-V-(4).** Failure in augmentation of own revenue at its potential and fiscal indiscipline are the factors which brought those ULBs to a position where they are unable to repay the debt promptly. However, in order to avoid further deterioration in finances and to overcome the debt crisis of those ULBs, Commission considered a separate package of relief which is explained in the **Chapter on Scheme of Devolution.**

CHAPTER – VI

SOLID WASTE MANAGEMENT – NEEDS AND FOCUS

> *"I only feel angry when I see waste. When I see people throwing away things, we could use".*
>
> *-Mother Teresa*

Solid Waste Management - Indian Scenario

Over the years, there has been a continuous migration of people from rural and semi-urban areas to towns and cities, due to the effect of prosperity pull and poverty push. The uncontrolled growth in urban areas has left many Indian cities deficient in infrastructural services such as water supply, sewerage etc., more specifically municipal solid waste management. Most urban areas in the country are plagued by acute problems related to solid waste. It is estimated that about 1,00,000 MT of municipal solid waste is generated daily in the country. Per capita waste generation in major cities ranges from 0.12 Kg to 0.62 Kg per day **(Table-VI-(1).** Generally the collection efficiency ranges between 70 to 90% in major cities whereas in several smaller towns the collection efficiency is below 50%. It is also estimated that the Urban Local Bodies spend about Rs.500 to Rs.1500 per tonne on solid waste for collection, transportation, treatment and disposal. About 60-70% of this amount is spent on street sweeping and waste collection, 20 to 30% on transportation and less than 5% on final disposal of waste, which shows that hardly any attention is given to scientific and safe disposal of waste.

Table-VI-(1)
Municipal solid waste generation in select cities (CPCB)

S. No.	Name of City	Population (2001)	Area (sq.km)	Waste Quantity (tpd)	Waste Generation (Kg/pc/day)
1	Chennai	43,43,645	174	3036	0.62
2	Kolkata	45,72,876	187	2653	0.58
3	Delhi	1,03,06,452	1483	5922	0.57
4	Greater Mumbai	1,19,78,450	437	5320	0.45
5	Gandhinagar	1,95,985	57	44	0.22
6	Pondicherry	2,20,865	19	130	0.59
7	Thiruvananthapuram	7,44,983	142	171	0.23

(Source: CPCB)

Tamil Nadu Scenario

2) Tamil Nadu is one of the most urbanized States in India with 48.45% of its population living in urban areas. With the growing urbanization as a result of planned economic growth and industrialization, problems are becoming acute and call for immediate and concerted action on solid waste management.

Population growth has enhanced the quantum of waste generation, accumulation of solid waste in haphazard manner and absence of proper and scientific disposal plans is a matter of growing concern in the State. The situation in the entire State including all major cities, medium and small towns and rural areas are also similar. The per capita waste generation in Chennai is the highest among the major cities in the Country with 0.62 kg per day. The municipal waste generation in select cities in the State are furnished below:

Table-VI-(2)

Waste Generation in select cities of Tamil Nadu

S. No.	City	Quantity of Waste Generated (Tonnes / day)
1	Chennai	3036
2	Madurai	711
3	Coimbatore	710
4	Tiruchi	408
5	Salem	330
6	Tirunelveli	210

Source : Environment Report, 2005, TNPCB

3) The implementation of Municipal Solid Waste (Management and Handling) Rules 2000, is mandatory for all ULBs. As per the said rules, the local bodies are responsible for the collection, reception, transportation, treatment and disposal of the municipal solid wastes. Based on the above Rules, Government of Tamil Nadu has issued instructions to all ULBs. Compliance of the Rules calls for appropriate systems and infrastructure facilities to undertake collection, management, processing and scientific disposal of municipal solid waste. However, it has been noticed that the local bodies are unable to plan, implement and maintain sustainable operation covering the entire process of scientific solid waste management due to lack of physical (land and infrastructure) facilities, financial resources, technical expertise and institutional capacity coupled with low level of awareness among the general public about the evils of non-scientific disposal of solid waste. The proper collection and disposal of solid waste

is not only absolutely necessary for the preservation and improvement of public health but it has an immense potential for resource recovery, employment and income generation.

4) The State Planning Commission has prescribed the following detailed “Charter of Action” for municipal solid waste management:

- To utilize all the bio-degradable waste and allow the recyclable items to be handled by rag-pickers and the balance items in garbage dumps.
- To regulate rag pickers and encourage small entrepreneurs for recycling efforts.
- Effective implementation of 'zero garbage' from house hold, enlisting the support of experts and N.G.Os.
- Where adequate space is not available for the above process, door to door collection at fixed time schedule in containers/ bags (preferably recyclable paper bags etc.,)
- Source segregation at household level for bio-degradable wastes and others.
- To avoid multiple handling, vehicles to collect containers/ bags to transfer stations are required.
- To reduce transportation costs large container type modular vehicles may be arranged for transportation from transfer stations to 'disposal facility'.
- To provide common disposal yards / landfills for groups of municipalities.
- Acquisition / alienation / purchase of adequate extent of land for dumping ground to meet current and future demand / need of the community and ecological protection.
- Privatization of disposal facility and B.O.O. (Build, Own, Operate) type of major landfills on a long term basis.
- To create public awareness on a massive scale through N.G.Os. neighborhood self help groups, private sector sponsors, residents etc.
- To prepare a 'waste management plan' for every urban local body to ensure all citizens have access to solid waste removal facilities in an efficient manner

- To reduce transportation costs and supply rich compost to horticultural operations, various vermi composting in feasible special areas like markets may be adopted.

- Installation of proper monitoring mechanisms including weighbridges, computerization, M.I.S. for daily monitoring of garbage clearance.

- Adequate financial support to weaker municipalities to handle service effectively.

5) The Ministry of Urban Development, Government of India prescribed the following bench marks for solid waste management:

Household level coverage of solid waste management services	: 100%
Efficiency of collection of municipal solid wastes	: 100%
Extent of segregation of municipal solid wastes	: 100%
Extent solid waste recovered	: 80%
Extent of scientific disposal of municipal solid wastes	: 100%

6) With the rapid population growth especially urban population Table-VI(3) requires immediate attention on solid waste management.

Table-VI-(3)
Population - Tamil Nadu

Year	No. of Towns	Total Population (million)	Urban population (million)	Share of urban population (%)
1901	133	19.25	2.72	14.15
1911	162	20.90	3.15	15.07
1921	189	21.63	3.25	15.02
1931	222	23.47	4.23	18.02
1941	257	26.27	5.17	19.68
1951	297	30.12	7.33	24.34
1961	339	33.69	8.99	26.68
1971	439	41.20	12.46	30.24
1981	434	48.41	15.95	32.95
1991	469	55.86	19.07	34.14
2001	832	62.41	27.48	44.03
2011	1097	72.14	34.95	48.45

Source:Census Data

Considering the population as per Census 2011, the estimated average generation of waste in the State will be about 21400 MT per day (assuming the generation of 0.40 kg in urban areas and 0.20 kg in rural areas).

7) Tamil Nadu Pollution Control Board has been insisting all the local bodies (including Village Panchayats) to take action for creating awareness on the segregation of wastes as wet compostables, dry recyclables, household hazardous, construction debris and inorganic wastes. It is estimated that by segregating the municipal solid wastes at source, about 20% of the recyclable wastes could be collected separately and sent for recycling industries, about 50% of the biodegradable wastes collected separately could be sent for composting facilities for converting it into organic manure. The remaining 30% of inorganic wastes alone are sent for sanitary land filling. By creating proper awareness on evils of solid waste among the general public and proper advisory to manufacturers and retailers waste reduction could be achieved.

8) The estimated immediate requirement of funds to provide municipal solid waste management services (excluding the cost of land and construction of landfill site) will be about Rs. 1671.00 crore as mentioned below:

Table-VI-(4)

Estimated Fund Requirement

Sl. No	**City**	**Amount (Rs. in crore)**
1	Chennai Corporation	117
2	Corporations other than Chennai and Municipalities	825
3	Town Panchayats	486
4	Village Panchayats (assuming 50% of Town Panchaysts requirements)	243
	Total	**1671**

(Source: Estimates of CoC, CMA, DTP)

Solid Waste Management Fund

9) Considering the ground realities as stated above, if it is left to the local bodies it may be very difficult to achieve the desired result in a specified time frame. Despite the efforts made by the local bodies, huge quantity of solid wastes remain unattended under the existing system and those collected are disposed in open dumps providing free access to scavengers, waste pickers and animals without regard to environmental health and safety. Thus, there is a need to improve the entire process of solid waste management in local bodies with a view to provide eco-friendly, financially sustainable, technically feasible and community-based

solutions to waste management problems. Hence, to achieve a desired result throughout the State, a Solid Waste Management Fund should be created to provide one-point solution to address effective planning, implementation, financing, capacity building, creating awareness and creation of database on solid waste management.

10) The main objectives of the Fund are

- to finance the cost of technical assistance including preparation of strategy papers, plans, programmes, feasibility studies, detailed project report including detailed design, environmental and social assessment and economic assessment, implementation, supervision, monitoring and management of solid waste management projects;
- to finance creation of physical infrastructure (including land) to facilitate effective implementation of solid waste management plans and programmes, creation of solid waste management assets including sanitary landfills and implementation of best practices in solid waste management;
- to finance education and awareness programs, capacity building programs, seminar, conference, meetings, workshop and other means of public participation in formulation of policies and information dissemination;
- to promote private sector participation in solid waste management;
- to finance other activities which are necessary in furtherance of the above in order to conserve natural resources and protection of the environment.

The activities of the Fund will be aiming towards comprehensive and integrated waste management through prevention, reduction, reuse and recycling of waste generated leaving as minimum as possible to the sanitary land fill.

11) Attitude and behaviour should be changed among general public to ensure waste prevention and minimization and to increase recycling and composting. The proactive comprehensive waste management education and awareness programs involving residents and stakeholders aiming on prevention, reduction, reuse and recycling have to be conducted all over the State. The program should be extended to manufacturers and retailers. The program should advocate the manufacturers to make products using more recyclable materials. They have to design the products that are less wasteful and take responsibility for

the environmental impact of their products throughout their life. The retailers will have to reduce packing, source and market products that are less wasteful and help their customers to be less wasteful. The industrial, individual and commercial customers will have to educate to reduce their own waste, purchase products that generates less waste and reduce environmental impacts and separate their waste for recycling.

12) The institutional capability with technical expertise is a limiting factor in most of the local bodies. Capacity building programs have to be initiated for the benefit of the officials of local bodies to waste management practices efficiently, to dispose the waste in a safe, environmentally sound and efficient manner.

13) The wastes collected are disposed in open dumps in most of the local bodies, due to the non-availability of scientifically designed land fill sites on regional basis. The disposal of high moisture content wastes in open dumps lead to surface and ground water contamination by run -offs from dump sites. Poor management of dumps lead to seepage of leachate causing ground and surface water pollutions. Uncontrolled release of landfill gases from dumps contribute to global warming phenomenon, open dumping of biomedical wastes could trigger epidemics. Dumping of other hazardous wastes (like used batteries, discarded paints etc) could cause significant adverse impacts on the environment and human health. Further, fire and open burning in the dumps cause air-pollution.

Burning of Solid Waste

Solid Waste disposal along the major roads


Solid Waste disposal in river


Unscientific disposal of Solid Waste

Hence, scientifically developed land fill site is the immediate requirement and Fund will provide technical as well as financial support in developing sanitary landfill sites (including acquisition of land) o-n regional basis, by combining requirements of local bodies with or without private sector participation. Landfills should address social, environmental and economic impacts over its whole life cycle. The Fund will support the development of Clean Development Mechanism (CDM) for the potential recovery of landfill gas.

14) Involvement of private sector is essential for the effective implementation of the municipal solid waste management. This is particularly important as the local bodies have both financial and technical limitations to do so on their own. Some of the private sector initiatives in solid waste management have successfully implemented to provide employment opportunities to the urban poor. NGOs and Self Help Groups may be encouraged in house to house collection of waste and an independent private agency may be appointed for construction waste and for bulk waste producers. The Waste Recycling or Processing Units licensed by Tamil Nadu Pollution Control Board may be encouraged for recycling or processing of wastes. A comprehensive contract to identify, own, develop and maintain sanitary landfill sites on regional basis may be considered.

15) In order to be efficient, operation and management of the Fund have to be handled professionally and its operation should be linked to performance. Tamil Nadu Urban Development Fund (Fund) promoted by Government in the year 1996 to fund the urban infrastructure projects has proved to be successful and it is managed by an asset

management company (TNUIFSL) promoted by Government with private sector participation, based on performance based management agreement. This model has proved to be highly efficient and cost effective. At the national level the operation of TNUDF through the management by TNUIFSL is considered to be the best model in financing urban infrastructure projects. Multilateral lending agencies have also documented and acclaimed the TNUDF model. Hence, the management of the proposed Solid Waste Management Fund may be similar to that of TNUDF.

16) Considering the urbanization trend in the State and the magnitude of the solid waste management problem, the Commission felt the acute need to give special attention to this problem. Accordingly, the Commission recommends the following:

i) Solid Waste Management fund be created and Rs.200.00 crore per annum may be contributed to the fund for improving solid waste management in the State, cutting across local bodies. Source of funding is mentioned in the Chapter on devolution.

ii) **Management of the fund may follow a public private partnership model like TNUDF to ensure professional management and effective operation.**

CHAPTER-VII

ACCOUNTABILITY AND AUDIT OF LOCAL BODIES

> *"It is not only what we do, but also what we do not do, for which we are accountable".*
>
> \- ***Moliere***

The ToR issued to the Commission, viz Para 3(b) needed the Commission to suggest measures to improve the financial position of the local bodies and also possible new avenues for tapping resources. Presently, flow of funds to local bodies through various sources like SFC devolution, assignment of taxes, non-tax revenue, transfer of plan and non-plan funds from the State and Central Government, loans from financial institutions and Central Finance Commission grants is witnessed. While analyzing the issues in the augmentation of resources through various sources by local bodies, the accountability of the money received and utilized by local bodies should also be reviewed. XIII FC in its template for the preparation of the report of State Finance Commissions listed the issues relating to the quality of accounts maintained, technical guidance and supervision of C&AG on the audit of local bodies, audit arrangements in place, status of audit of accounts and disposal of audit objections, for review by the SFCs of States.

2) As such, we include a separate chapter on accountability and audit of local bodies in our report. The issues on accountability and audit of local bodies dealt with by the Commission are discussed in this chapter.

3) The audit of accounts of Village Panchayats is now done by Deputy BDO (Audit), being the 'auditor' for Village Panchayats. As per Tamil Nadu Panchayats (Issue and disposal of Audit report of Village Panchayats) Rules, 2000, the auditor has to scrutinize every item of expenditure to see that the transactions of Village Panchayats are done in accordance with rules and orders issued by the Government and regarding the receipts the auditor has to verify the proper assessment of properties/eligible persons for various taxes/user charges levied by the Panchayats. The audit report on the accounts of Village Panchayats will be sent to the Panchayat President, within 15 days of the completion of the audit. The AD (Audit) shall check the audit reports of not less than 10% of the total number of Village Panchayats in the District to verify the correctness of the audit done by the Deputy BDO. The Executive Authority shall rectify the defects in the audit report and place the replies in the Grama Sabha for approval. The replies for the audit objections will then be sent to the AD (Audit) through the auditor within 2 months from the date of receipt of audit report. The AD (Audit) shall scrutinize the replies

and pass orders accepting or rejecting the replies to the objections raised and initiate surcharge proceedings against the Executive Authority, wherever necessary. The Commission had the occasion to review the issues relating to the augmentation of house tax revenue which revealed that the Deputy BDOs are taking up only expenditure audit and there is no review on the revenue generation by Village Panchayats, despite the provisions for receipt audit by Deputy BDOs, in the relevant rules. The Commission feels that the job chart of Deputy BDO (Audit) has to include revenue audit also such as enumeration of properties, review of under/non-assessment, periodical revision of taxes/non-taxes and untapped tax/non-tax revenue potential.

4) As per the decision taken by the Government on the recommendation of Second State Finance Commission and orders issued in G.O.Ms.No.371, Finance (FC.IV) dated 11.1.2002, the test audit of Village Panchayats by the DLFA was ordered to be at 20% of Village Panchayats based on receipt value of works and 2% of Village Panchayats on specific complaints forwarded by the DRD. The Local Fund Audit Department is taking test audit of 22% of Village Panchayats for which actual audit was done by the Deputy BDO (Audit). The Rural Development Officials Union represented before the Commission that only after detailed scrutiny of vouchers, etc., the audit reports are issued by Deputy BDO (Audit) and when such audit reports are test audited by LFAD, the audit exercises are done right from the base level again by LFAD. The Union had therefore represented that the Local Fund Audit Department need not be insisted to take up 22% test audit on the audit done by the Deputy BDO (Audit). Moreover, the Union represented that the audit objections raised by LFAD may be cleared by the Assistant Director (Audit). However, it is not agreeable since the audit objections have to be settled by the authorities who raised them. DRD has also issued clarification to all the concerned in this regard.

5) G.O.Ms.No.371, Finance (FC.IV) dated 11.1.2002 does not prescribe modalities for test audit by LFAD. As per Section.193 (1) of the Tamil Nadu Panchayats Act 1994, the Government shall appoint auditors for the accounts of the receipts and expenditure of the funds of the Panchayats. As per Section 2 (ii) of the Tamil Nadu Panchayats (Issue and disposal of Audit report of Village Panchayats) Rules, 2000 the ‘auditor’ means the Deputy Block Development Officer of the Panchayat Union in whose jurisdiction the Village Panchayat lies. Since no provision is made in the Act/Rules to empower the LFAD to test audit the accounts of Village Panchayats, the Act/Rules have to be amended suitably to facilitate test audit by LFAD, based on the G.O issued.

6) In G.O.Ms.No.145, MA&WS, dated 22.10.2002, the time limit to make available the audited accounts to local bodies by the DLFA had been prescribed as 15th September, every year. The following time limit to furnish the accounts to DLFA by the local bodies for audit has been prescribed in the G.O:

Table-VII–(1)

i)	Village Panchayats and Town Panchayats	30th April of the immediate succeeding year.
ii)	Municipalities, Panchayat Unions, and District Panchayats.	15th May.
iii)	Corporations	31st May.

The implementation of this order was reiterated by Third SFC. The Government decided that the accounts would be finalized by the local bodies within three months after the end of the financial year. It amounts to revision of the earlier time limit prescribed in the G.O. No orders have been issued for the revised time limit.

7) The status of local fund audit **as on 31.05.2011** is shown in Table VII – 2 and 3 below:

Table-VII-(2)

Year	No. of Corporations			No. of Municipalities			No. of Town Panchayats			No. of Panchayat Unions			No. of District Panchayats		
	Completed	Progress	Pending	Completed	Progress	Pending	Completed	Progress	Pending	Completed	Progress	Pending	Completed	Progress	Pending
2008-09	10	-	-	102	20	26	312	27	222	358	-	27	29	-	-
2009-10	-	10	-	10	17	121	59	12	490	67	-	318	15	-	14
2010-11	-	-	10	-	-	150	-	-	559	-	-	385	-	-	29

Source: DLFA

Table-VII-(3)
Completion of audit report as on 31.05.2011

Details	Corporations		Municipalities		Town Panchayats		Panchayat Union		District Panchayats	
	Year	Nos	Year	Nos	Year	Nos	Year	Nos	Year	Nos
1) Upto which year audit reports have been issued	2008-09	10	2007-08	150	2007-08	561	2007-08	384	2008-09	29
2) No. of Audit reports issued	2008-09	10	2008-09 2009-10	102 10	2008-09 2009-10	312 59	2008-09 2009-10	358 67	2008-09 2009-10	29 15
3) Balance to be issued (year wise)	2009-10 2010-11	10 10	2008-09 2009-10 2010-11	46 138 *150	2008-09 2009-10 2010-11	249 502 *559	2007-08 2008-09 2009-10 2010-11	1 27 318 385	2009-10 2010-11	14 29
4) No. of annual account not received with details	2009-10 2010-11	7 10	2009-10 2010-11	45 149	2010-11	550	2009-10 2010-11	18 318	2009-10 2010-11	14 29

Source: DLFA

*During 2010, Kangeyam and Oddanchathiram Town Panchayats have been upgraded as Municipalities there by increasing the number of Municipalities from 148 to 150 and reducing the Town Panchayats from 561 to 559.

The interaction with DLFA by the Commission revealed that the time limit prescribed by the Government for the finalisation of accounts by local bodies and issue of audit report by LFAD are not strictly adhered to**.** On LFAD side, the delay is due to dearth of audit staff and on local body side, it is due to submission of accounts in improper shape and lack of separate accounts wing in ULBs. The accounts section of the ULBs is not able to compile the accounts for want of coordination among all other sections viz., Revenue, Engineering, Public Health etc. The non closure of subsidiary registers, non-posting of Deposit and Advance registers, non-striking of monthly bank reconciliation statement and non-finalization of DCB leads to delay in compilation and submission of annual accounts on due dates. In Kerala, as per the LF Audit Act, 4 months time is prescribed for furnishing the accounts to LFAD and if the Executive Authority of local bodies defaults in presenting the accounts within the stipulated time, fine is imposed on such authorities. Similarly, 6 months time is prescribed for issue of audit report by the LF auditors, failing which action is taken against them under Kerala Civil Service (CCA) Rules.

8) During the interaction with CMA, he stated that due to non-availability of qualified and trained Accountants, timely compilation of accounts, completion of audit etc. could not be achieved as per the time schedule and that the ABAS needs adequate and specialized knowledge and hence the accounts staff are not willing to stick on to those posts. CMA suggested that the accounts wing of Municipalities has to be strengthened as a separate entity so as to recruit technically qualified persons and thereby to improve the quality of accounts and fiscal management.

9) The Second SFC recommended for statutory status to DLFA and the Government accepted the recommendation in principle. Orders on this recommendation have not been issued. The statutory status will confer more powers to LFAD like inspection of accounts, collecting information relating to audit without any delay, fixing of responsibility on the local body employees for the losses caused to the local bodies and also to issue surcharge proceedings for irregular payments and loss caused by negligence or misconduct. In Kerala, the DLFA is the Statutory Auditor of the Government for local bodies and a separate L.F. Auditors' Act and Rules are in existence. In Karnataka, the State Accounts Department which is dealing with the audit of accounts of local bodies is the statutory auditor for local bodies. As far as Tamil Nadu is concerned, the draft Tamil Nadu Local Fund Audit Act and Rules are being considered for adoption.

10) XIII FC recommended that the C&AG be entrusted with technical guidance and supervision over the audit of accounts of all local bodies in all States. It is a reiteration of the recommendation of XI FC. Based on the recommendation of XI FC, orders had been issued in G.O.Ms.No.93, Finance (FC.IV) Department, Dated: 28.03.2003, entrusting the technical guidance and supervision over the audit of accounts of local bodies by DLFA to Principal Accountant General. As per the G.O, the Accountant General would advice on system improvements and make suggestions for improvement of the existing manuals, circulars and procedures followed by LFAD/Deputy BDO (Audit). Copies of audit reports issued in respect of 10% of Town Panchayats have to be forwarded by the DLFA to Accountant General and the A.G. would offer technical guidance to the DLFA on the content and quality of such reports. The Accountant General would also arrange training to the staff of LFAD/Deputy BDOs for improving audit standards and efficiency in the audit of local bodies through Institute of Public Auditors of India. Moreover, LFAD would also send copies of audit reports wherein serious irregularities have been noticed, to the Principal Accountant General for review. This arrangement is being followed now.

11) The Second SFC had recommended that the report incorporating major irregularities noticed in the local bodies may be compiled and presented before the Committee for local bodies for which the DLFA can function as Secretary or Convener as Accountant General to Public Accounts Committee. This was accepted by the Government. However, the same recommendation reiterated by Third SFC was not accepted by the Government stating that PAC is performing this function as a part of its overall mandate.

12) The issue was discussed with DLFA and it was viewed by the Commission that PAC like Committee for local bodies is necessary so as to curtail the irregular and unnecessary expenditure of local bodies and also to avoid the pilferage of the revenue to local bodies. The proper utilization of revenue from the public and Government could be ensured with the PAC like Committee. The elected and executive heads of local bodies need to be made accountable in respect of leakage of revenue, avoidable expenditure, loss in revenue, etc. However, the Government viewed that the existing PAC is performing this function.

13) One of the nine conditionalities laid down by XIII FC for getting general performance grant from GOI is that the annual report of the DLFA on local bodies must be placed before the State Legislature. Now, the C&AG's report on local bodies is placed before the Legislature annually in Tamil Nadu. In Kerala, the consolidated audit report of DLFA and also the audit report of A.G are placed before the Legislature and referred to the Legislative Committee for review. In Karnataka also the same practice is followed.

14) The Second SFC has recommended that 25% of the posts of Assistant Director of Local Fund Audit may be filled up through direct recruitment so as to induct professional auditors to improve the quality of audit and the Government had accepted this recommendation. No orders have been issued by the Government so far. The Second SFC observed that the direct recruitment of Asst. Directors of L.F. Audit upto 25% of the overall staff strength is based on the need to improve the expertise of auditors' quality and to do the audit with a professional approach. The Second SFC also cited the induction of professional auditors in Treasuries and Accounts Department.

15) The Third SFC reiterated the recommendation of Second SFC for introduction of pre-audit in the place of concurrent audit so as to avoid harassment of the Municipal officials at the time of retirement by way of unsettled audit objections. This recommendation was accepted by the Government with a modification that there shall be a percentage based random review by DLFA. Proposals have been sent to the government by DLFA to conduct a percentage based random review of pre audit. Orders are awaited on the issue.

16) Urban Local Bodies are adopting accrual based accounting system from 2000 onwards. Even though staff have been given training, there is lack of aptitude on the part of the staff to absorb the intricacies with the accounting system. This resulted in delayed submission and incomplete compilation of accounts. Moreover, the National Municipal Accounting System developed by the Government of India has to be adopted by making the present accrual based accounting system compatible. There is no continuity of the service of the accounts wing due to various factors like promotion and posting to other Departments, lack of interest to learn and gain expertise in accrual accounting as there is no incentive. Therefore, the Commission feels that the accounts function has to be strengthened by creating a separate Municipal Accounts Service with necessary rules for recruitment, appointment (direct/by promotion), promotion etc. Till then, the accounts of ULBs can be compiled and maintained by professional accounting personnel on contract basis.

17) The feedback obtained from ULBs and DLFA brought to light the inaccuracies in the compilation of accounts, inordinate time lag in submitting the accounts for audit and time to rectify the defects in the accounts. In order to point out defects promptly, there is a need for internal audit by professional auditors though it may not equate the concurrent audit. The broad objectives of internal audit are:

i) To ensure the accounting and financial management systems reliable and effective.
ii) To review the efficacy, adequacy and application of accounting.
iii) To verify that the system of internal check is effective in design and operation.
iv) To ensure the prevention and early detection of defalcation and frauds.
v) To identify areas of significant inefficiency in existing systems and to suggest remedial measures.
vi) To confirm the existence of financial propriety in all decisions.
vii) To review the performance of various functions.
viii) To ensure that the preparation of bank reconciliation and trial balance are in proper manner.
ix) To ensure the deduction of taxes at source.

If the internal auditor is entrusted with the above objectives, the audit of accounts will be phenomenally improved. At the same time, there is a need for clear demarcation of functions between internal auditor and the DLFA audit. It needs to be ensured that there will be no duplication of audit. The Commission feels that internal audit may be introduced with professional Chartered Accountants/Works Accountants through outsourcing in a phased manner for urban local bodies to facilitate better accountability and to improve the strength of accounting and audit.

18) Third SFC recommended that the High Level Committee constituted to look into the long pending audit objections should meet once in six months viz. in July and January and settle the objections and the DLFA and HODs viz. Commissioner of RD&PR, Director of Municipal Administration and Director of Town Panchayats will be responsible for convening the meeting. This recommendation was accepted by the Government. In G.O.Ms.No.65, MA & WS Department, Dated: 22.05.2007, orders have been issued constituting HLCs at State level and District level. In G.O. Ms.No.83, MA & WS Department, Dated: 01.06.2009, orders have been issued to conduct District HLC meetings once in 3 months and State level HLC meetings once in 6 months to dispose off the long pending audit paras.

19) The details of clearance of audit paras by the District HLCs are shown in the following table:

Table-VII-(4)

Details regarding District High Level Committees

Year	Municipalities			Panchayat Unions			Town Panchayats			Total		
	No. of HLC Held	Paras placed	Paras decided	No. of HLC Held	Paras placed	Paras decided	No. of HLC Held	Paras placed	Paras decided	No. of HLC Held	Paras placed	Paras decided
2005-06	-	-	-	48	3525	2562	-	-	-	48	3525	2562
2006-07	-	-	-	40	3003	2213	-	-	-	40	3003	2213
2007-08	6	1258	1008	86	7239	5801	10	707	505	102	9204	7314
2008-09	6	2128	1005	88	5439	3572	9	567	367	103	8134	4941
2009-10	7	658	404	78	3699	2316	18	1286	936	103	5643	3656
Total	**19**	**4044**	**2417**	**340**	**22905**	**16464**	**37**	**2560**	**1808**	**396**	**29519**	**20686**

Source: DLFA

As far as Municipalities are concerned, the District HLC meetings are conducted at Regional level and in respect of Town Panchayats and Panchayat Unions at District level. The above table shows that the time schedule of 3 months fixed for District HLC is not adhered to strictly. As on 31.03.2010 for which the data is available with the Commission, for Municipalities, only 60% of the audit paras placed in District HLC has been settled, for Panchayat Unions at 72% and for Town Panchayats at 71% cumulatively.

20) Based on the recommendation of XI FC, the C&AG had earlier prescribed uniform accounts formats for rural local bodies and orders had been issued for adoption in G.O.Ms.No.74, RD (C3) Department, dated: 5.4.2004. In that G.O. the DLFA was made in charge of the Budget Master in respect of accounting format. The accounting format for PRIs designed by C&AG was not adopted in view of complexities. The Village Panchayats without any qualified staff could not adopt such complex formats having heads of accounts on a par with heads in the State Government's accounts.

21) C&AG and the Ministry of Panchayat Raj have finalised a Model Panchayat Accounting System with a view to improving transparency and accountability in the working of PRIs. This system with user friendly web based software viz., PRIA Soft brings out a simplified cash based accounting formats along with the list of codes for functions, programmes and activities capturing the receipt and expenditure in respect of all the 29 functions. According to MoPR, once the master data is fed into this accounting system, a few entries by the Panchayat staff based on the receipts/payments and other vouchers would generate on real time basis, the cash book, receipt and payment account and all reports, registers and management information online and would be available in the public domain and ensure transparency. XIII FC suggested for the adoption of this Model Panchayat Accounting System by the PRIs in all the States as one of the 9 conditionalities laid down for getting the General Performance Grant from GOI as recommended by XIII FC.

22) Fourth SFC collected the data on the finances of each and every local body under the 3 tiers of PRIs in prescribed formats through online in the Commission's Server. The Commission faced lot of difficulties in collecting the data through online despite District level training programmes and demonstrations conducted by the officials of the Commission. Similarly, the data have not been dedicatedly prepared by the RLBs and the figures showed a lot of discrepancies. However, those discrepancies have been sorted out by the Commission. Our experience in collecting the data and its validation has provided the ground to recommend for the adoption of Model Panchayat Accounting System. This system would facilitate proper monitoring of the Budget allocation and consolidation of accounts of RLBs at the State level and also serve as a data base for the Central/State Finance Commissions and GOI as well. MoPR, Government of India stated that 17 States have issued orders adopting PRIA Soft for computerized maintenance of accounts and at present 80,000 Gram Panchayats are using PRIA Soft in 10 States. Four States viz., Gujarat, Kerala, West Bengal and Karnataka have different accounting systems and developed their own software. MoPR stated that those

States have agreed to make their system compatible with PRIA Soft so that their reports are available on PRIA Soft Portal along with other States.

23) The General Performance Grant recommended by XIII FC for Tamil Nadu for the period from 2011-12 to 2014-15 is Rs.1888.60 crore of which the rural share would be Rs.1067.49 crore. As per the guidelines given by the GOI, non-compliance by the States with any one condition at any time during the award period will render that State ineligible for the General Performance Grant until it again becomes compliant with all conditions.

24) Government in RD & PR Department is of the view that the accounting software with a large number of major and minor heads can be handled only by qualified accounts personnel and moreover imposing the uniform accounting format by GOI has to be viewed as intrusion into the State autonomy. However, the Commission feels that the factors like transparency, accuracy, consolidation, proper monitoring of accounts and creation of an accurate data base have to be considered while reviewing the need for such accounting systems. The creation and maintenance of the accounting system through PRIA Soft can be outsourced and the cost of outsourcing would be comparatively meagre and met from the General Performance Grant to be received from GOI.

25) Earlier, XI FC recommended that the C&AG would prescribe the accounting and budget formats for ULBs. Accordingly, the C&AG facilitated the development of the National Municipal Accounts with the objective of aligning national level perspectives of reforms in municipal finance and financial management. XIII FC recommended to implement in all ULBs an accounting frame work consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual. This has been prescribed as one of the conditionalities for getting General Performance Grant from GOI as recommended by XIII FC.

26) In Tamil Nadu, the Accrual Based Accounting System (ABAS) had been introduced in Municipal Corporations and Municipalities during the year 2000-01 and in Town Panchayats during 2002-03. The guidelines given in the National Municipal Accounting Manual have to be complied with for further improvement in the ABAS of ULBs so as to make the accounting system in our State consistent with the accounting format and codification pattern suggested in the National Municipal Accounting Manual. It is observed that the Municipal Administration Department is now engaged in improving the ABAS in line with National Municipal Accounting System, under TNUDP III.

27) In the light of the above analysis, the Commission recommends the following:

i. **The Tamil Nadu Panchayats (Issue and Disposal of Audit Report of Village Panchayats) Rules, 2000 be amended to include Local Fund Department Auditor also as an auditor to test audit the accounts of Village Panchayats.**

ii. **Deputy BDO (Audit) be directed to audit the revenue side also relating to the enumeration of properties, review of under/non-assessment, periodical revision of taxes/non-taxes and untapped tax/non-tax revenue potential. The format for audit by the Deputy BDO (Audit) be revised accordingly.**

iii. **Internal audit be introduced in ULBs with professional Chartered Accountants/Works Accountants through outsourcing in a phased manner to facilitate better accountability and to strengthen the audit and accounting system.**

iv. **Government orders on the time limit of three months for finalisation of accounts, after the end of each financial year for all the tiers of local bodies, i.e., upto 30th June leaving three months time for auditing the accounts by LFAD i.e. upto 30th September, along with strict guidelines to adhere to the time limit be issued by the Govt.**

v. **The Heads of Departments concerned with ULBs be directed to provide periodical training to the accounts staff of ULBs on accrual accounting through LFAD/Professional institutes.**

vi. **A new Municipal Accounting Service with appropriate staff strength based on the turnover be created for ULBs. The method of recruitment be decided by the Government in consultation with the HoDs concerned. Till such time, Chartered Accountants be appointed by ULBs on contract basis to finalise the accounts early, as in vogue in Coimbatore Municipal Corporation and also in Karnataka.**

vii. **Government to expedite the issue of framing the Tamil Nadu Local Fund Audit Act and Rules and conferring statutory status to DLFA as** seen in Kerala and Karnataka, which is pending already with the Government and to issue orders suitably.

viii. A consolidated annual audit report of the accounts of local bodies containing particulars of objections of serious nature for each financial year for which audit has been completed shall be placed before the State Legislature.

ix. The recommendation of Second SFC to fill up 25% of the posts of Assistant Directors of L.F. Audit from professional auditors through direct recruitment is reiterated.

x. The HODs concerned and DLFA shall monitor the conduct of District HLC meetings once in 3 months for every district as per G.O and to send compliance report to the Government in RD& PR / MA & WS Department, periodically.

xi. The Model Panchayat Accounting System through PRIA Soft be introduced in PRIs by outsourcing the creation and maintenance through accounting professionals. The cost of outsourcing be met from the General Performance grant from Government of India.

or

to make the existing accounting system compatible and accessible with PRIA Soft through outsourcing so that the reports are made available on PRIA Soft Portal along with other States.

xii. The Heads of Departments concerned with ULBs to review the existing ABAS and to improve it so as to bring the accounting system in our State consistent with the accounting formats and codification pattern suggested in the National Municipal Accounting Manual.

CHAPTER-VIII

EQUATION BETWEEN LINE DEPARTMENTS / AGENCIES AND LOCAL BODIES.

> *"A big part of finding the right resources is knowing what to look for and what to avoid"*
>
> ***-Mathew Lesko***

Para 3 of the ToR mandates the Commission to review, among others, the financial position of rural and urban local bodies and to make recommendations regarding the principles governing the distribution of net proceeds of the taxes, duties, toll and fees levied by the State Government between the State and the local bodies, to determine the taxes, duties, tolls and fees to be assigned to local bodies and the grants-in-aid to be transferred to local bodies from the Consolidated Fund of the State. Para 3 (b) necessitates the Commission to recommend on the measures needed to improve the financial position of local bodies and to suggest possible new avenues for tapping resources in local bodies.

2) Out of the functions listed in the XI and XII Schedule of the Constitution of India for assignment to rural and urban local bodies respectively, certain functions and powers are continued to be dealt with by the Government Departments/Agencies as per the powers delegated to such agencies/departments. There is a linkage between such line departments/agencies and local bodies in terms of functions, funds and functionaries. Augmentation of resources of local bodies and improvement in the financial position of local bodies is having a direct linkage with such departments/agencies. On these lines, it is inevitable for the Commission to study the equation between the line departments/agencies and local bodies on resource mobilization of local bodies. Studies on issues relating to certain line departments versus local bodies reveal the following:

(A) CHENNAI METROPOLITAN DEVELOPMENT AUTHORITY (CMDA):

3) Chennai Metropolitan Development Authority is a statutory body constituted under the Town and Country Planning Act, 1971. The main function of CMDA is to prepare master plan for a metropolitan area and implement the same as provided in the Act. The developments within the Chennai Metropolitan Area are regulated with reference to the development regulations which form part of the master plan. Chennai Metropolitan Area extends over 1189 sq.km and comprises of Chennai district, apart from Thiruvallur district, Kancheepuram district, Chennai City Corporation, 16 Municipalities, 20 Town Panchayats and 214 Village Panchayats.

4) The 74th Constitutional amendment entrusts the ULBs with the following functions, among others:

i) Urban planning including Town planning

ii) Regulation of land use and construction of buildings

But due to lack of conformity legislation, CMDA continues to perform such functions with certain delegation of powers to ULBs. In G.O.Ms.No.190/Hg&UD Department dated.2.9.2008, the Second Master Plan was notified by the Government. The Second Master Plan for Chennai Metropolitan Area including the Development Regulations came into operation from the date of publication of the notification. Since the revised Development Regulations have come into force, revised delegation of powers towards planning permission with reference to the Second Master Plan has been awarded by CMDA to Chennai Corporation, Municipalities, Town Panchayats and Panchayat Unions within the Chennai Metropolitan area.

5) The sources of income to CMDA are Open Space Reservation Charges, development charges collected while issuing planning permission for construction, sub division, lay outs and other developments which form part of the Planning and Development fund, security deposit fund comprising security deposits collected from the applicants at the time of issue of Planning permission to ensure adherence of approved plan and premium FSI charges. The infrastructure and amenities charges are collected from the applicants while issuing planning permission and remitted into government account periodically. A regularization fee was also collected from the buildings constructed on unapproved lay outs prior to 1999 and as per the orders passed by the Hon'ble High Court of Madras in WP.No.18898/2000, 19898/2001, 24316/2002 and 17646/2005 on 23.8.2006, the regularization fees collected has been kept in a separate fund by CMDA and that the funds should be used to alleviate the sufferings of the affected citizens in consultation with the monitoring committee.

6) The OSR & DC collected by local bodies in CMDA area and remitted to CMDA and the expenditure incurred from the Planning and Development Fund of CMDA for infrastructure projects in local bodies are tabulated below:

Table-VIII-(1)

(Rupees in Crore)

Year	OSR	D.C*	Total	Amount sanctioned		Amount released		Percentage in the collection of OSR & DC	
				LAP	CBED	LAP	CBED	LAP	CBED
2005-06	13.09	3.82	16.91	8.00	1.00	5.39	0.96	32	5.7
2006-07	17.27	4.59	21.86	2.70	0.25	2.41	0.18	11	0.8
2007-08	19.53	4.43	23.96	3.05	0.66	2.45	0.36	10	1.5
2008-09	22.06	3.83	25.89	2.61	0.60	2.59	0.45	10	1.7
2009-10	25.31	3.91	29.22	2.50	0.85	2.05	0.58	7	2.0

Source: CMDA *Excluding the collections made by CMDA directly.

The percentage of transfer of funds through schemes to local bodies from out of the proceeds of OSR & DC is meagre. At least 50% of the Development charges collected from local body areas should have been ploughed back for the development of such areas but the facts and figures do not support this concept. Proposals to get administrative sanction and technical sanction through proper channel, frequent return of proposal under CBED/LAP by CMDA with piecemeal queries, delayed release of funds all put together delayed the execution of the projects in local bodies especially Village Panchayats. As per the conditionality for LAP, the amount would be released in one lumpsum only after completion of the works and the recommendation of the competent authority. This results in the hesitation of local bodies to take up projects.

7) TSFC recommended that 75% of Development Charges and Open Space Reservation Charges should be passed on to the respective Urban Local Bodies without any conditions for development of the area and that the projects chosen from out of the transferred money should have the approval of HOD/Government. This was accepted by HLC and orders issued by Government in G.O.MS.No.137 Hg & UD, Dated: 21.6.2010.

8) It was observed that based on the said G.O, 75% of OSR and DC collected in CMDA area in respect of ULBs for the first and second quarter of 2010-11 have been released by CMDA directly to ULBs. As per para 3 of CMDA's further Proceedings No.F4/20237/07 dt.12.10.2010, the OSR charges transferred shall be utilized only for the specific purpose of provision of open spaces such as park or playgrounds or improvement of existing ones and in case there is no such open space to maintain, the amount can be utilized for implementation of DDP/MP with the approval of the HOD concerned. As such, the ULBs in CMDA area can approach the concerned HODs for getting the approval of the projects relating to DDP/MP.

9) As far as RLBs are concerned, the existing system of sanction of funds through CBED and LAP continues. The Commission observed that the system of transfer of funds directly to ULBs has to be followed for RLBs also so as to avoid inordinate delay in getting the administrative and technical sanctions from the concerned authorities, approval/sanction of CMDA and the implementation of the projects in Village Panchayats. In such cases, where direct transfer of 75% of OSR & DC is effected to RLBs in Chennai Metropolitan Area, CBED and LAP schemes need not continue.

10) Another issue is that the ULBs in Chennai Metropolitan Area have to remit 0.25% of their revenue income to CMDA as per the provisions in the Town and Country Planning Act. The ULBs are not remitting this amount properly to CMDA. The actual amount collected from local bodies by CMDA is as follows:

Table-VIII-(2)

(Rs. in lakh)

Years	Chennai Corporation	Municipalities	Town Panchayats	Other local bodies	Total
2005-06	--	--	6.28	0.59	6.87
2006-07	--	0.67	1.89	0.07	2.63
2007-08	--	10.40	5.33	0.87	16.60
2008-09	--	25.18	2.89	0.40	26.47
2009-10	--	3.84	8.99	0.16	12.99

Source: CMDA

Poor collections are recorded in view of the fact that the transfer of 0.25% of revenue income of local bodies is at the discretion of the local bodies and there is no dedicated transfer of funds to CMDA. Chennai Corporation has not so far paid the 0.25% contribution to CMDA from the year 1995-96. It is observed that Chennai Corporation had stopped the payment of the said contribution based on the resolution passed in the Corporation Council stating that the Corporation of Chennai is executing various developmental projects by availing loan from various agencies and the expenditures also increased considerably. Government had earlier intimated the Corporation of Chennai to pay 0.25% contribution from the General Fund of Chennai Corporation to CMDA in 1999 itself. CMDA reported that the following dues are pending from local bodies in CMA as on 31.03.2010:

Table-VIII-(3)

(Rs. in lakh)

i)	Arrear demand as on 01.04.2009	11.39
ii)	Demand for 2009-10	4.15
iii)	Collection during 2009-10	2.89
iv)	Adjustment against excess during 2009-10	0.38
v)	Arrear balance as on 31.03.2010	12.27

Source: CMDA

11) Since the planning function itself relates to ULBs as per 74th Constitutional amendment, the TSFC recommended to abolish such collection by CMDA. This recommendation was referred to HLC headed by the then Minister for Local Administration. The Committee accepted the recommendation of the TSFC with a modification that the actual establishment cost of the Planning Wing of the Planning Authority should be borne by the ULBs in Chennai Metropolitan Area. It is learnt that the issue is still under the consideration of the Government. The actual establishment expenditure of the Planning Wing of CMDA as furnished by the CMDA is the following:

Table-VIII-(4)

Year	Rs. in lakh
2005-2006	295.54
2006-2007	383.00
2007-2008	372.78
2008-2009	485.40
2009-2010	557.45

Source: CMDA

However, the break up details for the establishment expenditure could not be made available to the Commission by CMDA. Though powers are delegated to ULBs for issue of planning permission to certain extent, Master Plan and Detailed Development Plan and other issues relating to planning are looked into by CMDA. Hence, it is reasonable that the reconciled and audited establishment expenditure of the Planning Wing of the CMDA should be borne by all the local bodies in Chennai Metropolitan Area including Chennai Corporation from the date from which it is given effect to and till then all the local bodies have to remit the arrears on 0.25% of their own income to CMDA.

12) The Commission recommends the following:

i) **The system of transfer of funds directly from the Planning and Development Fund of CMDA to ULBs implemented during 2010-11 be followed for RLBs also so as to avoid inordinate delay in getting the administrative and technical sanctions from the concerned authorities, approval/sanction of CMDA and the implementation of the projects in Village Panchayats. After implementing direct transfer of 75% of OSR & DC to RLBs in Chennai Metropolitan Area, the scheme funds through CBED and LAP need not continue.**

ii) **The reconciled and audited establishment expenditure of the Planning Wing of the CMDA should be borne by all the local bodies in Chennai**

Metropolitan Area including Chennai Corporation from the date from which it is given effect to and till then all the local bodies have to remit the arrears on 0.25% of their own income to CMDA.

(B) TAMIL NADU POLLUTION CONTROL BOARD (TNPCB):

13) The issues on exercising powers on local bodies by parastatal agencies like TNPCB, overriding the provisions in the Constitutional amendment and financial issues between the parastatal agencies and local bodies were dealt with exhaustively by the previous Commissions. The 74th Constitutional Amendment delegates the function "protection of environment and promotion of ecological aspects" to ULBs. However, the parastatal agencies continue to exercise powers on local bodies.

14) TNPCB levies water cess on the consumption of water by industries/local authorities under the provisions of a Central Act, viz., The Water (Prevention and Control of Pollution) Cess Act, 1977. The proceeds are remitted into Government of India account and 80% of it is being transferred to TNPCB by Government of India. As per the Water Cess Act, the water consumed/supplied by local bodies shall be quantified from the meters fixed in local bodies. During the discussion with the Member-Secretary, TNPCB, he stated that the quantum of water consumed is measured through the meters available in local bodies and in case of failure of meters, the readings for the previous assessment period are taken into account. As on 31.3.2010, Rs.307.78 crore of water cess is due from the local bodies.

15) It might have been relevant at the time of constitution of Central / State PCBs to augment resources for the administration of the Boards through the levy of water cess on industries / local authorities. Now, after more than 3 decades of growth of the Boards in augmenting resources through other source like license fees, water cess from industries (which process water and release bio degradable / non degradable pollutants) etc, it may not be relevant to levy water cess on local authorities drawing water for domestic purposes.

16) In Kerala, the Kerala State Pollution Control Board is raising demand towards water cess to the Kerala Water Authority only and the Water Authority was paying the water cess to the Board for some period. Now, due to various reasons such as slender financial position of the Kerala Water Authority and a basic doubt on the very principle of levying water cess, the Kerala Water Authority made a plea to the State Appellate Authority not to levy water cess and to collect arrears.

17) The TSFC of Tamil Nadu recommended that ULBs shall be exempted from the levy of water cess by amending the Water Cess Act, 1977. This recommendation was accepted by the High Level Committee headed by the then Minister for Local Administration and the Committee suggested(Rec.No.30.2) to get exemption from payment of water cess to TNPCB by ULBs. Since the Water Cess Act is a Central Act and applies to all States and Union Territories, amendment to the said Act has to be passed in the Parliament. The issue is still under examination in Municipal Administration & Water Supply Department.

18) The Commission recommends that the Government in MA & WS Department in association with Environment and Forests Department shall approach GOI so as to amend the Water Cess Act, 1977.

(C) TAMIL NADU HOUSING BOARD (TNHB):

19) TNHB constituted through the enactment of Tamil Nadu Housing Board Act, 1961 is playing an important role in fulfilling the housing needs of all people. During the interaction, the Managing Director, TNHB justified the existence of the provisions in the Tamil Nadu Housing Board Act even after the enactment of 73rd/74th amendment empowering local bodies on issues relating to housing and stated that the objectives of the board in no way affect upon the autonomy of the local bodies and that the provisions of the Board's Act does not undermine or override the authority of the ULBs since all the housing schemes are executed only after due approval of the planning authority as well as ULBs.

20) TNHB is not sending the completion reports on the construction of housing units immediately to the concerned local bodies and hence the demand for property tax could not be raised by the local bodies to TNHB. Only when the units are allotted, TNHB is sending the list of allottees to the concerned local bodies facilitating the local bodies to collect property tax from the allottees only from the date of allotment.

21) As per Section.89 of Tamil Nadu District Municipalities Act,1920, if any building in a Municipality is constructed or reconstructed, the owner shall give notice there of to the Executive Authority within 15 days from the date of completion or occupation of the building whichever is earlier. Based on the report, the building will be brought under assessment. On completion of the construction of housing units, being the owner, the TNHB has to send a completion report to the local body irrespective of whether the units are sold or not and the housing units should be brought under assessment from the date of completion. TNHB has to

pay property tax for the unsold units till allotment and such payments can be built on the cost of housing units.

22) Regarding the hire purchase flats, TNHB is not furnishing the list of allottees directly to the concerned local bodies immediately on allotment. Instead the allottees form welfare associations and then such associations inform the respective local bodies for assessing the demand for property tax. This should not be the case.

23) **The Commission recommends the following:**

i. **The unsold units of TNHB should be subjected to the levy of property tax from the date of completion of construction of such units and not from the date of allotments.**

ii. **The list of allottees for hire purchase flats should be sent to concerned local bodies by TNHB directly on allotment.**

(D) TAMIL NADU SLUM CLEARANCE BOARD (TNSCB):

24) The Tamil Nadu Slum Clearance Board constituted under the Tamil Nadu Slum Areas (Improvement and Clearance) Act, 1971 is having the responsibility of identification of slums and to resettle them in tenements constructed by the Board. As per the Act, any area which is danger to the health, safety or convenience of the public by reason of the area being low lying, insanitary, over crowded or otherwise and buildings in any area unfit for human habitation by reason of dilapidation, over crowding, faulty arrangements of buildings, streets, lack of ventilation, light or sanitation are declared as 'slum area' by the Government.

25) As per the study made by a consultant during September 2005, the enumeration of slums in Chennai Metropolitan Area is the following:

Table-VIII-(5)

ULB	Total Number of		Total slum population
	Slums	Families	
Chennai Corporation Area	242	71,840	3,29,824
Other than Chennai Corporation area	132	19,739	98,695
Grand Total	**374**	**91,579**	**4,28,519**

Source: TNSCB

26) As per 74th Constitutional amendment, the subject 'Slum improvement' had been conferred on ULBs. But in the absence of delegation of powers, the Board continues to

perform the said function by virtue of its expertise. TSFC recommended that the overriding provisions in the said Act have to be amended suitably. TNSCB stated that proposals in this regard are under preparation and that the stakes of ULBs in the Board are considered in such a way that the slums for development are identified with the concurrence of ULBs and the beneficiaries for the proposed tenements under JNNURM are also identified by ULBs. TNSCB hands over the infrastructure like roads, storm water drains, street lights etc. in slum tenements, to ULBs for maintenance. The ULBs find it difficult to maintain the infrastructure and the OSR land given by the Board to ULBs, due to resource constraints.

27) The Commission took note of the heavy burden on the local bodies towards the civic services needed by the mass migration of slums to slum tenements newly constructed in local body areas like Okkium Thorapakkam. It is also observed that there is delay in providing civic facilities by local bodies and other needs like EB connection, ration shop, other community service centers etc which lead to hardships to the resettled slum dwellers.

28) The Rajiv Awas Yojana Programme of Government of India will cater to the needs of all urban slums and bring them to a standard of infrastructure before 2017. Over a period of five years from 2011-12, one lakh houses or tenements depending on the availability of land will be constructed for urban slum resettlement. The size of funds required is Rs.7500.00 crore for 5 years out of which Rs.3,750.00 crore would be borne by Government of India and Rs.3750.00 crore by Government of Tamil Nadu and the beneficiaries.

29) TNSCB proposed to construct 8,462 new slum tenements in various towns at the cost of Rs.263.00 crore during 2010-2015 utilising the XIII FC grant. At an average, the tenements would accommodate 42,000 slum people at the rate of 5 members per family. If the slum tenements are constructed in towns where the slum people are already dwelling, there would not be additional burden on the finances of such local bodies. In case like Chennai from where the slums are vacated and the slum people are resettled in tenements constructed in Town Panchayat/Village Panchayat areas, then it would be a burden to those local bodies. The financial burden could be sorted out by such local bodies to some extent through mobilization of property/house tax from slum tenements. However, a special consideration is required to such local bodies to provide adequate civic facilities. Commission feels that there is a need for per capita based transfer of funds from out of SFC devolution from the local body from which the slum people are moved to the local body in which they are resettled. Initially, the per capita based SFC funds can be provided to the receiving local body by the HOD concerned for providing civic facilities to the resettlers and then reimbursed from the HOD concerned with the sending local body.

30) The Commission recommends the following:

i) **In respect of new slum tenements, Government Orders on administrative and financial sanctions be issued by all the stakeholder departments in one go so as to provide civic services and other facilities like ration shops etc., without any delay so that the rehabilitated slum people could settle down comfortably.**

ii) **In respect of rehabilitation and resettlement of slum dwellers from one local body area to another en masse, the per capita based SFC funds for the resettled slum population be provided to the receiving local body by the HOD concerned for making civic facilities to the resettlers from out of the IGFF and then reimbursed from the HOD concerned with the sending local body.**

(E) TAMIL NADU WATER SUPPLY AND DRAINAGE BOARD (TWAD):

31) TWAD is a statutory body constituted by the Government of Tamil Nadu during 1971 under TWAD Act, 1970 for providing protected water supply and sewerage facilities for the entire State except Chennai Metropolitan area. The Board presently maintains 507 Combined Water Supply Schemes (CWSS) involving 5 Corporations, 56 Municipalities, 270 Town Panchayats, 25741 rural habitations and 422 industries/institutions and 3 water supply projects owned by the Board.

32) The operations of TWAD board can broadly be classified into two categories namely (i) Maintenance of CWSS and (ii) Design and Execution of the water supply and sewerage schemes. Accordingly, the major sources of income for TWAD Board are from (i) collection of bulk water charges from local bodies for maintenance of the CWSS and (ii) Centage and investigation charges claimed for implementation of various schemes for local bodies such as implementation of CWSS, water supply improvement scheme, under ground sewerage scheme, etc. The Board is considering a local body for water supply scheme, if the population of any habitation in such local bodies is at a minimum of 50 and priority is given for a combination of habitations of rural local bodies and municipal areas under CWSS.

33) The bulk water charges levied by the Board for CWSS are the following:

Table-VIII-(6)

Bulk water charges levied by TWAD Board.

S.No.	Type of Beneficiary	Water Tariff in Rs. per KL.
1.	For Rural local bodies	3
2.	For Urban local bodies	4.5
3.	For Industries and other beneficiaries who have paid proportionate cost of CWSS	15
4.	For Industries and other beneficiaries who have **not** paid proportionate cost of CWSS	
	i) Industries and other commercial organizations.	60
	ii) Hospitals	50
	iii) Educational Institutions	30
	iv) Orphanage & homes	10

The per KL cost of CWSS is Rs.6.08 whereas the bulk water charges for rural and urban local bodies are Rs.3.00 and Rs.4.50 per KL respectively. With the current O&M cost on CWSS, the water charges collected from local bodies are not sufficient to maintain the scheme. During the interaction held by the Commission, the MD, TWAD stated that the water tariff has not been revised since 2002 and hence proposals have been sent to the Government for revising the rate of water charges from Rs.3 to Rs.4 for RLBs, Rs.4.50 to Rs.6 for ULBs and from Rs.15/- to Rs.30/- per kilo litre for industries and commercial organizations. MD, TWAD justified his claim to revise the rate of water charges upward citing the actual average maintenance cost (tariff per KL) working at Rs.4.81 per KL, increasing trend of deficit between the expenditure on CWSS and the demand on water charges of the Board and also considering the improvement in the financial position of local bodies owing to increased SFC devolution.

34) The World Bank report on Urban Water Supply and Sanitation suggested on the financial sustainability of water supply and sewerage services as in the following lines:

"Best practice worldwide suggests that financially sustainable water supply and sewerage service providers recover O&M costs and ideally capital costs from user charges rather than from taxes. Only a few Indian Mega cities recover such costs. Revenue generated by most piped water systems have to be complemented by ULB and/or State fiscal transfers. Financial dependence of WSS operations has led to well below standard O&M, deterioration of WSS

assets, poor level of service and as a consequence, low willingness to charge by decision makers despite evidence of willingness to pay for a good quality service by users."

The report also says that

"the Mega cities have staffing levels much higher than the international best practice of roughly two to three time staff per 1000 connections in developed countries and 4 to 8 staff per 1000 connections in developing countries."

35) Taking cognizance of the issues and considering that the average annual growth in expenditure of the Board being 11%, it would be reasonable to revise the tariff for bulk water supply to RLBs to Rs.4.50 per KL from Rs.3/- per KL and for the ULBS to Rs.7/- per KL from Rs.4.50 per KL. This revision will fetch additional revenue of Rs.80.00 crore per annum to TWAD and help it to meet the O&M expenditure better.

36) The income and expenditure of TWAD Board covering regular operations and CWSS are the following:

Table-VIII-(7)

Statement on income and expenditure.

(Rs. in lakh)

Sl. No	Details	2005-06	2006-07	2007-08	2008-09	2009-10
	Income (Regular)					
1	General and Constructions	15052.77	14993.19	15842.74	18954.94	15338.16
2	Others	103.72	203.23	418.30	884.88	226.06
3	Apportionment of Gift			118.48	722.22	185.70
4	Withdrawal of sinking fund	200.00				
	Total	**15356.49**	**15196.42**	**16379.52**	**20562.04**	**15749.92**
	Expenditure (Regular)					
1	General and Constructions	15919.30	17787.19	18758.19	19393.13	24125.33
2	Apportionment to Pension and Gratuity (2007-08)				644.23	
3	Apportionment to Pension and Gratuity	781.21	723.26	9.92	874.46	989.49
4	Apportionment of Gift			16.78	789.96	195.41
5	Payment of pre. Year recovery	13.90	5.90	183.18	38.41	19.15
	Total	**16714.41**	**18516.35**	**18968.07**	**21740.19**	**25329.38**
	Income CWSS					
1	Operation and Maintenance	14604.90	17647.64	16875.13	16746.88	18628.03
2	Water Charges Board owned scheme	60.11	2.53	0.95		
3	Water Charges Collection-CWSS	2243.34	297.59	969.13	473.45	315.85
	Total	**16908.35**	**17947.76**	**17845.21**	**17220.33**	**18943.88**

	Expenditure CWSS					
1	Operation and Maintenance	15164.14	17797.49	19395.22	20511.87	24204.21
	Total	**15164.14**	**17797.49**	**19395.22**	**20511.87**	**24204.21**
	Grand Total Income	**32264.84**	**33144.18**	**34224.73**	**37782.37**	**34693.80**
	Grand Total Expenditure	**31878.55**	**36313.84**	**38363.29**	**42252.06**	**49533.59**
	Surplus/Deficit	**386.29**	**-3169.66**	**-4138.56**	**-4469.69**	**-14839.79**

Source: TWAD

It can be seen that for the year 2009-10, the income under CWSS contributes 54.60% of total income, 78.27% of O&M expenditure of CWSS and 38.24% of total expenditure. Sale of water being the main activity of the board, the revenue from this activity should ideally cover the entire O&M expenditure besides leaving a surplus, which can be utilized for efficiency improvements. The deficit since 2006-07 is due to salary and pension expenditure, VI Pay Commission commitments and reduction in the rate of centage charge to 5% for ULBs. However, the deficit can be reduced by proper planning of the execution of projects within the stipulated time.

37) The following issues which influence the equation between TWAD and local bodies and also their finances were discussed by the Commission with MD, TWAD:

a) Pruning of staff strength.

b) Centage issue.

c) Fixing of meter at supply point and at local body level.

d) Outstanding dues on water charges to be recovered 'at source' from SFC devolution.

38) Out of the sanctioned strength of 8745 of TWAD, 6163 are filled up as on 31.3.2011. A study made by TNUIFSL quotes that the salary expenditure for CWSS for 2010-11 stands at Rs.91.77 crore and for other schemes at Rs.201 crore and that the overall expenditure including salaries and maintenance of CWSS and other schemes will go up in the next 5 years since the compounded annual growth rate (CARG) of expenses is 11.06% whereas the same for income is 7.33%. TWAD is now doing expenditure control exercise and measures are being taken for the reduction of expenditure on human resources and O & M charges. Commission observed that instead of building up a large hierarchical structure on man power resources and spending huge amounts on establishment charges, project based outsourcing of man power especially on engineering side would be of much help in reducing the operation cost and that the maintenance of water supply scheme may also be outsourced.

39) For design and execution of water supply schemes on behalf of local bodies, TWAD is levying centage charges at the rate of 13% for rural local bodies and 5% for urban local bodies. Earlier, differential rates of centage charges for different water supply schemes ranging from 5% to 18.5% were levied by TWAD. Based on the proposals received from the HODs concerned with the local bodies, the State Level Project Sanctioning Committee decided to streamline the rate of centage charges and accordingly orders were issued to levy a uniform rate of 5% for all water supply schemes in urban local bodies. TWAD has also sent a proposal to the Government to increase the Centage charges on all urban water supply schemes for non-MNP works from the present rate of 5% to 13%. The MD, TWAD justified his claim citing the Centage charge collected by TNEB at 15.5% and PWD and Highways at 19%. Most of the projects executed by the Board are delayed due to various reasons and thus leads to loss to the Board. For example, the board has got a project with its cost as Rs. 100.00 crore and was estimated to be completed in 3 years. The centage income to the board at 5% of project cost for 3 years is Rs.5.00 crore. The project division expenditure for three years has to be met with the income of Rs. 5.00 crore. However, if the project gets delayed and executed in 5 years, then the division has to be maintained only with the same Rs.5.00 crore. The reason for the delay is not fully attributed to the board since majority of the reasons for delay in execution may be external and beyond the control of the board. However, proper planning may reduce the delay to the minimum level, which in-turn helps the board to make more turnover with the same resources. A study made by TNUIFSL in this regard insists that the board may use project planning software for better management of the project and that the project planning software may be procured at the central level and training at all level has to be imparted to use the software package.

40) TWAD installed water meters only at strategic locations and not at the source and local body boundary level. With this arrangement, the exact amount of loss of water in way side cannot be assessed. TSFC recommended that all overhead tanks may be fitted with water meter and the water charges levied on the basis of meter reading. This recommendation was accepted by the Government with a modification that the Village Panchayat boundary level metering would be implemented. As per the data furnished by the TWAD, out of 4,850 Panchayats in which water supply schemes are implemented, water meters have been provided in 4,204 Panchayats and action is being taken by TWAD to cover 646 Panchayats with water meters. It is also observed that out of 10,107 water meters provided in 4,204 Panchayats, 2,217 water meters are not working. The Commission observed during the field visit in Vilachery Village Panchayat in Madurai District that the TWAD used to calculate and collect water charges at the rate of Rs.3/- per kilo litre for the entire

capacity of 90 KL of the OHT irrespective of the failure in the functioning of water meter attached to the OHT. After the faulty meter was repaired, the Panchayat paid only lesser water charges. TWAD Board have to consider installing the bulk water meters at the source level also which will assess the exact quantum of UFW, to identify the approximate location of losses in the pipelines and to arrest the leakages. TWAD Board also have to ensure the proper working of water meters and also the billing as per the genuine meter reading.

41) The dues on water charges outstanding from local bodies as on 31.03.2011 are the following:

Table VIII-(8)

(Rs. in crore)

Local Bodies	Water charges due.
Municipal Corporations excluding Chennai	177.59
Municipalities	17.18
Town Panchayats	9.18
Village Panchayats	81.74
Total	**285.69**

Source: TWAD

The deficit met by the Board under CWSS as shown under **Table VIII-(7)** and the long pending dues on water charges from local bodies necessitated the Board to approach the State Government for sanction of financial assistance and accordingly Rs.84.45 crore was released by the Government as deficit grant during 2010-11 in G.O.Ms.No.272, MA & WS Department, Dated: 02.11.2010 towards the operation and maintenance of CWSS.

42) During the interaction by the Commission, MD, TWAD suggested that the long pending undisputed dues on water charges to be paid by local bodies may be deducted ‘at source’ from SFC devolution and or from XIII FC grants and remitted to TWAD. Commission endorsed this view. However, devolution intercept should be the last resort after exhausting all means of collection.

43) The Board has not taken up any comprehensive effort on energy audit in respect of consumption of electricity by the pump sets and efficiency of the motors. More than 50% of the water generated from the CWSS is from the schemes which are more than 10 years old. The power charges constitute 49.46% of the total revenue expenditure of CWSS and consumed 74.39% of income from bulk water charges during the year 2010-11. Considering the age of the scheme and high expenses towards power, TWAD Board has to consider taking up the energy efficiency study for all its CWSS on priority basis.

44) The Commission recommends the following:

i) The rate of bulk water charges for CWSS be revised from Rs.3 to Rs.4.50 for RLBs, Rs.4.50 to Rs.7/- for ULBs and from Rs.15/- to Rs.30/- per kilo litre for industries and commercial organizations who have paid proportionate cost of CWSS. This may be periodically revised to cover O&M costs of TWAD Board.

ii) Project based outsourcing of man power especially on engineering side be made so as to reduce the operation cost and that the maintenance of water supply scheme also be outsourced so as to overcome the deficit in the O&M cost of CWSS.

iii) Project planning software be used for better management of the water supply/sewerage projects and the project planning software may be procured at the central level and training at all level has to be imparted to use the software package.

iv) Bulk water meters be installed also at the source level so as to assess the exact quantum of UFW, to identify the approximate location of losses in the pipelines and to arrest the leakages. The proper working of water meters and also the billing as per the genuine meter reading be ensured.

v) The long pending undisputed dues on water charges to be paid by local bodies be deducted 'at source' from SFC devolution and or from XIII FC grants and remitted to TWAD.

vi) The energy efficiency study be made for all CWSS on priority basis.

(F) CHENNAI METROPOLITAN WATER SUPPLY AND SEWERAGE BOARD (CMWSSB):

45) Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) was constituted under CMWSS Act 1978 (TN Act 28 of 1978), for exclusively attending to the growing needs of water and sanitation of the citizens in Chennai city and for planned development and regulation of water and sewerage services in Chennai Metropolitan Area. The Board's mandate is to provide adequate supply of safe, potable water and treatment of sewage and its safe disposal. Even though the operation of CMWSSB is currently limited to City Corporation area, the Board has initiated extending its services to the Adjacent Urban

Areas (AUAs) of Chennai including 16 wards of Ambattur Municipality and Manali New Town and the Chennai Metropolitan Area through bulk water supply. As on 1st April 2011, 4,96,390 un-metered and 18,686 metered water supply connections and 6,10,318 sewer connections are provided in Chennai City by Metro Water.

46) CMWSSB is currently drawing water from Red Hills, Chembarambakkam, Minjur desalination plant, Veeranam, Poondi, Wellfield and Porur lake. In addition, Nemmeli Desalination Plant of 100 MLD capacity is under construction and is expected to be in operation from 2013. The current drawal of water from the said sources is at 780 MLD. The Water Treatment plants were installed at Red Hills, Veeranam and Chembarambakkam and also 100 MLD Reverse Osmosis based sea water desalination plant is constructed under DBOOT basis and is in operation from 2010. The sewage generated in Chennai city is being treated in 9 treatment plants with a total capacity of 486 MLD.

47) At present, the quantity of water supplied to the city is 702 MLD, 22 MLD for industries and 52 MLD for bulk consumers and Municipalities totaling to 776 MLD. The present population of Chennai Corporation area is 46.81 lakh (2011 Census). The water required as per CPHEEO norms (135 lpcd) is about 854 MLD (including 15% for UFW). So, there is a shortage of 152 MLD for the current city population. Apart from the above demand for Chennai Corporation, the demand for water to the ULBs and Village Panchayats which are proposed to be merged with Chennai Corporation will be about 194.38 MLD. The total present shortage in water supply for both Chennai Corporation and the Adjacent Urban Areas (AUAs) to be merged with it is about 346 MLD. In addition to adding new capacity or source augmentation, some of the distribution network needs rehabilitation.

48) As per CPHEEO norms, the sewerage treatment capacity should be 80% of the water supplied to the city. Water supplied to the city is 702 MLD. Sewerage treatment capacity needed is 561 MLD for the present water supplied, whereas the current capacity is 486 MLD. There is a gap of 75 MLD and when the water supply system is augmented for an increased demand of 854 MLD as per CPHEEO norms, then the total sewerage treatment capacity will increase to 683 MLD and the gap will further increase to 197 MLD. In addition to the city, the demand for water supply as per CPHEEO for the areas to be merged with the Chennai Corporation is 312.64 MLD, thus, sewerage treatment capacity at 80% water supplied would be 250.11 MLD. Thus the total gap for sewerage treatment facility is about 447 MLD. Apart from the sewerage treatment facility, the sewerage network is required for the areas which are to be merged with the Chennai Corporation.

49) The Board earns income through sale of water and sewerage, water and sewerage tax, grants and subsidies from the Government and other miscellaneous revenue such as service charges, testing fees etc.

Table-VIII-(9)

FINANCIAL SUMMARY – FIVE YEARS AT A GLANCE

(Rs. in Crores)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Sale of Water	205.34	200.29	204.05	231.04	230.86
Water and Sewerage Tax	66.66	65.89	83.07	86.46	88.63
Grants & subsidy from Govt.	12.31	24.76	9.11	3.21	2.41
Water charges	0.49	0.85	1.28	1.15	0.37
Other Income	28.40	32.33	157.41	62.50	70.34
Total Revenue Income	**313.20**	**324.12**	**454.92**	**384.36**	**392.61**
Salaries & Wages	60.94	70.49	80.62	97.79	127.91
Repairs & Maintenance	77.82	89.21	101.75	110.23	117.21
Debt servicing - Interest	85.89	87.62	95.87	93.72	95.17
Depreciation	67.38	84.24	181.50	132.48	116.80
Other Expenditure	33.71	28.53	28.86	25.64	35.02
Total Revenue Expenditure	**325.74**	**360.09**	**488.60**	**459.86**	**492.11**
Excess of income over Expenditure	**-12.54**	**-35.97**	**-33.68**	**-75.50**	**-99.50**
Contributions	869.14	1034.69	1072.31	1101.72	1207.13
Grants from Government	466.90	491.52	552.54	664.81	852.18
Long Term Borrowings	1351.21	1344.65	1332.33	1340.39	1304.30
Fixed Assets	3171.90	3281.14	3298.12	3342.17	3564.42
Net Current Assets	-332.63	-286.22	-250.58	-220.38	-285.43
Accumulated Surplus	160.02	124.05	90.36	14.87	-84.62

Source: Metro Water

50) Currently, a flat rate of Rs.50 per month is being levied for domestic connection towards water and sewerage services. Rs.150 is being collected for Individual flats or partly commercial houses or houses in a block of flats or line of houses respectively used for other than residential purposes. With respect to full commercial usage, they are categorised as non-water intensive and water intensive for which Rs.400 per month and Rs.800 per month are collected respectively. For those domestic, non domestic and non-domestic water intensive assessments, who have only sewerage connection (no water supply connection) a sum of Rs.25, Rs.150 and Rs.650 per month respectively is being collected at flat rate.

51) The total loan outstanding as on 31.03.2011 is Rs.1214.49 crore of which Government loans amount to Rs.727.52 crore and other loans from financial institutions amount to Rs.486.97 crore. CMWSSB is repaying the debts availed from financial institution except Government loan due to the reason that the Board does not generate enough cash to repay the Government loans.

52) It is seen from **Table. VIII-(9)** that the revenue income takes care of revenue expenditure excluding debt servicing and if water charges are revised, the resultant surplus could go for debt servicing. The Board is also purchasing water from desalination plant from the year 2010-11 which would be about 35 to 70% of the existing expenses. Hence, the Board needs additional revenue to meet the expenditure for which the revision of water tariff is essentially required. During the interaction held by the Commission, the MD, CMWSSB stated that the rates of water charges for the domestic consumers were revised in 1998 and for commercial consumers during 2003. While other ULBs in the State are levying higher user charges there is no reason why the user charges should be lower in Chennai City. The increase in the water/sewerage charges will substantially support the Board to provide better quality and equitable supply of water. Hence, the Commission views that the water and sewer charges should be revised for both domestic and non-domestic consumers.

53) The tariff structure which is being followed now was revised lately in 1998. As per the Act, the Water tax and Sewerage tax shall not be more than 20% and 10% respectively of the annual value of properties. Subsequent amendment made in June, 1998 (Act No.30 of 1998) facilitates the levy of Water tax and Sewerage tax at the rate not more than 35% and 15% of the property tax respectively. But, this amendment is reported to be not enforced for want of notification on the date of giving effect to this revision. As of now, CMWSSB is getting the assessment details from Chennai Corporation and is levying 7% (1.5% for water and 5.5% for sewerage services) of the annual value of properties fixed by the Chennai Corporation. The demand for the tariff and tax are raised and collected half yearly.

54) Out of 5,15,076 water supply connections provided by Metro Water, 4,96,390 (96%) are un-metered connections. The metered connections are categorized as domestic, partly commercial, commercial (non-water intensive and water intensive) and institutional connections. The daily supply of water by Metro Water has increased from 220 MLD in 2003-04 to 702 MLD at present. About 80% of this supply is for domestic consumers at the flat rate of Rs.50/- per month. However, there is no additional revenue generation from the major portion of supply to domestic consumers. Thus, there is a need to charge water supply based on actual consumption to tap the additional revenue. Metering leads to overcoming the inequity in billing the consumers who use more water and who use less water. Metering also helps to bring in economy in the usage of water, to measure the efficiency of water supply system and also to reduce leakages and wastages. However, at present, there are certain problems in metering like reluctance of the consumers to replace the faulty meters and priorities of the metered consumers towards flat rate comparing the advantage of non-metered

consumers. Hence, the Commission is of the view that digital meters need to be installed at least in a phased manner for all connections in order to avoid wastage of water as well as to manage the huge expenditure which is going to be incurred due to drawal of water from desalination plants. The fixing and maintenance of meters can be outsourced for a specific period to overcome the loss in revenue due to meter becoming defective. Metering has to be made compulsory for all commercial premises in the water intensive category like hotels, lodges, hospitals, kalyana mandapams, theatres, multi-storied buildings, institutions etc.

55) Projects proposed to be taken up by CMWSSB in the next five years are to the tune of Rs.4120.00 crore as detailed below:

Table-VIII-(10)
Proposed Improvements/New projects

Sl. No	Project	Project Cost (Rs. in crore)
1	Construction of 400 MLD desalination plant (or to augment 400 MLD water from Cauvery)	2000.00
2	Improvement of the water supply system	775.00
3	Revamping the system of networks & HSCs	60.00
4	Re-modelling old sewers	550.00
5	New sewerage treatment plants	550.00
6	Energy conservation methods	35.00
7	Abatement of pollution of river	150.00
	Total	**4120.00**

After expansion of Chennai Corporation area, the requirement of funds to CMWSSB would be Rs.5092.71 crore. Capital expenditure to such an extent is required to augment water supply and sewerage facilities to the growing demands of the city and the area to be expanded in Chennai Corporation. In a situation where the taxes/user charges are not periodically revised, meeting the capital expenditure requirements would be a question.

56) The World Bank report on Urban Water Supply and Sanitation suggested on the financial sustainability of water supply and sewerage services as in the following lines:

"Best practice worldwide suggests that financially sustainable water supply and sewerage service providers recover O&M costs and ideally capital costs from user charges rather than from taxes. Only a few Indian Mega cities recover such costs. Revenue generated by most piped water systems have to be complemented by ULB and/or State fiscal transfers. Financial dependence of

WSS operations has led to well below standard O&M, deterioration of WSS assets, poor level of service and as a consequence, low willingness to charge by decision makers despite evidence of willingness to pay for a good quality service by users."

The report also says that

"the Mega cities have staffing levels much higher than the international best practice of roughly two to three time staff per 1000 connections in developed countries and 4 to 8 staff per 1000 connections in developing countries."

57) A study made by TNUIFSL on the request of the Commission reveals that revision of water/sewerage tariff at the rate of 25% on the existing rate is required to meet such CAPEX requirements to some extent. The additional revenue which would have been earned by Metro Water if the tariff was revised earlier during 2003 and 2008 is worked out as follows:

Table-VIII-(11)

(Rs.in crore)

Details	Five Year Block					Five Year Block		
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Income as per Annual Accounts								
Sale of water	155.09	174.99	186.63	179.71	178.62	202.29	200.43	227.01
Sale of sewage	14.25	14.16	18.71	20.58	25.43	28.75	30.43	40.73
Total	**169.34**	**189.16**	**205.34**	**200.29**	**204.05**	**231.04**	**230.86**	**267.74**
Additional revenue on account of rate revision of 25% every block of 5 year (2003-04 to 2007-08 and 2008-09 onwards)	42.34	47.29	51.34	50.07	51.01	129.96	129.86	150.60
Cumulative additional revenue	**42.34**	**89.63**	**140.97**	**191.04**	**242.05**	**372.01**	**501.87**	**652.47**

The analysis has been expanded by working out the potential earnings in the form of interest on account of re-investment (at 8% returns). The result revealed that the potential earnings for the first block of five years will be Rs.38.93 crore and for the second block of three years will be Rs.94.73 crore totaling to Rs.133.66 crore for the period of eight years (2003-04 to 2010-11) as detailed in the table below:

Table-VIII-(12)

(Rs. in crore)

Details	**Five Year Block**					**Five Year Block**		
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Cumulative additional revenue	42.34	89.62	140.96	191.03	242.04	372.00	501.86	652.47
Interest @ 8%	--	3.39	7.44	11.87	16.23	20.66	31.41	42.66
Total	**42.34**	**93.01**	**148.40**	**202.90**	**258.27**	**392.66**	**533.27**	**695.13**
Cumulative potential earnings	**--**	**3.39**	**10.83**	**22.70**	**38.93**	**59.59**	**91.00**	**133.66**

The possible total additional revenue due to the revision of tariff once in every five years would be Rs.652.47 crore and the potential earning in the forms of interest on account of reinvestment of the additional revenue earned through tariff revision would be Rs.133.66 crore. A part of the desalination plants in Minjur and Nemmeli is met from JNNURM funds by Metro Water. The construction of 400 MLD desalination plant proposed for the next five years can also be met from GOI/GoTN sources. Due to lack of revision of property tax by Corporation of Chennai during 2003 and 2008, the income through water tax and sewerage tax foregone by Metro Water would be as follows:

Table-VIII-(13)

(Rs. in crore)

Items	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Water tax	15.40	15.88	21.31	21.47	20.96
Additional revenue on account of rate revision of 25% every block of 5 year	3.85	3.97	5.33	12.08	11.79
Cumulative additional revenue	**3.85**	**7.82**	**13.15**	**25.23**	**37.02**
Sewerage Tax	56.46	58.01	78.12	78.74	76.85
Additional revenue on account of rate revision of 25% every block of 5 year	14.12	14.50	19.53	44.30	43.23
Cumulative additional revenue	**14.12**	**28.62**	**48.15**	**92.45**	**135.68**
Total additional revenue	**17.97**	**36.44**	**61.30**	**117.68**	**172.70**

Source: Metro Water.

The cumulative presumptive loss upto 2009-10 would be Rs.172.70 crore for both water tax and sewerage tax. This presumption does not cover the additional revenue for 2003-04 and 2004-05 since the data are not available and also the growth in assessments during the period. The additional revenue that can be earned for the next 5 years by revising the water charges/sewerage charges can meet the capital requirement of Rs.2120.00 crore (Rs.424.00 crore p.a) excluding the requirement for desalination, partially.

58) The Commission viewed that in the event of either the State Government or the Corporation of Chennai deciding not to revise property tax, they should compensate the revenue foregone by Metro Water. Suitable recommendations have been given in **Chapter V.**

59) Second State Finance Commission recommended 10% share to Metro Water from SFC devolution intended for Chennai Corporation and this sharing pattern is being continued till now. The share in SFC devolution received by Metro Water in the past years is as follows:

Table VIII-(14)

(Rs. in lakh)

Year	Share in SFC devolution.
2002-03	1044.63
2003-04	768.71
2004-05	749.73
2005-06	628.84
2006-07	1048.98
2007-08	1765.95
2008-09	1908.07
2009-10	2133.55

During the Commission's meeting, Managing Director, CMWSSB explained that the investments required by the Board are higher at Rs.400 crore per annum, EB charges alone account for more than Rs.50 crore per annum and the excess expenditure over income is doubling year after year. He therefore stressed the need to revisit the ratio of 10% share to Metro water from the SFC devolution intended for Chennai Corporation. The rate of annual property tax levied on buildings in Chennai Corporation area is 30% of the annual value fixed by the Chennai Corporation of which 23% is collected as property tax by Chennai Corporation and 7% by Metro Water in terms of water tax and sewerage tax. MD, Metro Water sought the Commission to consider sharing the SFC devolution given to Chennai Corporation in the ratio of 23 : 7 in respect of Chennai Corporation and Metro Water respectively. While considering any increase in the sharing of resources either by the Central Government to State Government or State Government to local bodies/local authorities, the resource potential and augmentation of own resources of such recipient tier of Government would also be considered. As such, the Commission feels that it is not fair to revise the existing sharing ratio when there is no attempt by Metro Water to revise its own income such as water/sewerage tax and water/sewerage charges. If the sharing ratio of SFC devolution to Metro Water is revised in the circumstances mentioned above, it would amount to incentivizing the non-revision of taxes/user charges.

60) The Commission recommends the following:

i) **The water/sewerage charges be revised upward on 1st October 2012 and revised quinquennially.**

ii) **Quality digital meters be installed by Metro Water at least in a phased manner for all water connections. The fixing and maintenance of meters be outsourced for a specific period to overcome the loss in revenue due to meter becoming defective. Metering be made compulsory for all commercial premises in the water intensive category and other institutions.**

(G) TOWN AND COUNTRY PLANNING DEPARTMENT (T&CP):

61) The 74th Constitutional Amendment Act entrusted the functions relating to urban planning including town planning and regulation of land use and construction of buildings to urban local bodies. But, by virtue of experience, these functions were done by the Town and Country Planning Department and powers are delegated to certain extent by Director of Town and Country Planning (DTCP) under the purview of Town and Country Planning Act, 1971.

62) The Town and Country Planning Department prepares Master Plan, Detailed Development Plan and approve planning permission/building permission in DTCP areas as per the Town and Country Planning Act, 1971. Single LPA is composed of Corporation/Municipality/Town Panchayat area where the development of the town is confined to the said local body area and the Chairperson of the said local body will be the Chairperson of the Single LPA. There are 19 Composite LPAs wherein Corporation/Municipalities and adjoining Town Panchayats and Village Panchayats constitute such combined authority and District Collector will be the Chairperson of such authority. 5 New Town Development Authorities (NTDA) under the Chairmanship of District Collector have also been constituted in areas where there is rapid industrial growth. If the Composite LPA covers more than one district, it will come under Regional LPA. Regional LPA will consider planning activities taking into account the land, road transport, tourism expansion and growth of the town in other aspects.

63) During 2010-11, DTCP delegated powers to local bodies under the purview of Local Planning Authorities and New Town Development Authorities to issue Planning permission and to other local bodies to issue technical clearance in respect of the following:

Table-VIII-(15)

Usage	No. of floors	No. of houses/flats	Plinth area	Type of building
Residential	Ground floor + 2 floors	Four	4,000 Sq.ft.	Independent
Commercial	Ground + First floor	---	2,000 Sq.ft	Independent

64) The Development Charges and 1% contribution from local bodies constitute LPA fund and Infrastructure and Amenities charges and Centage charges are booked under the Government account. The LPA fund is utilized for the establishment of Composite LPAs, Regional LPAs and Town and Country Planning Department and also for the execution of various projects such as heritage town development, park and play fields, traffic and transportation, GIS etc. The funds received from local bodies by DTCP are the following:

Table-VIII-(16)

(Rs. in lakh)

Details	2005-06	2006-07	2007-08	2008-09	2009-10
	Urban/ Rural	**Urban/ Rural**	**Urban/ Rural**	**Urban/ Rural**	**Urban/ Rural**
1) Development Charges	230.40	296.19	352.79	299.32	337.62
2) Infrastructure & Amenities Charges	--	--	292.67	1790.17	1797.54
3) Centage Charges	26.53	24.04	26.48	23.53	41.14
4) 1% Contribution from local authority towards planning fund	47.05	23.30	20.37	85.63	27.76
5) Others	120.87	71.79	75.22	137.49	173.54
Total	**424.85**	**415.32**	**767.53**	**2336.14**	**2377.60**

Source: DTCP

65) The development charges are fixed at a minimum of Rs.2/- and a maximum of Rs.5/- and these rates are fixed by the LPAs and the resolutions are submitted to DTCP for approval. The Infrastructure and Amenities Charges are collected at the following rates for multi-storied buildings:

i) Rs.500/- per sq. meter for multistoried commercial/IT building.
ii) Rs.250/- per sq. meter for multistoried residential building.
iii) Rs. 200/- per sq. meter for special buildings.
iv) Rs.100/- per sq. meter for all other Industries/Institutions.

66) During the interaction with the DTCP, he stated that most of the local bodies under DTCP areas have not contributed 1% of their revenue income to the LPA fund. The recommendation of TSFC to abolish the 1% or 0.25% contribution of revenue income of local bodies was referred to HLC headed by the then Minister for Local Administration. The Committee accepted the recommendation of the TSFC with a modification that the actual establishment cost of the Planning Wing of the Planning Authority should be borne by the ULBs in areas under Planning Authorities. The establishment expenditure of Planning Authorities is met from the Government funds and other expenditure towards contingencies, rent etc. is met from Authority fund. The table below shows the provisions made to those funds:

Table-VIII-(17)

(Rs.in lakh)

Year	Authority fund	Government fund
2005-06	123.74	100.46
2006-07	164.68	106.75
2007-08	192.32	118.44
2008-09	110.44	144.67
2009-10	134.08	189.22

Source: DTCP

However, the break up details for the establishment expenditure could not be made available to the Commission by DTCP. Though powers are delegated to ULBs for issue of planning permission to certain extent, Master Plan and Detailed Development Plan and other issues relating to planning are looked into by DTCP. Hence, it is reasonable that the reconciled and audited establishment expenditure of the Planning Wing of the T&CP authorities should be borne by all the local bodies in such areas from the date from which it is given effect to and till then the local bodies have to remit the arrears on 1% of their own income to T&CP authorities.

67) The Commission recommends that the reconciled and audited establishment expenditure of the Planning Wing of the T&CP authorities should be borne by all the local bodies in such areas from the date from which it is given effect to and till then the local bodies have to remit the arrears on 1% of their own income to T&CP authorities.

(H) PUBLIC LIBRARIES:

68) As per Tamil Nadu Public Libraries Act 1948, every Local Library Authority (LLA) shall levy in its area library cess in the form of a surcharge on the property tax or house tax levied in such areas under the concerned local body Acts as the case may be at the rate of 3 paise for every whole rupee in the property tax or house tax so levied. In G.O.Ms.No.252, Education Department, Dated: 22.02.1972 the rate of levy of library cess was enhanced from 3 paise to 5 paise with effect from 01.04.1972 and subsequently revised to 10 paise with effect from 01.04.1992 in G.O.Ms.No.492, Education Department, Dated: 19.05.1992.

69) Though the Library Cess was increased from 5 paise to 10 paise as early as in the year 1992, the Chennai Corporation had not implemented the same and collected 5 paise only as Library Cess upto the year 2008 in view of the administrative reasons in issuing notices on the revision to all the 4.40 lakh property tax assesses of Chennai Corporation at that time. Hence, in G.O.Ms.No.92, Education Department, Dated: 23.4.2008, orders were issued to Chennai Corporation to enhance the Library Cess from 5 paise to 10 paise from 1.4.2008 while revising the Property Tax by Chennai Corporation. Since the general revision to property tax was not done on 01.04.2008, Chennai Corporation continued to levy only 5 paise as library cess for the old properties assessed prior to 01.04.2008 and revised at 10 paise for the new properties assessed after 01.04.2008. In view of non revision of property tax and library cess on 01.04.2008, the revenue of Chennai Corporation as well as Public Libraries Department is heavily affected. As such, it is necessary to levy the revised rate of library cess at 10 paise for all properties of Chennai Corporation with effect from 01.04.2013 by issuing revision notices to all the assessees.

70) As per the data collected from each tier of the local bodies by the Commission, the year-wise details of collection of Library Cess and remittance made by the local bodies to the Public Library Authority is placed as **Annexure VIII-(1)** The balance dues on library cess to be remitted to LLA from 2005-06 to 2010-11 amount to Rs.98.74 crore as per the statement. The Director of Public Libraries has reported cumulative dues of more than Rs.600.00 crore for the period from 2005-06 to 2010-11on library cess. When the details on the actual collection of property/house tax are not available with Public Libraries Department and audited accounts figures on the library cess remitted by local bodies are made available by LFAD only after two years, the claims on outstanding dues of library cess for the period from 2005-06 to 2010-11 reported by the Director of Public Libraries may not be taken as confirmed. If the details on the actual collection and remittance of library cess from each local body, every year are furnished to the Director of Public Libraries by the HODs concerned, the exact demand on library cess can be raised by the Director of Public Libraries and the outstanding amount could also be collected by the Department from the concerned local bodies.

71) Regarding the issue on the deduction of library cess from SFC devolution ‘at source’, the Commission views that the past year arrears due to default can be deducted from SFC devolution and the library cess dues for current year cannot be deducted by Heads of Departments since the current & arrear demand on Property/House tax of local bodies may not be available to the Heads of Departments during the year. However, this should be the last resort. The concerned Heads of Departments should encourage the local bodies to clear the dues voluntarily.

72) In order to sort out the issues on the pending dues on library cess, the Director of Public Libraries has sent a proposal to the Government to facilitate the opening of a remittance account in the name of District Library Officer and to remit the library cess as and when collected to such account through ECS. At present, in Municipalities, the library cess collected in cash is remitted into a separate bank account and in case of cheque payment on property tax by the assessees, the entire property tax including library cess is remitted into the general fund account and then the library cess is calculated and remitted into the bank account intended for library cess at the end of each financial year. Once the library cess collected along with property tax through cheques is remitted into the General Fund account, it would be at the will of the Municipality to remit the library cess into the separate bank account opened for the purpose. It is therefore necessary to transfer the dues on library cess collected by ULBs through cheque payments also to the bank account every month. In such case, ECS mode of transfer from the bank account of the urban local bodies intended for library cess to the remittance account of the District Library Officer proposed to be opened, would solve the problem. In respect of Village Panchayats also, the library cess collected separately along with house tax may be remitted into a separate bank account to be opened for the purpose and linked to the remittance account of the District Library Officer concerned through ECS.

73) The issue on the retention of 10% of library cess collected as collection charges by local bodies was discussed by the Commission. Central Government and State Government usually retain collection charges from the proceeds of tax/non-tax revenue before sharing it with the recipient tier of the Government. On the same analogy, there is a logic in the retention of collection charges by local bodies towards the collection of library cess on behalf of Public Libraries Department. Commission feels that 10% of the library cess collected can be retained by the local bodies as collection charges subject to the prompt remittance of the entire library cess excluding collection charges every month to the Public Libraries Department through ECS.

74) Village libraries have been opened in all Villages Panchayats under Anaithu Grama Anna Marumalarchi Thittam (AGAMT) by the RD & PR Department The Village Panchayats maintain these libraries from out of the General Fund of the Panchayat. Each village library is maintained by one Librarian with a consolidated remuneration of Rs.750/- per month. Since the AGAMT has been completed now, the maintenance of AGAMT libraries has to be taken care of. This issue was discussed in the Commission's meetings. It was viewed that the public libraries are maintained in a professional way with periodical purchase of books, lending and infrastructure development whereas in AGAMT libraries, minimum books are kept and the minimum recurring cost is met by the Village Panchayats for maintaining those libraries. Public Libraries Department has already opened 4000 Village libraries and also opening 100 such libraries every year. Opening of new village libraries by Public Libraries Department at a recurring unit cost of Rs.20,000/- per annum would burden the Public Libraries Department. Since AGAMT libraries do exist already in permanent buildings owned by the Village Panchayats, there is a need to integrate both the AGAMT libraries and the village libraries opened by the Public Libraries Department.

75) The subject 'Libraries' is constitutionally assigned to PRIs as per Eleventh Schedule. By virtue of its expertise, the Public Libraries Department is maintaining the libraries in the State and expanding its activities even at village level. Third SFC recommended to delegate powers to District Panchayats with funds and functionaries so as to maintain the District and Branch Libraries by the District Panchayats. But, those recommendations were not considered by the Government.

76) Public Libraries Department is now in the process of upgradation and integration of libraries in the 77 Revenue Divisions of the State. Periodical procurement of books and modernization of public libraries through the creation of Open Public Access Catalogue, open source software for maintenance, online library services, provision of e-books and e-journals in public libraries etc. prove the expertise of Public Libraries Department. Considering the expertise of Public Libraries Department in the maintenance of libraries, Commission views that all the AGAMT libraries can be taken over by Public Libraries Department in a phased manner with suitable reorganisation of village libraries created by Public Libraries Department and the AGAMT libraries.

77) **The Commission recommends the following:**

- **i)** **The revised rate of library cess at 10 paise for all properties be levied by Chennai Corporation with effect from 01.04.2013 by issuing revision notices to all the assessees.**

- **ii)** **The details on the actual collection and remittance of library cess from each local body, every year be furnished to the Director of Public Libraries by the HODs/District Collectors concerned.**

- **iii)** **The arrears on library cess due to default by local bodies be deducted from SFC devolution after reconciliation and adjusted to Public Libraries Department.**

- **iv)** **The library cess collected in cash be remitted to the separate bank account of ULBs intended for library cess as and when collected by urban local bodies. The dues on library cess collected through cheque payments also be credited to the bank account every month. The proceeds of library cess then be transferred through ECS mode from the bank account of the urban local bodies intended for library cess to the remittance account of the District Library Officer concerned to be opened. In respect of Village Panchayats, the library cess collected separately along with house tax be remitted into a separate bank account to be opened for the purpose and linked to the remittance account of the District Library Officer concerned through ECS.**

- **v)** **10% of the library cess collected be retained by the local bodies as collection charges subject to the prompt remittance of the entire library cess excluding collection charges every month to the Public Libraries Department through ECS.**

- **vi)** **All the AGAMT libraries be taken over by Public Libraries Department in a phased manner with suitable reorganisation of village libraries created by Public Libraries Department.**

(I) HINDU RELIGIOUS AND CHARITABLE ENDOWMENTS DEPARTMENT (HR & CE):

78) The following number of temples and temple related institutions are under the control of Hindu Religious and Charitable Endowments Department:

Table-VIII-(18)

Temples	38481
Mutts	56
Endowments	57
Educational institutions	41
Social welfare institutions	34
Health centers	8

The temples are classified based on the annual income range as detailed below:

Table-VIII-(19)

Annual Income	No. of temples
Rs.10.00 lakh and above	182
Rs.2.00 to Rs.10.00 lakh	496
Rs.10,000 to Rs.2.00 lakh	3,331
Less than Rs.10,000/-	34,472
Total	38,481

The income of temples is mainly from Hundi collections, rent, lease amount received from shops, restaurants, rest houses etc, built in temple lands. The salaries, establishment and other expenditure of the HR & CE Department which are paid by the Government are subsequently reimbursed from the above income. A nominal amount collected from religious institutions under Section 92 (i), (ii) and 12 (ii) of the Hindu Religious and Charitable Endowments Act goes to Government account. HR & CE Department furnished a list of 17 notified festivals and 47 non notified festivals in Tamil Nadu. As per G.O.Ms.No.1912, RD & LA Department, Dated: 5.12.1979, before the commencement of any notified festival, the executive authority of the local body concerned and the executive officer of the temple meet and discuss on the sanitary arrangements to be made by the local body for the notified festival for which the temple authorities would pay 50% of the difference between the receipts and expenditure incurred by the local body for providing sanitary arrangement. Apart from reimbursement on this count, financial assistance has also been extended by the temple authorities to certain local bodies for the purpose of extension and construction of bus stand, drainage systems etc.

79) The local bodies provide the following civic facilities at the time of both notified and non notified festivals:

i) Sanitary arrangements by engaging additional sanitary workers
ii) Supply of drinking water through lorries and serving through Sintex tanks
iii) Maintenance of roads leading to temples
iv) Clearing the drains
v) Arrangements for temporary toilets
vi) Removal of bushes
vii) Provision of barricades
viii) Conduct of medical camps

Commission observed that there are many non notified festivals during which heavy influx of floating population of pilgrims is witnessed by local bodies in temple towns. A sample of such non notified festivals with details on floating population and expenditure incurred by the concerned local bodies during the period of such non notified festivals is shown below:

Table VIII-(20)

S.No	Name of Temple	Name of Festival	2011 Census population	Floating population	Expenditure incurred. Rs.
1.	Meenaksh Amman Temple, Madurai.	Meenakshi Thirukkalyanam	10,16,865	2,00,000	15,00,000/-
2.	Theppakulam Mariamman koil, Madurai	Teppam Festival		1,00,000	5,00,000/-
3.	Murugan Temple, Tirupparankundram, Madurai	Vaikasi Visakam		1,00,000	3,00,000/-
4.	Nellaiappar Gandhimathi Ambal Temple, Tirunelveli	Aani Car festival	4,74,838	1,00,000	50,000/-
5.	Arulmigu Sri Vridhagireeswarar Temple, Virudhachalam	Masi Magam	73,415	1,00,000	1,55,000/-
6.	Sri Thiyagaraja Temple, Tiruvarur	Sri Thiyagaraja Car festival for 3 days and Theppam festival for 3 days	58,279	1,20,000	1,60,000/-
7.	Sri Andal Temple, Srivilliputhur	Aadi Pooram	75,373	1,50,000	1,00,000/-
8.	Sri Subramania swamy temple, Tiruchendur	Panguni Uthiram	32,835 (Estimate)	1,00,000	1,00,000/-

Commission views that the excessive financial burden faced by local bodies at the time of non notified festivals also needs to be shouldered by the Temple Administration. This issue was discussed with the Heads of Departments concerned with local bodies, political parties and others and they also endorsed the views of the Commission. Commission also viewed that the expenditure towards sanitation and other essential civic facilities provided by the local bodies upto 1 km radius from the temples during notified festivals have to be reimbursed by the temple authorities at 50% of the cost. Commission also observed that in many places, the temple authorities are not paying Property tax in respect of properties belonging to HR & CE Department and raised in temple lands such as shops, gust houses, staff quarters, restaurants etc.

80) Taking cognizance of the issues mentioned above, the Commission recommends the following:

i) The expenditure incurred by local bodies towards providing civic services to the floating population of 50,000 and above, at the time of non notified festivals be reimbursed by the HR & CE Department at 50% of the cost.

ii) The expenditure towards sanitation and other essential civic facilities provided by the local bodies upto 1 km radius from the temples during notified / non notified festivals be reimbursed by the temple authorities at 50% of the cost.

iii) The prompt payment of Property tax in respect of properties belonging to HR & CE Department and raised in temple lands such as shops, guest houses, staff quarters, restaurants, etc. be ensured by the temple authorities and monitored by both the Heads of Departments concerned with temples and local bodies.

CHAPTER-IX

ASSESSMENT OF STATE'S FINANCES.

> *Before you can really start setting financial goals, you need to determine where you stand financially.*
>
> ***-David Boch***

Para.5 of the ToR issued to the Fourth SFC necessitates the Commission to take into account the resources of the State Government, the demands thereon, in particular the expenditure of the State on pension and debt servicing including the debt servicing on behalf of local bodies/other committed expenditure or liabilities of the State Government and the need to generate adequate surplus on revenue account for State's commitment on capital account and other commitments also, while making its recommendations.

2) The revenue performance of any State depends on the growth prospects. Tamil Nadu make up only 4% of India's land area but accounts for almost 5.96% of India's population of 1210 million as per 2011 Census. Tamil Nadu ranks fifth in terms of per capita income (GSDP) and third in terms of industrial development among the major Indian States (2009-10).

3) Like all other State Governments, Tamil Nadu had also witnessed a serious deterioration in various indicators of fiscal balance towards the end of the nineties and the early years of the current decade including large revenue deficits and large fiscal deficits relative to GSDP. But these imbalances were brought under prudent limits in the framework of Fiscal Responsibility and Budget Management Act (FRBMA), which was enacted in 2003, making Tamil Nadu as one of the first States to enact such legislation laying a foundation for an aggregate fiscal discipline, even prior to the recommendations of the Twelfth Finance Commission.

4) In the process of analysis of the State's finances as per the ToR issued to the Commission, Commission obtained information on the projected finances of the State for the award period of FSFC in the prescribed formats. The projected State finances were compared with the forecast already submitted by the State Government to XIII FC and also the assessments made by XIII FC for Tamil Nadu. By virtue of the rich experience of Madras School of Economics in making studies on the economy of Tamil Nadu, issues on Goods and Services Tax, assignments given by XIII FC and the assignment given by the Government of Tamil Nadu relating to the Memorandum presented to XIII FC, a study on the finances of the

State was entrusted to the MSE and their report was further analysed and considered by the Commission for making assumptions on State's finances.

5) By far, the sales taxes are the most important source of own tax revenue in Tamil Nadu, followed by state excise duties and stamps and registration fees. Relative to GSDP, own tax revenues in Tamil Nadu have historically been one of the highest among the States for many years. The ratio of own tax revenue to GSDP was at 9.05 percent in 2004-05 and slated to be at 9.96 percent in 2010-11 RE and 10.28 percent in 2011-12 RBE. Tamil Nadu has had the distinction of showing the highest tax-GSDP ratio among the general category States. After 2000-01, its tax-GSDP ratio was more than doubled than that of West Bengal. It has overtaken Kerala, which was said to be a State with the highest tax-GSDP ratio earlier in the nineties. Only Karnataka comes anywhere close to Tamil Nadu's tax-GSDP ratio. In 2007-08 and 2009-10, growth rates have fallen for most of the taxes. Growth rate on sales tax revenue has fallen during 2009-10 showing the impact of introduction of VAT. However, as petroleum prices have increased substantially in 2008-09 and since special rates were applied for petroleum products, the tax revenue buoyancy is expected to remain high even in the case of State VAT. The SOTR is estimated by the Government at Rs.59,787.00 crores for 2011-12 RBE.

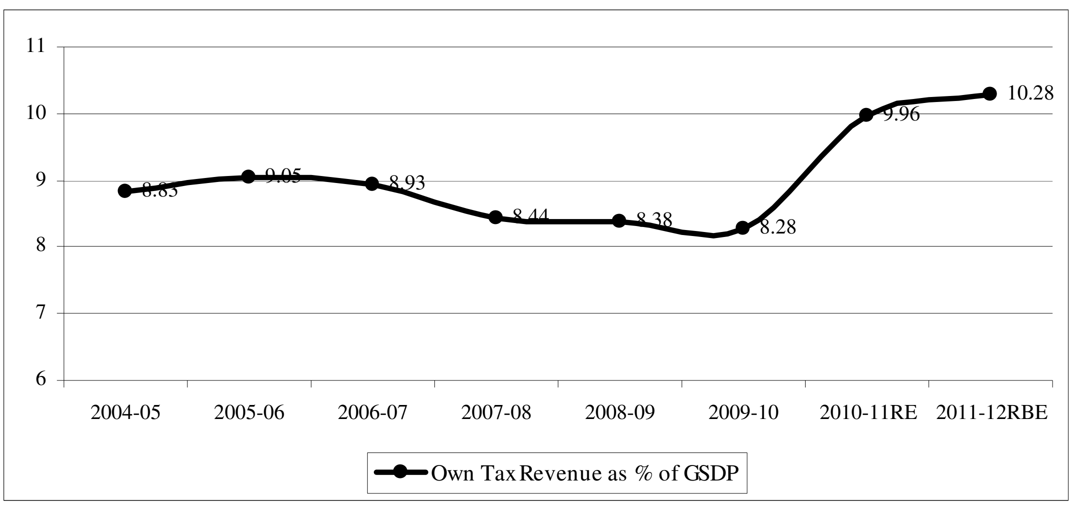


Chart: 1 - Own Tax Revenues Relative to GSDP: Sustained Growth

6) Government of Tamil Nadu has already implemented VAT w.e.f. 1st January, 2007. XIII FC has made recommendation to consider the implementation of Goods and Services Tax and discussed various issues relating to the operational modalities, proposed agreement between the Centre and States with contingencies for changes, disincentives for non

compliance, implementation schedule and procedure for claiming compensation. The implications of the proposed move from VAT to GST is critical because such a change will make the existing revenue profiles of the Centre as well as State Governments quite unsuitable for projecting forward their revenues. The rates chosen for Central and State GST components, taxes to be merged into GST and the growth of revenue base after the introduction of GST are the major issues for debate. The position of Tamil Nadu which earned relatively large revenue as percentage of GSDP in terms of Sales Tax will get affected because of the uniform tax rate structure under GST and the abolition of Central Sales Tax. Prof. D.K. Srivastava et al., of Madras School of Economics analysed various issues relating to the implementation of GST and put forth certain important considerations as summarised below:

a. As a net exporter, Tamil Nadu has had a significant share in revenue stream from the central sales tax. In the GST regime, since exports out of the State including inter-State sales will be zero-rated, there will be long term revenue loss, compared to the present situation when GST is not levied.

b. The GoTN has to spend on providing additional infrastructure for the manufacturers in order to facilitate their activities to operate in a cost effective manner. These services relate to infrastructure particularly roads and ports that serve the industries in providing access to markets. Apart from investment in building such infrastructure, there are additional maintenance requirements because of the heavy usage of such infrastructure. The beneficiaries of the manufactured products if located outside the State do not pay for this additional expenditure of infrastructure creation and maintenance.

c. The location of manufacturing units in the State leads to higher localized pollution causing health and related hazards. For coping with the pollution impact, the State Government needs to spend relatively more on health services. The main burden of health hazards may have to be borne by the Tamil Nadu citizens. This cost should ideally be borne by the final consumers of the products who may be located outside the State.

d. Under the existing Constitutional arrangements, the States have autonomy in respect of taxation powers for items under the State List. Such autonomy implies powers to fix the tax rates, define the tax bases, provide exemptions, and generally to use the tax as an economic instrument for social and economic objectives. These objectives include employment, output growth and distributional considerations. Autonomy also means that the State Governments can jointly determine their expenditure and revenue policies. The Constitution has certain basic features. Thus there is a need to examine whether these basic features are disturbed in any way by the amendments proposed to introduce GST from April 2012.

As per the GST module, among others, the Entertainment Tax since it is not levied by local bodies and surcharge on stamp duty are going to be subsumed under GST which is a great concern to local bodies.

7) Non-tax revenue comprises a major share from interest receipts followed by receipts from urban development, mines and minerals and industries. Farm forest receipts, lease amount from mines and minerals and seigniorage fees from sand quarries are shared with local bodies. The growth of non-tax revenue during the past years since 2005-06 shows a fluctuating trend. For non-tax revenue, an uniform growth rate of 5% has been assumed for the forecast period i.e. 2012-13 to 2016-17 by Finance Department.

8) Fiscal transfers to Tamil Nadu come from Finance Commission transfers, Plan grants and grants under various centrally sponsored schemes of GOI. In the aggregate, the transfers remained around 3 to 4 percent of GSDP from 2004-05 to 2011-12 except in 2007-08 in which year it was 4.16 percent. The Twelfth Finance Commission (TFC) had fixed Tamil Nadu’s share in the total divisible pool of central taxes at 5.305 percent as against 5.385 percent recommended by the Eleventh Finance Commission. This marginal decrease was neutralized since States’ share in the Centre’s divisible tax pool has been increased from 29.5 percent to 30.5 percent. Thus, the share of Tamil Nadu has remained unchanged at 1.6 percent of central taxes during 2005-06 to 2009-10. However, Tamil Nadu has not obtained any special grants for education and health. It is the higher overall tax-buoyancy of central taxes that has increased Tamil Nadu’s share of central taxes relative to its own GSDP.

9) The Thirteenth Finance commission has fixed Tamil Nadu’s share in the total divisible pool of central taxes at 4.969 percent (5.047 percent in the case of services tax) as against 5.305 percent recommended by the Twelfth Finance Commission. Shares in Central taxes for the State have been estimated at Rs.13,111.00 crore during 2011-12 RBE. The Thirteenth Commission has also recommended for Tamil Nadu, a total grant of Rs. 11366.90

crore for its award period from 2010-11 to 2014-15. A grant of comparable magnitude has never been given to Tamil Nadu by earlier FCs.

10) As far as Revenue Expenditure is concerned, Government of Tamil Nadu adopted a growth rate of 13.5% for each sector uniformly. Government of Tamil Nadu had also waived specific loans amounting to Rs.429.84 crore as on 31.3.2007 for all ULBs except Grade-III Municipalities so that the outstanding principal and interest as on 31.3.2007 was consolidated and frozen at Rs.615.36 crore. This amount is sanctioned as grants-in-aid payable to ULBs in 4 annual installments from 2008-09. Despite these debt relief measures taken by the Government based on the recommendation of Second SFC, the total loans of ULBs outstanding in respect of DTCP, TNUDF, TNUDF WSP and TNUDF Bonds and TUFIDCO as on 31.3.2010 amount to Rs.979.03 crore (as per Debt Monitoring Cell).

11) We provide projections of the relevant receipts and expenditure heads of the State for the period 2012-13 to 2016-17 adopting the following bases:

a. For major revenue items, tax buoyancy is used for projections. Tax revenues respond to changes both in the tax rates and the tax bases. Tax bases change as a result of economic growth which is reflected in the growth of GSDP. Hence, for major tax revenue items, tax buoyancy based growth rates (Tax buoyancy = Percentage change in tax revenue/Percentage change in GSDP) are applied which reflect the expected growth in the tax bases and discretionary changes in the tax structure. The tax buoyancy growth rates thus arrived for the period from 2004-05 to 2011-12 are as follows:

i)	Sales Tax	..	0.97
ii)	Motor Vehicle Tax	..	1.20
iii)	Stamps and Registration	..	1.27
iv)	State Excise	..	1.38
v)	Others	..	0.88

b. Nominal GSDP growth is taken as 14 percent consisting of 9 percent real growth and 5 percent inflation broadly consistent with the 12th Plan target.

c. Growth rates are used for most expenditure items; expenditure is considered discretionary; but sectoral growth rates are varied to suit the growth targets; in particular, expenditure on education, health, power and irrigation are allowed to grow at a much higher rate than other sectors.

d. Interest payments are generated by applying an effective interest rate on the outstanding liabilities at the beginning of the financial year.

e. FRBM targets are met during the forecast period so that fiscal deficit relative to GSDP settles down at 3 percent and revenue account balance is achieved.

Recently, the State Government took initiatives to mobilize more revenues. In the case of sales tax, because the State VAT rate is increased from 12.5 percent to 14.5 percent and the lower rate is increased from 4 percent to 5 percent for selected commodities, we have increased the sales tax buoyancy from 0.97 to 1.10. Because of the hike in prices of Indian Made Foreign Liquors, we have increased the buoyancy of excise from 1.38 percent to 1.5 percent and the growth of non-tax revenues at 14 percent. Regarding expenditure, we have already given provisions for higher growth of expenditures on education, health, irrigation etc.

12) As per our projections, during the projection period, the own tax revenue grows annually at 15.6 percent and own non tax revenue grows at 14 percent. Grants are projected to grow at 10 percent while the shared taxes are shown to increase at 15.2 percent. In the case of expenditure, the growth rates are subject to priorities accorded to different sectors by the State Government. We have provided for higher growth rates for priority sectors, especially in the first three years of projections. These sectors are education, health, urban development, social security, major, medium and minor irrigation, power and roads. Revenue expenditure on economic services covering irrigation, industries etc. is assumed to grow at 13.6 percent. For social services sector covering education and public health, a higher growth rate of 17.2 percent has been adopted. The interest payment and the committed revenue expenditures increase at 15.1 percent, pension and other retirement benefits at 12 percent. Other components of revenue expenditures are assumed to increase by 12 percent per annum during the forecast period. Further, the capital receipt is assumed to grow at 10 percent while the capital outlay at 20 percent. The GSDP at current prices is assumed to grow at an average rate of 14 percent during the projection period.

13) As a result of these changes in revenues, a revenue surplus emerges during the forecast period. This surplus increases in absolute amount as also relative to GSDP overtime. Since the fiscal deficit is kept as per the FRBMA, capital outlays also increase relative to GSDP. As per the review of State's Finances and the projections, we find that the overall revenue position of State Government during the projection period will show surplus on the revenue account. The accounts on State finances for the past years and the forecast for the award period of FSFC are placed at **Annexure IX-1 to 3.** The overall financial position of the State taking into account the additional resource mobilization measures has been considered by the Commission to decide the share in taxes to be devolved to local bodies during the award period of FSFC.

CHAPTER-X

ASSESSMENT OF GAP IN FINANCIAL RESOURCES.

> *"Your problem is to bridge the gap which exists between where your are now and the goal you intend to reach."*
> ***-Earl Nightingale.***

The review in this Chapter includes the pattern of spending, norms if any followed and the needs for the award period so as to work out the gap in the income and expenditure. The Salary, O&M and Capital expenditure from 2005-06 have been reviewed in the chapters on assessment of finances of PRIs and ULBs. The assumption of the projected income and expenditure for the award period of Fourth SFC is based on the cost escalation factor, filling up of vacant posts and in terms of norms based on market conditions. Since the assumption is based on the current price level, there is every possibility of increase in expenditure during the award period.

Rural Local Bodies

District Panchayats

2) The gross SFC devolution to District Panchayats during the period 2005-06 to 2009-10 is as follows:

Table-X-(1)

(Rs. in crore)

Year	Amount
2005-06	69.23
2006-07	80.08
2007-08	126.69
2008-09	137.32
2009-10	275.97

However, shares towards rural infrastructure scheme, Panchayat union school renovation programme etc have been deducted from the gross devolution and those funds are utilized for the purpose in Village Panchayat areas. Hence, the net devolution as reported by the District Panchayats have been taken into account for projection. Assuming that the existing pattern of devolution continues, the growth in revenue to District Panchayats from SFC devolution has been assumed at 15 percent from 2010-11, keeping 2009-10 as the base. In respect of other receipts, 10% growth is assumed. Pooled Assigned Revenue has not been recommended by Fourth SFC for distribution to District Panchayats and hence it is not taken into account for projections. Out of 225 sanctioned posts, 59 posts are vacant in District Panchayats. Assuming that 50% of the vacant posts would be filled up in the next 5 years, the additional pay estimates were added to 2010-11 estimates and 13% growth was applied for administrative expenditure. For work expenditure, 10% growth was assumed.

3) The projections on the receipt and expenditure of District Panchayats and the net budgetary position are the following:

Table-X-(2)

Projection of receipts for District Panchayats

(Rs. in crore)

Year	SFC Devolution	Others	Total
	(15% growth)	(10% growth)	
2012-13	112.59	2.32	**114.91**
2013-14	129.47	2.55	**132.02**
2014-15	148.90	2.80	**151.70**
2015-16	171.23	3.08	**174.31**
2016-17	196.92	3.39	**200.31**

Table-X-(3)

District Panchayats : Net Budgetary Position

(Rs. in crore)

Year	Receipts	Expenditure			Surplus
		Admini-stration	Works	Total	
2012-13	**114.91**	6.47	105.00	111.47	**3.44**
2013-14	**132.02**	7.35	115.50	122.85	**9.17**
2014-15	**151.70**	8.34	127.05	135.39	**16.31**
2015-16	**174.31**	9.48	139.75	149.23	**25.08**
2016-17	**200.31**	10.76	153.73	164.49	**35.82**

Panchayat Unions

4) The gross SFC devolution to Panchayat Unions during the period 2005-06 to 2009-10 is as follows:

Table-X-(4)

(Rs. in crore)

Year	Amount
2005-06	426.25
2006-07	548.06
2007-08	506.75
2008-09	549.26
2009-10	577.38

Panchayat Unions also contribute to rural infrastructure scheme and Panchayat Union School Renovation Programme and for other specific projects. Hence, the net devolution figures furnished by the local bodies have been taken into account for projections.

5) The projections on the receipt and expenditure of Panchayat Unions and the net budgetary position are the following:

Table-X- (5)

Projection of Receipts : Panchayat Unions

(Rs. in crore)

Year	Pooled Assigned Revenue	Non-tax Revenue	SFC Grant	Other Grants	Total
2011-12	92.61	91.32	800.47	42.82	**1027.22**
2012-13	101.87	97.36	920.54	49.25	**1169.02**
2013-14	112.05	103.79	1058.62	56.64	**1331.10**
2014-15	123.26	110.65	1217.41	65.13	**1516.45**
2015-16	135.59	117.97	1400.03	74.90	**1728.49**
2016-17	149.14	125.77	1610.03	86.13	**1971.07**

Note: Deposits and advances excluded.

Shares in E.T and entire local cess surcharge had already gone to Panchayat Unions prior to 2007-08. For projections, 10% growth to Pooled Assigned Revenue was adopted presuming its continuity in the next five years. For non-tax revenue, a trend based growth of 6.6% is adopted. In respect of SFC devolution and other grants, 15% growth was assumed.

Table. X- (6)

Projection of Expenditure : Panchayat Unions

(Rs. in crore)

Year	Adminis-tration	Capital	Maintenance	Others	Total
2011-12	208.95	398.93	218.16	8.10	**834.14**
2012-13	236.12	438.83	262.67	9.12	**946.74**
2013-14	266.81	482.71	316.25	10.27	**1076.04**
2014-15	301.50	530.98	380.77	11.60	**1224.85**
2015-16	340.69	584.08	458.45	13.11	**1396.33**
2016-17	384.98	642.49	551.97	14.85	**1594.29**

Note: Deposits and advances excluded.

On expenditure side, 13% growth for administrative expenditure, 10% for capital and 20% growth for maintenance expenditure were assumed.

Table. X- (7)

Panchayat Unions : Net budgetary position

(Rs. in crore)

Year	Receipts	Expenditure	Surplus / Deficit
2011-12	1027.22	834.14	**193.08**
2012-13	1169.02	946.74	**222.28**
2013-14	1331.10	1076.04	**255.06**
2014-15	1516.45	1224.85	**291.60**
2015-16	1728.49	1396.33	**332.16**
2016-17	1971.07	1594.29	**376.78**

Note: Deposits and advances excluded.

The surplus position is presumed taking into account the continuance of Pooled Assigned Revenue transfers and other grants from SFC devolution towards Rural Infrastructure Scheme and Panchayat Union School Renovation Programme or any other alternative programme in the place of Panchayat Union school renovation programme. The Commission has recommended to do away with the concept of Pooled Assigned Revenue since the revenue collected from Surcharge on Stamp Duty owing to the increased real estate activities and Entertainment Tax in a particular Village Panchayat area should be transferred to that Village Panchayat only as they reflect level of economic activity and the need for infrastructure. The net budgetary position excluding Pooled Assigned Revenue is as follows:

Table. X- (8)

Panchayat Unions : Net budgetary position excluding Pooled Assigned Revenue.

(Rs. in crore)

Year	Receipts	Expenditure	Surplus / Deficit
2011-12	934.61	834.14	**100.47**
2012-13	1067.15	946.74	**120.41**
2013-14	1219.05	1076.04	**143.01**
2014-15	1393.19	1224.85	**168.34**
2015-16	1592.90	1396.33	**196.57**
2016-17	1821.93	1594.29	**227.64**

Note: Deposits and advances excluded.

Even excluding Pooled Assigned Revenue, surplus position is likely to exist during the award period. The surplus funds available with Panchayat Unions can also be utilized for capital works and other felt needs.

Village Panchayats

6) In Village Panchayats, Account No.1 is the Village Panchayat General Fund Account in which own tax/non-tax revenue, assigned revenue, SFC devolution and deposits and advances are booked. Account No. II is the Earmarked Fund in which CFC grants and minimum lumpsum grant of SFC devolution are booked.

7) The projections on the receipt and expenditure of Village Panchayats and the net budgetary position are the following:

Table – X-(9)

Projection of Revenue from Account-I for Village Panchayats

(Rs. in crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Tax revenue	209.85	230.83	253.92	279.31	307.24	337.96
Pooled Assigned Revenue (10%)	**120.97**	**133.07**	**146.37**	**161.01**	**177.11**	**194.82**
SFC Devolution	871.06	1001.72	1151.98	1324.77	1523.49	1752.01
Other Grants	260.96	300.10	345.11	396.88	456.41	524.88
Non-tax revenue	309.00	379.46	465.97	572.21	702.68	862.89
Miscellaneous income	35.84	45.84	58.62	74.98	95.90	122.65
Total	**1807.68**	**2091.02**	**2421.97**	**2809.16**	**3262.83**	**3795.21**

For the award period, a 10% growth is assumed for tax revenue and 15% for Pooled Assigned Revenue taking 2009-10 as the base. In respect of SFC devolution and other grant, 15% growth was assumed. For non-tax revenue, 22.8% growth and for miscellaneous income, 27.9% growth rate were assumed.

Salary component and Administrative Expenditure:

8) For the award period, the Commission has taken into account the revised pay structure for Panchayat Assistant now renamed as Panchayat Secretary and Makkal Nala Paniyalargal, OHT Operators, Electricians and other conservancy staff. Besides the Government have recently announced payment of Honorarium of Rs.1000/- per month to Village Panchayat Presidents and also enhancement of Sitting Allowances of Village Panchayat Presidents from Rs.50/- to Rs.100/- per sitting and for Ward Members from Rs.25/- to Rs.50/- per sitting. Hence, the salary and other administrative expenditure are bound to go up. On O&M, the norms fixed in 2002 for water supply works, street lights and conservancy have not been revised. In fact, the costs of services have gone manifold. Keeping in mind all these factors, the projections for the award period is made.

Table – X-(10)

Projection of Expenditure from Account-I for Village Panchayats

(Rs. in crore)

Year	General adminis-tration	CC charges	Maintenance Expenditure	Capital expenditure	Total
2011-12	340.63	46.19	1164.21	492.11	**2043.14**
2012-13	379.39	45.27	1420.34	541.32	**2386.32**
2013-14	417.33	44.36	1732.81	595.45	**2789.95**
2014-15	459.06	43.48	2114.03	654.99	**3271.56**
2015-16	504.97	42.61	2579.12	720.49	**3847.19**
2016-17	555.46	41.75	3146.52	792.54	**4536.27**

Earmarked Fund – Account – II

9) The Earmarked Fund Account-II is a tied fund intended for the payment of EB/TWAD bills exclusively. In order to project the revenue for this account, the following assumptions were made:

Assumptions:

During 2010-11, the Village Panchayats received Rs.287.10 crore as per the XIII FC recommendation towards General Basic Grant. 1.5% of the divisible pool of Centre's resources is pooled as local body grants and hence the buoyancy in the Centre's resources would increase the quantum of XIII FC grants to local bodies. Since the increase in the Centre's resources and its buoyancy could not be presumed, the same amount of local body grant is presumed for all years.

The Minimum SFC devolution grant of Rs.3.00 lakh per Village Panchayat is recommended to be increased to Rs.5.00 lakh and the recommended amount is presumed for the award period. For interest, 1.5% of the total receipts booked under Account No.II is taken for projection.

The revenue projection thus arrived under Account-II for the Village Panchayats is indicated below.

Table-X-(11)

Projection of Revenue from Account-II for Village Panchayats

(Rs. in crore)

Year	XIII FC	Minimum SFC Devolution	Interest	Total
2011-12	332.97	378.60	10.67	**722.24**
2012-13	389.16	631.00	15.30	**1035.46**
2013-14	461.11	631.00	16.38	**1108.49**
2014-15	545.95	631.00	17.65	**1194.60**
2015-16	545.95	631.00	17.65	**1194.60**
2016-17	545.95	631.00	17.65	**1194.60**

Table-X-(12)

Projection of Expenditure from Account-II for Village Panchayats

(Rs. in crore)

Year	Maintenance of street lights & drinking water in the ratio of amount spent during 2010-11 (60% of CFC) + Minimum devolution.	Maintenance of properties in the ratio of amount spent during 2010-11 (11% of CFC).	Total
2011-12	578.38	36.63	**615.01**
2012-13	864.50	42.81	**907.31**
2013-14	907.67	50.72	**958.39**
2014-15	958.57	60.05	**1018.62**
2015-16	958.57	60.05	**1018.62**
2016-17	958.57	60.05	**1018.62**

Table – X-(13)

Village Panchayats Accounts: Net budgetary position.

(Rs. in crore)

Year	Account I			Account II		
	Revenue	Expenditure	Surplus / Deficit	Revenue	Expenditure	Surplus / Deficit
2011-12	1807.68	2043.14	**- 235.46**	722.24	615.01	107.23
2012-13	2091.02	2386.32	**- 295.30**	1035.46	907.31	128.15
2013-14	2421.97	2789.95	**- 367.98**	1108.49	958.39	150.10
2014-15	2809.16	3271.56	**- 462.40**	1194.60	1018.62	175.98
2015-16	3262.83	3847.19	**- 584.36**	1194.60	1018.62	175.98
2016-17	3795.21	4536.27	**- 741.06**	1194.60	1018.62	175.98

The Village Panchayats have deficit in Account No.I. Account No.II comprising earmarked funds shows surplus.

Urban Local Bodies

10) Service provision and delivery are the basic functions of all ULBs. The major challenges facing Municipal Corporations and Municipalities are to cater to the rising demand for services in urban areas due to increasing population pressures on physical and financial

resources. The key is to estimate service demands and plan for service provisioning and delivery in a sustainable manner. The three fundamentals of service provisioning and delivery are sufficient capital investments for creation of physical infrastructure, sufficient operation and maintenance expenditure and good governance.

11) Six major civic services viz., water supply, sewerage, solid waste management, roads, storm water drains and street lighting are taken into account to assess the status of services rendered. The gaps in service levels have been assessed by comparing actual physical service level indicators to bench marked physical service level norms. The state level norms are given below in respect of Municipal Corporations.

Water Supply Service Level Norms

Indicator 1	135 lpcd (for Municipal Corporations and towns with UGS)
Indicator 2	85% of roads covered with distribution system
Indicator 3	33% storage capacity with respect to water supply
Indicator 4	100% treatment capacity (only applicable for Urban Local Bodies with Water Treatment Plant)

Sewerage and Sanitation service level norms

Sewerage	Indicator 1	Presence of UGS.
	Indicator 2	60% population coverage (at least)
	Indicator 3	80% Road length covered
Sanitation	Indicator 4	60 persons: Slum population per seat of public convenience

Solid Waste Management service level norms

Indicator 1	411 grams waste generated per capita
Indicator 2	100% collection performance
Indicator 3	3 Number of trips per vehicle per day
Indicator 4	0.2 Sq.Km. area coverage for secondary collection
Indicator 5	Availability of compost yard (Yes)
Indicator 6	Availability of land fill site (Yes)

Roads service level norms

Indicator 1	1.75 meters road length per capita (Municipal Roads) (Length/population)
Indicator 2	5% Concrete
	85% black top
	10%WBM
	0% cut stone/earthen/others

Storm Water Drains service level norms

Indicator 1	150% road length covered with drains (minimum)
Indicator 2	0% kutcha open
	90% pucca open
	60% pucca closed

Street lighting service norms

Indicator 1	30 meters spacing between lamp posts
Indicator 2	80% tube light
	13% High pressure sodium vapor
	7% High mast lamps
	0% solar lamps
	0% others

Municipal Corporations

12) The gaps in the level of Water Supply in respect of Municipal Corporations are as below:

Water Supply

Daily Supply of Water Per Capita

Table–X-(14)

Name of Corporation	Actual (lpcd)	Norm(lpcd)	Gap(lpcd)	Percentage achieved
Chennai	127.00	135.00	8.00	94.07
Coimbatore	109.24	135.00	25.76	80.92
Erode	135.00	135.00	0.00	100.00
Madurai	120.00	135.00	15.00	88.89
Salem	90.00	135.00	45.00	66.67
Thoothukudi	90.00	135.00	45.00	66.67
Tiruchirapalli	110.00	135.00	25.00	81.48
Tirunelveli	92.30	135.00	42.70	68.37
Tiruppur	103.00	135.00	32.00	76.30
Vellore	70.00	135.00	65.00	51.85

Sewerage

13) The gap in the coverage of population is as below:

Table–X-(15)

Name of Corporation	Actual (Percentage)	Norm(60% At least)	Gap (Percentage)	Percentage achieved
Chennai	Fully covered			
Coimbatore	20.00	60.00	40.00	33.33
Erode	Scheme in execution	60.00	60.00	0
Madurai	95.00	60.00	-35.00	158.33
Salem	88.00	60.00	-28.00	146.67
Thoothukudi	Scheme in execution	60.00	60.00	0
Tiruchirapalli	69.00	60.00	-9.00	115.00
Tirunelveli	24.00	60.00	36.00	40.00
Tiruppur	34.33	60.00	25.67	57.22
Vellore	Scheme in execution	60.00	60.00	0

Solid Waste Management

14) The collection of Solid Waste Management is one of the most important task under Core Civic Services. 100% collection is a pre-requisite for proper treatment. The gap in service level is given below. Even though the collection performance is stated to be high, in reality it leaves much to be desired.

Collection performance of solid wastes

Table–X-(16)

Name of Corporation	Actual (Percentage)	Norm(60% at least)	Gap (Percentage)	Percentage achieved
Chennai	100	100.00	0.00	100.00
Coimbatore	95	100.00	5.00	95.00
Erode	100	100.00	0.00	100.00
Madurai	100	100.00	0.00	100.00
Salem	95	100.00	5.00	95.00
Thoothukudi	93.8	100.00	6.20	93.80
Tiruchirapalli	96	100.00	4.00	96.00
Tirunelveli	90	100.00	10.00	90.00
Tiruppur	100	100.00	0.00	100.00
Vellore	98	100.00	2.00	98.00

Roads

15) The gaps in per capita in the service level of roads under civic service is given below:

Length of Municipal roads per capita

Table–IX-(17)

Name of Corporation	Actual (Percentage)	Norm(60% at least)	Gap (Percentage)	Percentage achieved
Chennai	0.59	1.75	1.16	33.71
Coimbatore	0.95	1.75	0.80	54.29
Erode	0.76	1.75	0.99	43.43
Madurai	0.77	1.75	0.98	44.00
Salem	0.91	1.75	0.84	52.00
Thoothukudi	0.80	1.75	0.95	45.71
Tiruchirapalli	1.22	1.75	0.53	69.71
Tirunelveli	2.06	1.75	-0.31	117.71
Tiruppur	1.26	1.75	0.49	72.00
Vellore	0.62	1.75	1.13	35.43

Storm Water Drain

16) The service level of Storm Water Drain can be best worked out based on the road length. Since it has to be covered on both sides, a full coverage would mean twice the road length but the norm is fixed at 150%. The gap in service level is as below.

Road length covered with drains

Table–X-(18)

Name of Corporation	Actual (Percentage)	Norm(60% at least)	Gap (Percentage)	Percentage achieved
Chennai	N.A	N.A.	N.A.	N.A.
Coimbatore	42.00	150.00	108.00	28.00
Erode	168.00	150.00	-18.00	112.00
Madurai	45.00	150.00	105.00	30.00
Salem	89.00	150.00	61.00	59.33
Thoothukudi	82.23	150.00	67.77	54.82
Tiruchirapalli	41.19	150.00	108.81	27.46
Tirunelveli	35.16	150.00	114.84	23.44
Tiruppur	1.70	150.00	148.30	1.13
Vellore	129.00	150.00	21.00	86.00

Street lighting

17) The gap in service level in respect of street lighting is as below:

Table–X-(19)

Name of Corporation	Actual (Meters)	Norm (Meters)	Gap (Meters)
Coimbatore	30	30	0
Erode	29.24	30	0.76
Madurai	30	30	0
Salem	30	30	0
Thoothukudi	27	30	3
Tiruchirapalli	35.2	30	-5.2
Tirunelveli	46	30	-16
Tiruppur	34.8	30	-4.8
Vellore	29	30	1

Municipalities and Town Panchayats

18) The gaps in service level in respect of core civic services are as below:

Table-X-(20)

Gap in Services – Municipalities.

S.No	Civic Service	Norms	Supply	Gap
1	**Water supply** - Without UGD (LPCD)	90.00	75.14	14.83
	With UGD	135	90	45
2	**Sewerage**			
	Population covered (in percentage) *	60	70	(-) 10
3	**Solid Waste Management**			
	Daily waste generated per capita (in grams)	411	400	11
4	**Roads**			
	Length of roads per capita (in meter)	1.75	1.20	0.55
5	**Storm water drain**			
	Road length covered (in percentage)			
6	Street lighting (Average spacing in Meters)	30	30	0

* Many Municipalities do not have sewerage facilities. The position mentioned above indicates the status in Municipalities where UGS exist.

Table-X-(21)

Gap in Services – Town Panchayats.

S.No	Civic Service	Norms	Supply	Gap
1	**Water supply** - Without UGD (LPCD)	70.00	71.00	(-) 1.00
2	**Sewerage**			
	Population covered (in percentage) *	60	82	(-) 22
3	**Solid Waste Management**			
	Daily waste generated per capita (in grams)	411	300	111
4	**Roads**			
	Length of roads per capita (in meter)	1.75	1.97	(-) 0.22
5	**Storm water drain**			
	Road length covered (in percentage)	150	45	(-) 105
6	Street lighting (Average spacing in Meters)	30	30	0

* Many Municipalities do not have sewerage facilities. The position mentioned above indicates the status in Municipalities where UGS exist.

Methodology for projections

Revenue Income

19) The projections of income for the award period has been worked out based on the compounded annual growth rate and the base year is taken as 2009-10 for projections. By applying the above yardstick, projections have been made for the period **2012-17.**

Administrative Expenditure

20) The projections under this head are made by giving 10% annual increase for salaries, terminal benefits and general administration and maintenance expenditures for all tiers of ULBs.

Operation and Maintenance Expenditure

21) Five major civic services namely water supply, solid waste management, roads, storm-water drains and street lighting are taken into account to review the O & M incurred from 2005 to 2011. The projections for the award period of the SFC for O & M have been made assuming a scenario where the annual rate of inflation would be 10%. Based on the above criteria, projections have been made.

Investment Estimation

22) Investment estimation for civic services comprises estimation of investment needs with regard to capital expenditure and O&M expenditure. These estimations have been arrived at by using cost norms for capital investments and O&M investments. These cost norms have been applied to the gaps in physical service levels. In respect of roads and street lights, the requirements were worked out based on the comprehensive cost norms and in respect of other civic services, the felt needs projected by ULBs for financial assistance have been taken into account for arriving at the cost.

Table-X-(22)
Projection of Revenue Receipts – Municipal Corporations

(Rs. in crore)

Year	Own Revenue					
	Tax	Non Tax	Assigned Revenue	SFC Devolution	Others	Total
2012-13	1150.33	422.34	198.86	722.63	30.05	**2524.21**
2013-14	1330.35	469.09	204.90	841.51	27.76	**2873.61**
2014-15	1539.40	521.06	211.27	979.96	25.64	**3277.33**
2015-16	1782.30	578.83	217.99	1141.17	23.68	**3743.97**
2016-17	2064.72	643.05	225.05	1328.91	21.87	**4283.60**

Table-X-(23)
Projection of Revenue Expenditure – Municipal Corporations

(Rs. in crore)

Year	Salaries	Terminal Benefits	General Administration and Maintenance	Total
2012-13	804.69	292.94	984.30	**2081.93**
2013-14	885.16	322.23	1082.19	**2289.58**
2014-15	973.67	354.45	1189.87	**2517.99**
2015-16	1071.04	389.90	1308.32	**2769.26**
2016-17	1178.15	428.89	1438.61	**3045.65**

Table-X-(24)

Projection of Capital Receipts – Municipal Corporations

(Rs. in crore)

Year	Capital Grants			
	From State Govt.	From Central Govt.	Loans	Total
2012-13	56.83	824.97	364.19	**1245.99**
2013-14	63.35	989.96	382.40	**1435.71**
2014-15	75.15	1187.96	401.52	**1664.63**
2015-16	86.43	1425.55	421.60	**1933.58**
2016-17	99.39	1710.61	442.68	**2252.68**

Table-X-(25)

Projection of Capital Expenditure – Municipal Corporations

(Rs. in crore)

Year	Schemes	Debt Repayments	Total
2012-13	1392.83	39.70	**1432.53**
2013-14	1534.84	41.69	**1576.53**
2014-15	1691.34	43.77	**1735.11**
2015-16	1863.78	45.96	**1909.74**
2016-17	2053.81	48.26	**2102.07**

Table–IX-(26)

Projected Net Budgetary Position.

Municipal Corporations			
Year	**Revenue Receipts**	**Revenue Expenditure**	**Surplus / Deficit**
2012-13	**2524.21**	**2081.93**	**442.28**
2013-14	**2873.61**	**2289.58**	**584.03**
2014-15	**3277.33**	**2517.99**	**759.34**
2015-16	**3743.97**	**2769.26**	**974.71**
2016-17	**4283.60**	**3045.65**	**1237.95**
Year	**Capital Receipts**	**Capital Expenditure**	**Surplus / Deficit**
2012-13	**1245.99**	**1432.53**	**(-) 186.54**
2013-14	**1435.71**	**1576.53**	**(-) 140.82**
2014-15	**1664.63**	**1735.11**	**(-) 70.48**
2015-16	**1933.58**	**1909.74**	**23.84**
2016-17	**2252.68**	**2102.07**	**150.61**

Table-X-(27)

Projection of Revenue Receipts – Municipalities

(Rs. in crore)

Year	Own Revenue				Total
	Tax	Non Tax	Assigned Revenue	SFC Devolution	
2012-13	576.47	396.46	152.60	749.61	**1875.14**
2013-14	669.80	435.95	169.00	865.64	**2140.39**
2014-15	778.30	479.45	187.28	999.62	**2444.65**
2015-16	904.43	527.39	207.66	1154.34	**2793.82**
2016-17	1051.05	580.23	230.41	1333.01	**3194.70**

Table-X-(28)

Projection of Revenue Expenditure – Municipalities

(Rs. in crore)

Year	Salaries	Terminal Benefit	General Administration and Maintenance	Total
2012-13	535.34	164.86	622.50	**1322.70**
2013-14	588.88	181.35	681.96	**1452.19**
2014-15	647.76	199.48	747.36	**1594.60**
2015-16	712.54	219.43	819.31	**1751.28**
2016-17	783.79	241.38	898.45	**1923.62**

Table-X-(29)

Projection of Capital Receipts – Municipalities

(Rs. in crore)

Year	Capital Grants			
	From State Govt.	From Central Govt.	Loans	Total
2012-13	353.08	405.97	364.19	**1123.24**
2013-14	406.04	487.17	382.40	**1275.61**
2014-15	466.94	584.60	401.52	**1453.06**
2015-16	536.98	701.52	421.60	**1660.10**
2016-17	617.53	841.83	442.68	**1902.04**

Table-X-(30)

Projection of Capital Expenditure – Municipalities

(Rs. in crore)

Year	Schemes	Debt Repayments	Total
2012-13	1228.11	53.25	**1281.36**
2013-14	1500.50	55.91	**1556.41**
2014-15	1833.31	58.71	**1892.02**
2015-16	2239.94	61.64	**2301.58**
2016-17	2736.76	64.73	**2801.49**

Table–X-(31)

Projected Net Budgetary Position.

(Rs. in crore)

Municipalities			
Year	**Revenue Receipts**	**Revenue Expenditure**	**Surplus / Deficit**
2012-13	**1875.14**	**1322.70**	**552.44**
2013-14	**2140.39**	**1452.19**	**688.20**
2014-15	**2444.65**	**1594.60**	**850.05**
2015-16	**2793.82**	**1751.28**	**1042.54**
2016-17	**3194.70**	**1923.62**	**1271.12**
Year	**Capital Receipts**	**Capital Expenditure**	**Surplus / Deficit**
2012-13	**1123.24**	**1281.36**	**(-) 158.12**
2013-14	**1275.61**	**1556.41**	**(-) 280.80**
2014-15	**1453.06**	**1892.02**	**(-) 438.96**
2015-16	**1660.10**	**2301.58**	**(-) 641.48**
2016-17	**1902.04**	**2801.49**	**(-) 899.45**

Table-X-(32)

Projection of Revenue Receipts – Town Panchayats

(Rs. in crore)

Year	Own Revenue		Assigned Revenue	SFC Devolution	Total
	Tax	Non Tax			
2012-13	282.78	255.38	125.85	422.00	**1086.01**
2013-14	345.67	286.95	147.07	483.71	**1263.40**
2014-15	423.47	322.44	171.92	554.44	**1472.27**
2015-16	520.07	362.31	201.01	635.51	**1718.90**
2016-17	640.48	407.13	235.06	728.43	**2011.10**

Table-X-(33)

Projection of Revenue Expenditure – Town Panchayats

(Rs. in crore)

Year	Salaries	Terminal Benefit	General Administration and Maintenance	Total
2012-13	248.64	3.94	596.08	**848.66**
2013-14	273.51	4.33	654.01	**931.85**
2014-15	300.86	4.77	717.72	**1023.35**
2015-16	330.94	5.24	787.81	**1123.99**
2016-17	364.04	5.77	864.90	**1234.71**

Table-X-(34)

Projection of Capital Receipts – Town Panchayats

(Rs. in crore)

Year	Capital Grants			
	From State Govt.	From Central Govt.	Loans	Total
2012-13	257.73	189.32	35.25	**482.30**
2013-14	296.39	227.18	37.01	**560.58**
2014-15	340.85	272.62	38.86	**652.33**
2015-16	391.97	327.14	40.81	**759.92**
2016-17	450.77	392.57	42.85	**886.19**

Table-X-(35)

Projection of Capital Expenditure – Town Panchayats

(Rs. in crore)

Year	Schemes	Debt Repayments	Total
2012-13	620.25	20.67	**640.92**
2013-14	650.79	21.70	**672.49**
2014-15	662.83	22.79	**685.62**
2015-16	716.46	23.93	**740.39**
2016-17	751.74	25.12	**776.86**

Table–X-(36)

Projected Net Budgetary Position.

(Rs. in crore)

Town Panchayats			
Year	**Revenue Receipts**	**Revenue Expenditure**	**Surplus / Deficit**
2012-13	**1086.01**	**848.66**	**237.35**
2013-14	**1263.40**	**931.85**	**331.55**
2014-15	**1472.27**	**1023.35**	**448.92**
2015-16	**1718.90**	**1123.99**	**594.91**
2016-17	**2011.10**	**1234.71**	**776.39**
Year	**Capital Receipts**	**Capital Expenditure**	**Surplus / Deficit**
2012-13	**482.30**	**640.92**	**(-) 158.62**
2013-14	**560.58**	**672.49**	**(-) 111.91**
2014-15	**652.33**	**685.62**	**(-) 33.29**
2015-16	**759.92**	**740.39**	**19.53**
2016-17	**886.19**	**776.86**	**109.33**

ABSTRACT
Table–X-(37)
Urban Local Bodies
Revenue Account

(Rs. in crore)

Tier	Surplus/Deficit				
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Municipal Corporations	**442.28**	584.03	759.34	974.71	1237.95
Municipalities	552.44	688.20	850.05	1042.54	1271.12
Town Panchayats	237.35	331.55	448.92	594.91	776.39
Total	**1232.07**	**1603.78**	**2058.31**	**2612.16**	**3285.46**

Table–X-(38)
Urban Local Bodies
Capital Account

(Rs. in crore)

Tier	Surplus/Deficit				
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Municipal Corporations	(-) 186.54	(-) 140.82	(-) 70.48	23.84	150.61
Municipalities	(-) 158.12	(-) 280.80	(-) 438.96	641.48	899.45
Town Panchayats	(-) 158.62	(-) 111.91	(-) 33.29	19.53	109.33
Total	**(-) 503.28**	**(-) 533.53**	**(-) 542.73**	**684.85**	**1159.39**

23) Commission observed from the above study that each tier of ULBs will have a projected revenue surplus during the award period and deficit in capital account for first three years in respect of Municipal Corporations and Town Panchayats and for all years in respect of Municipalities. The surplus in revenue account is sufficient to meet the capital gap in respect all tiers of ULBs.

Table–X-(39)
Rural Local Bodies
Revenue Account

(Rs. in crore)

Tier	Surplus/Deficit				
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**
District Panchayats	3.44	9.17	16.31	25.08	35.82
Panchayat Unions	100.47	120.41	143.01	168.34	196.57
Village Panchayats					
Account No.I	(-) 295.30	(-) 367.98	(-) 462.40	(-) 584.36	(-) 741.06
Total	**(-) 191.39**	**(-) 238.40**	**(-) 303.08**	**(-) 390.94**	**(-) 508.67**

Table–X-(40)

Rural Local Bodies

Village Panchayats – Account No.II

(Rs. in crore)

Surplus/Deficit				
2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**
128.15	150.10	175.95	175.98	175.98

24) In respect of RLBs, the District Panchayats and Panchayat Unions show surplus position for all years and Village Panchayats will have deficit for all years in respect of Account No.I. Even the combined status of Account No. I & II will also exhibit a deficit position only for all years during the award period. **The net budgetary position arrived for each tier of local bodies as mentioned above is taken into account for considering the mechanism of devolution.**

25) The guidelines for NREGS prescribe 30% allocation towards material component but it is observed that the funds are utilized mostly for wage component. Allocation for capital works can also be made from NREGS account as is being done in other States, so as to reduce the gap in resources required for capital asset creation.

26) **Commission recommends that 30% allocation towards material component under NREGS funds shall be utilized for capital works so as to reduce the gap in resources required for capital asset creation.**

CHAPTER-XI

SCHEME OF DEVOLUTION.

> *"Everything comes to us belongs to us if we create the capacity to receive it."*
>
> ***-Rabindranath Tagore***

The Commission has to review, among others, the financial position of local bodies and to make recommendations regarding the principles governing the distribution of net proceeds of the taxes, duties, tolls and fees levied by the State Government, between the State and the local bodies, to determine the taxes, duties, tolls and fees to be assigned to local bodies and the grants-in-aid to be transferred to local bodies from the Consolidated Fund of the State. As per Para. 5 of the ToR, the Commission analysed the financial position of the State Government as well. A study was also made by the eminent Economist Prof. D.K. Srivastava, Director, Madras School of Economics in projecting the State's finances and comparing with the fiscal objectives set out in the Medium Term Fiscal Plan under the Tamil Nadu Fiscal Responsibilities Act,2003 and also the sustainability level of the State Government on increase if any in the percentage of devolution of resources from the State's Own Tax Resources and other related issues, implications and impact of the implementation of Goods and Services Tax on the State's finances and other related issues.

2) As per the Medium Term Fiscal Plan (MTFP), the State Government has to reduce the ratio of revenue deficit to revenue receipts every year by 3 percent so as to reach a level not exceeding 5 percent by 31st March 2011 and to eliminate revenue deficit by 2011-12 and adhere to it thereafter. The ratio of fiscal deficit to Gross State Domestic Product (GSDP) has to be reduced by 0.25 percent every year with a medium term goal of not being more than 3 percent by 31st March 2012 and it has to be adhered to thereafter. It was observed that the revenue deficit of the State Government was Rs.3531.32 crore during 2009-10 and Rs.2720.01 crore during 2010-11 in view of slow pace in economy and pay commission commitments. The revenue deficit for 2011-12 RBE has been estimated at Rs.173.87 crore thereby adhering to the MTFP norms. The ratio of fiscal deficit over GSDP for 2011-12 RBE comes to 2.90 percent. The studies on State's Finances presented in Chapter-IX considered the MTFP norms and their adherence by the State Government in projecting the State's finances. Taking into account the commitment of the State Government to maintain the MTFP norms and the recent measures taken for additional resource mobilization, the projections on

State's Finances are made in that Chapter. As per the projections, a revenue surplus for the State Government has been projected for the award period of the Commission **(Annexure-IX-(2).**

3) In Chapter-X of this report, the gap in resources for each tier of local bodies has been worked out based on the assumptions and growth rates mentioned in that Chapter. Commission observed a revenue surplus position for all years in respect of District Panchayats, Panchayat Unions, Municipal Corporations, Municipalities and Town Panchayats and revenue deficit in respect of Village Panchayats. Capital Account exhibits a deficit for all years during the award period in respect of Municipalities and for the first three years in respect of Municipal Corporations and Town Panchayats. As a rule, the revenue surplus has to meet the deficit in capital account. However, Village Panchayats witness revenue deficit in Account No. I for all the years during the award period and even the marginal surplus projected under Account No. II combined together could not equate the revenue deficit under Account No. I. The overall picture shows a revenue surplus position for all local bodies during the award period.

SFC devolution

4) The SFC devolution grants transferred to local bodies since 2005-06 can be seen at **Annexure-XI-(1).** As per the FRBM projections, the estimate of SOTR for 2012-13 would be Rs.70549.00 crore and the quantum of SFC devolution at the present sharing ratio would be approximately Rs.7055.00 crore for 2012-13. From the gross SOTR, the following deductions have been made during the past years so as to derive the net SOTR:

i) Entertainment Tax

ii) Tamil Nadu Rural Road Development Fund

iii) Transfers to Road Maintenance Fund towards road projects (since 2010-11 RE)

iv) Surcharges under land revenue, Motor Vehicle Tax

v) Assigned Revenue pooled at State level for PRIs under the expenditure budget

vi) Electricity tax (2008-09 alone)

5) The gross SOTR includes the net figures under the receipt major head "0045", after deducting the payments on E.T. made to local bodies at 90% of gross proceeds of E.T retaining 10% as collection charge by the State Government. However, the entire receipts under the head 0045 101 AA 01 – 'Tax paid in cash' are again deducted while working out the

net SOTR from gross SOTR since 2007-08. It amounts to double deduction. From 2007-08, only the share of RLBs under Pooled Assigned Revenue provided under Rural Development Department's expenditure budget has to be deducted. From 2011-12 RBE the urban share of surcharge on stamp duty is pooled at the State level and 50% of it is transferred to TURIF and 50% for distribution for ULBs from the expenditure budget of MA & WS Department. In such case, the provision made towards surcharge on stamp duty under the expenditure budget can also be deducted from the gross SOTR provided the amount is not deducted under the major head 0030 02 901 AA. Hence, the following deductions can be made from the gross SOTR:

i) Share of E.T/surcharge on stamp duty of RLBs/ULBs provided in the expenditure budget if not deducted under the receipt major head.
ii) Transfers to Tamil Nadu Rural Road Development Fund and
iii) all surcharges.

6) The Commission analysed the actual entitlement on SFC devolution and the actual releases made by the State Government from SFC devolution and found out that over a period of 15 years starting from the award period of First SFC (1997-98) till the award period of Third SFC (2011-12), no constant methodology for deductions from gross SOTR to net SOTR is followed by the Government. Usually the SFC devolution is sanctioned and distributed based on the budget estimate for 10 months in the current year and another 4 installments to be paid in 2 months which is based on the revised estimate. If another exercise to review the entitlement of local bodies based on the AG's actuals is done there will not be any shortfall between the entitlement and actual transfers. We worked out the entitlement and actual transfers based on the methodology followed by Finance Department and there will be arrears of Rs.129.30 crore for PRIs and Rs.222.82 crore for ULBs to be paid by the State Government. A statement showing the entitlement and actual transfers of SFC devolution is placed as **Annexure-XI-(2).**

Transfers to local bodies other than SFC devolution

7) Apart from SFC devolution, assigned revenue such as entertainment tax, surcharge on stamp duty, shared revenue like lease amount from minor mineral quarries, seigniorage fees, receipts from social forest plantations, several grants through State and Centrally sponsored schemes and other non plan discretionary grants are being transferred to local bodies. The State Government is also committed to bear the salary expenditure of Block

Development Officers, Municipal Commissioners, Municipal teachers and Panchayat Union Elementary school teachers. Such commitments are quantified below:

Table –XI (1)

(Rs. in crore)

Details	2009-10	2010-11 RE	2011-12 (RBE)
Municipal Commissioners Salaries	3.50	3.70	4.22
Salaries to Municipal and Corporation Elementary School Teachers	210.17	276.92	311.86
Salaries of BDOs (BPs)	101.59	105.97	124.21
Salaries of BDOs (VPs)	84.91	103.99	113.73
Salaries to Panchayat Union Elementary School Teachers	2285.57	2601.37	2893.24
Total	**2685.74**	**3091.95**	**3447.26**

8) The pension liabilities of the local body officials and teachers is also met by the State Government. As separate figures are not readily available the same is not furnished. Apart from these commitments, Plan and Non-Plan discretionary grants ranging from Rs.1169.55 crore in 2005-06 to Rs.2728.62 crore in 2009-10 are also transferred to local bodies.

Global sharing

9) Taking into account on one side, the commitments of the State Government towards expenditure on pension, debt servicing and other committed liabilities, the buoyancy in the SOTR which increases the SFC devolution in absolute terms and on the other side the better financial position of local bodies in view of enormous flow of funds through various sources and appreciably the potential for mobilizing own sources of revenue. **The Commission viewed that the existing global sharing ratio to the local bodies at 10% of the net SOTR can continue during the award period of the Commission.**

10) In Chapter-V, the Commission recommended to constitute a Solid Waste Management Fund with a corpus of Rs.200.00 crore per annum for the purposes mentioned in that Chapter. Commission is of the view that apart from the global sharing of 10% of net SOTR, Rs.200.00 crore per annum may be allocated by the State Government towards the Integrated Solid Waste Management activities both in rural and urban local bodies. The needs of Peri Urban Panchayats towards Solid Waste Management can be met from this fund, apart from investments required for common solid waste management facilities which can be shared by both rural and urban local bodies.

Vertical sharing ratio between rural and urban local bodies

11) Population is the main criterion for the distribution of SFC devolution. In the process of deriving vertical and horizontal ratios for SFC devolution, the Commission took into account the provisional 2011 Census population for rural and urban local bodies. As per 2011Census, the population divide between rural and urban local bodies is as follows:

Rural : 37189229 - 51.55%

Urban : 34949729 - 48.45%

The urban population includes the population of 4876060 in 374 Census Towns which are actually Village Panchayats, population of 63210 in Cantonments and population of 110124 in Townships. Government orders have been issued during 2009-10 to expand the area of Chennai, Coimbatore, Madurai, Trichy, Vellore, Tiruppur, Thoothukudi and Erode Municipal Corporations by amalgamating 23 Municipalities, 26 Town Panchayats and 68 Village Panchayats with those Municipal Corporations. Two Municipalities merge with neighboring Municipalities, three Town Panchayats to merge with Municipalities and 28 Village Panchayats will be added to neighboring Municipalities. Population of those 8 Municipal Corporations including the added area would be as follows:

Table-XI-(2)

Population of Municipal Corporations as per Census 2011						
Sl. No	Name of Municipal Corporation	Present Population of Corporation	Added Municipalities Population	Added Town Panchayats Population	Added Village Panchayats Population	Corporation Population after amalgamation
1	Chennai	4681087	1268075	222124	555442	6726728
2	Coimbatore	1061447	306979	190093	24299	1605733
3	Madurai	1016885	202073	55772	193672	1468402
4	Trichy	846915		23072	45055	915042
5	Salem	831038				831038
6	Erode	156953	254990	53169	33009	498121
7	Tirunelveli	474838				474838
8	Thoothukudi	237374			133724	423772
9	Tiruppur	444543	157406		276030	877979
10	Vellore	185895	95853	122771	101211	505730
	Total Population	**9936975**	**2285376**	**667001**	**1362442**	**14327383**

The tier wise 2011 Census population of ULBs and PRIs after amalgamation of local bodies would be as follows:

Table-XI-(3)

Distribution of 2011 Census Population			
Name of the local bodies	**Population before amalgamation**	**Added area Population**	**Population after amalgamation**
Municipal Corporations	9936975	4314819	14251794
Municipalities	11072746	(-) 2285376 (+) 56054 (+) 232248	9075672
Town Panchayats	8890614	(-) 667001 (-) 56054	8167559
Total Urban Population	**29900335**	**1594690**	**31495025**
Rural Population	**42065289**	**(-) 1362442 (-) 232248**	**40470599**
Grand Total Population	**71965624**		**71965624**

Second SFC accorded the following criteria and weightages for arriving at the vertical sharing ratio for rural and urban local bodies:

Table-XI-(4)

i)	Population (1991)	50%
ii)	**Needs:**	
a)	O & M	10%
b)	Capital	10%
c)	Debt.	5%
iii)	**Resource Potential:**	
a)	Inverse per capita	15%
b)	Inverse assigned revenue	10%
	Total	**100%**

Based on the above weightages, the vertical sharing ratio for **Rural: Urban** was arrived at **59 : 41** respectively by the Second SFC. At that time, 2001 Census population was not notified. Hence, the Commission took 1991 population and in view of urbanization during the decade 1991 to 2001, 2% increase was presumed under urban sector. Since 50% weightage was given for population, 1% hike was given to urban ratio, thus resulting in 58 : 42. The Commission also recommended to revise the ratio as 59 : 41 if the reclassification package i.e., down gradation of 178 Town Panchayats and upgradation of 18 Census towns was done by the Government.

12) Third SFC took note of the permutation and combination of the criteria and weightages worked out by Second SFC and taking into account the population of Census Towns under rural, worked out the vertical sharing ratio as 58 : 42 for RLBs and ULBs respectively.

13) **The criteria and weightages adopted by the Second SFC and Third SFC have adequately captured the field realities and given dependable outputs. The FSFC decided to adopt the same criteria and weightages as the same have produced a robust scheme for vertical sharing.** The operation and maintenance needs of rural and urban local bodies have been taken from the data obtained from local bodies and projected by the agencies involved in the analysis. Regarding capital needs, the anticipated requirements furnished by the local bodies have been taken. Ideally fund requirement based on norms should have been obtained. The capital needs of ULBs have been normalized whereas the same could not be achieved for the RLBs. As adoption of data derived on different basis for the RLBs and ULBs would result in an iniquitous position, the Commission has decided to adopt the capital needs as projected by the local bodies as the same have been obtained after imparting adequate awareness to the local body functionaries and also a reasonable level of exercise was taken up to remove data errors. For calculating inverse ratios on percapita house / property tax and assigned revenue, the actuals from 2005-06 to 2009-10 have been taken in to account. The working shown under **Table–XI (4)** distributes 20% weightage for needs (O&M and Capital), 5% for debt outstanding, 25% for resource potential and the balance 50% for 2011 Census population. This seems to be equitable for both rural and urban local bodies and thus the vertical sharing ratio has been worked out and the working sheet is placed as **Annexure –XI (3).** The rounding off benefit is given to RLBs taking into account the deficit position of Village Panchayats. **The vertical sharing ratio between rural and urban local bodies works out to 56 : 44.**

Vertical sharing ratio between tiers of RLBs

14) The ratio recommended by TSFC and accepted by the Government is 8 : 32 : 60 for District Panchayats, Panchayat Unions and Village Panchayats respectively. Though the Commission decided not to share pooled assigned revenue with District Panchayats, it was considered not to alter the present ratio of 8% as the District Panchayats have revenue surplus even without Pooled Assigned Revenue. Similarly Panchayat Unions would show revenue surplus during the award period. However, considering filling up of vacant posts and the need for maintenance of Panchayat Unions assets, it was decided to continue existing ratio of 32%.

Village Panchayats create assets and maintain assets through various sources of income. Village Panchayats show deficit in Account No.1 and this deficit could not be filled up by combining the surplus position in Account No.2. It is viewed that the existing ratio of 60% can continue for Village Panchayats.

Infrastructure Gap Filling Fund

15) At present, 5% from out of 60% share of Village Panchayats is allocated for Infrastructure Gap Filling Fund. From out of this fund, 50% was allocated towards Anaithu Grama Anna Marumalarchi Thittam. From out of the balance 50%, 75% is allocated to District Collectors and 25% to DRD to take up works at their discretion on priority basis. Several District Collectors suggested before the Commission that the corpus of IGFF should be increased so as to fulfill the civic demands of people approaching the District Collectors. Commission is of the considered the view that the resources mobilized by way of assigned revenue should be allocated to the area from which they were collected. Accordingly, the Commission recommended for taking away pooled assigned revenue concept in PRIs. Presuming that the entire pooled assigned revenue will go to Village Panchayats, it is reasonable to impound 10% of the devolution for RLBs towards IGFF. Hitherto the funds of IGFF were distributed to Village Panchayats without any consideration for capital projects. Commission is of the view that the IGFF should be utilized on project basis only, by both DRD and Collectors.

Minimum Lumpsum Grant

16) The Minimum Lumpsum Grant of Rs.3.00 lakhs given to each Village Panchayat since 2007-08 is reported to be insufficient in respect of many Village Panchayats to meet the payment to E.B and TWAD. At present, in respect of certain Village Panchayats where the E.B / TWAD Bills are less than the minimum lumpsum grant, the balance grant is booked under Account No.1. Similarly where E.B / TWAD bills are heavy, in addition to the lumpsum grant booked under Account No.2 funds from Account No.1 will also be transferred to Account No.2 for the purpose. After discussion with the CRD&PR, the Commission has decided to increase the quantum of minimum lumpsum grant from Rs.3.00 lakh to Rs.5.00 lakh per Panchayat. This amount has to be deducted from the 60% share of Village Panchayats and distributed to all Village Panchayats on monthly basis. The balance amount from out of Village Panchayats' share of SFC devolution has to be distributed on the horizontal ratio suggested below.

17) As of now, Panchayat Unions are getting Rs.30.00 lakh as minimum lumpsum grant and this may continue for the award period of the Commission.

Horizontal ratio within each tier of PRIs

18) During the district sittings of the Commission, it was viewed by District Collectors that special consideration need to be given to backward districts and districts with large number of predominant SC/ST population. Taking into consideration the feedback, the Commission considered the following ratio for horizontal distribution within each tier of PRIs:

Total population (2011 Census)	:	60%
SC/ST population	:	20%
Area	:	20%

Vertical sharing ratio between the tiers of ULBs

19) Taking into account the huge needs for funds due to the implementation of underground sewerage system and water supply schemes in ULBs and the increase in outstanding debt, weightage of 5% is given to debt outstanding in addition to the area. The following criteria and weightages are considered by the Commission.

2011 Census population	:	80%
Area	:	15%
Debt outstanding	:	5%

20) The vertical sharing ratio between the tiers of ULBs is arrived at 40 : 29 : 31 for Municipal Corporations, Municipalities and Town Panchayats respectively **Annexure-XI-(4).** The same criteria and weightages were adopted for horizontal sharing of SFC devolution within each tier of ULBs.

Infrastructure Gap Filling Fund

21) The present ratio for IGFF is 3% of the share of SFC devolution to each tier of ULBs. Taking into consideration the growing needs towards infrastructure projects and feedback obtained from the stakeholders, the Commission decided to increase the percentage from 3% to 7%. Debt relief to 41 Municipalities and 3 Municipal Corporations as discussed in Chapter-V may have to be met from this fund. Balance amount available under incentive fund of SFC devolution as at the end of each financial year has to be added to this fund.

O&M Gap Filling Fund

22) The Commission decided to increase the ratio from 2% to 3%.

Minimum Lumpsum Grant

23) Presently, a minimum lumpsum grant of Rs.10.00 lakh is allocated from the share of Town Panchayats to each Town Panchayat for the purpose of payment of E.B/TWAD bills. During the Commission's meeting the Director Town Panchayats proposed to raise the quantum of minimum lumpsum grant from Rs.10.00 to Rs.30.00 lakh citing the Town Panchayats in which the EB/TWAD bills exceed Rs.30.00 lakh per annum. The classification of Town Panchayats based on the quantum of EB/TWAD bills is as follows:

Table-XI-(5)

Quantum of EB/TWAD Bills	No. of Town Panchayats
Below Rs.10.00 lakh	141
Rs.10.00 to Rs.15.00 lakh	152
Rs.15.00 to Rs.20.00 lakh	100
Rs.20.00 to Rs.25.00 lakh	51
Rs.25.00 to Rs.30.00 lakh	33
Rs.30.00 to Rs.40.00 lakh	42
Rs.40.00 to Rs.50.00 lakh	15
Above Rs.50.00 lakh	25
Total	**559**

The weighted average for EB/TWAD bills with the above classification works out to Rs.20.00 lakh. Commission therefore consider that the minimum lumpsum grant for Town Panchayats may be increased from Rs.10.00 lakh to Rs.20.00 lakh.

Incentive Fund

24) The Second SFC recommended house tax matching grant of 125% of collections of house tax at more than 91% with other downward gradations on collection. This concept was taken away since the actual collections were shown as demand by the Panchayat Presidents and they got the house tax matching grant without any effort to augment the own tax at its tax potential. Third SFC studied the entire system of incentive payment and devised a new formula according to which the local bodies who have registered a growth in house/property tax collection upto 15% were recommended for 100% share in incentive and above 15% for 200% share. But the Government resorted to bring in separate concept of infrastructure and O&M gap filling funds and incentive fund was not adopted by the

Government. During the District sittings of the Commission, elected/executive heads of local bodies and District Collectors proposed to reinstate the incentive concept so as to encourage 100% collection of house/property tax by the local bodies. Commission after going through various consultancies decided to consider the following concept.

25) From the vertical share of SFC devolution recommended for rural and urban local bodies, 2.5 percent may be allocated as a separate corpus for incentive fund from SFC devolution. From out of the corpus, the incentive may be given to the local bodies as detailed below:

i) Local bodies which record 100% current collection in house/property tax and 75% arrear collection with minimum increase in the collection at 15% over the previous year will be qualified to get an incentive as graded below:

Table-XI-(6)

		100% of demand subject to a maximum of
(a)	Village Panchayats	Rs.2.00 lakh
(b)	Town Panchayats	Rs.10.00 lakh
(c)	Municipalities	Rs.20.00 lakh
(d)	Municipal Corporations	Rs.50.00 lakh

The following conditionalities may also be prescribed for getting the incentive:

- Enumeration of properties every year and to be certified by the Deputy BDO (Audit)/RDMA/AD (TPs).
- General revision should have been done in the past 5 years.

ii) Commission viewed that the cash awards have to be given to the local bodies at the District and State level also. At the District level 3 cash awards of Rs.3.00 lakh, Rs.2.50 lakh and Rs.2.00 lakh for the first 3 Village Panchayats which fulfill the conditionalities and qualify for getting the incentive. District Collectors can give away the awards. Similar awards can also be given at the State level for the RLBs as mentioned above with cash of Rs.10.00 lakh, Rs.7.50 lakh and Rs.5.00 lakh for the first 3 Village Panchayats respectively. At the State level, the cash award for ULBs can be given for the first 3 Municipal Corporations, Municipalities and Town Panchayats as detailed below:

Table-XI-(7)

S.No	Tier of ULBs	Cash award (Rs. in lakh)		
		First	Second	Third
1)	Municipal Corporations	100.00	75.00	60.00
2)	Municipalities	50.00	40.00	30.00
3)	Town Panchayats	40.00	30.00	20.00

iii) If there is balance in the incentive fund, the same can be transferred to IGFF.

26) When GST is implemented, the local taxes and surcharges will be subsumed under State GST. But for this subsumption, the local bodies would have got higher share from such subsumed taxes/surcharges. In such case, the local bodies will face a revenue loss since the share from State GST would be in the global sharing ratio adopted for SOTR. State Government may exclude those local taxes/surcharges from the purview of State GST. Hence, logically the GST loss compensation if any received from GOI may also have to be shared with local bodies.

27) Commission recommends the following:

i) The following deductions be made from the gross SOTR so as to arrive net SOTR:

(a) Share of E.T/surcharge on stamp duty of RLBs/ULBs provided in the expenditure budget if not deducted under the receipt major head.
(b) Transfers to Tamil Nadu Rural Road Development Fund and
(c) all surcharges.

ii) For the period of the three SFCs, devolution arrears of Rs.129.30 crore for PRIs and Rs.222.82 crore for ULBs worked out based on the methodology adopted by the Finance Department be paid by the State Government.

iii) The existing global sharing ratio to the local bodies at 10% of the net SOTR be continued during the award period of the Commission.

iv) **Apart from the global sharing of 10% of net SOTR, Rs.200.00 crore per annum be allocated by the State Government towards the Integrated Solid Waste Management activities both in rural and urban local bodies as stated in Chapter-VI. The needs of Peri Urban Panchayats towards SWM be met specifically from this fund.**

v) **The vertical sharing ratio between rural and urban local bodies be 56 : 44.**

vi) **The vertical sharing ratio between the tiers of PRIs shall be 8 : 32 : 60 for District Panchayats, Panchayat Unions and Village Panchayats respectively.**

vii) **10% from out of the devolution for rural local bodies be allocated towards Infrastructure Gap Filling Fund. The IGFF be utilized on project/scheme basis only.**

viii) **The minimum lumpsum grant to Village Panchayats be increased from Rs.3.00 lakh to Rs.5.00 lakh per Panchayat. This amount has to be deducted from the rural share of 60% of SFC devolution intended for Village Panchayats and be deducted as the first charge and distributed to all Village Panchayats on monthly basis. The balance amount from out of the share of Village Panchayats in the SFC devolution be distributed on the horizontal sharing ratio suggested below.**

a)	**Total population (2011 Census)**	**: 60%**
b)	**SC/ST population**	**: 20%**
c)	**Area**	**: 20%**

ix) **The minimum lumpsum grant of Rs.30.00 lakh to Panchayat Unions be continued for the award period.**

x) **The vertical sharing ratio between the tiers of ULBs shall be 40 : 29 : 31 for Municipal Corporations, Municipalities and Town Panchayats respectively.**

xi) **For horizontal sharing of SFC devolution within each tier of ULBs, the following criteria and weightages be adopted:**

a)	**2011 Census population**	**:**	**80%**
b)	**Area**	**:**	**15%**
c)	**Debt outstanding**	**:**	**5%**

xii) **The percentage of IGFF for each tier of ULBs be increased from 3% to 7%. Debt relief to 41 Municipalities and 3 Municipal Corporations as discussed in Chapter-V also be met from this fund.**

xiii) **The percentage of O&M GFF for each tier of ULBs be increased from 2% to 3%.**

xiv) **The minimum lumpsum grant for Town Panchayats be increased from Rs.10.00 lakh to Rs.20.00 lakh.**

xv) **From the vertical share of SFC devolution recommended for rural and urban local bodies, 2.5 percent be allocated as a separate corpus for incentive fund from SFC devolution. From out of the corpus, the incentive be given to the local bodies as detailed below:**

- **Local bodies which record 100% current collection in house/property tax and 75% arrear collection with increase in the collection at 15% over the previous year will be qualified to get an incentive as graded below:**

		100% of demand subject to a maximum of
(a)	Village Panchayats	Rs.2.00 lakh
(b)	Town Panchayats	Rs.10.00 lakh
(c)	Municipalities	Rs.20.00 lakh
(d)	Municipal Corporations	Rs.50.00 lakh

The following conditionalities also be prescribed for getting the incentive:

- **Enumeration of properties every year and to be certified by the Deputy BDO (Audit)/RDMA/AD (TPs).**

- **General revision should have been done in the past 5 years.**

xvi) The cash award be given to the local bodies at the District and State level also. At the District level 3 cash awards of Rs.3.00 lakh, Rs.2.50 lakh and Rs.2.00 lakh be given for the first 3 Village Panchayats which fulfill the conditionalities and qualify for getting the incentive mentioned in Para.25(i). The awards be given by the District Collectors. Similar awards also be given at the State level for the Village Panchayats as mentioned in para.25.(ii), with cash of Rs.10.00 lakh, Rs.7.50 lakh and Rs.5.00 lakh for the first 3 local bodies respectively. At the State level, the cash award for ULBs be given for the first 3 Municipal Corporations, Municipalities and Town Panchayats as detailed below:

S.No	Tier of ULBs	Cash award (Rs. in lakh)		
		First	Second	Third
1)	Municipal Corporations	100.00	75.00	60.00
2)	Municipalities	50.00	40.00	30.00
3)	Town Panchayats	40.00	30.00	20.00

xvii) Balance in the incentive fund be transferred to IGFF.

xviii) As and when Goods and Services Tax is implemented, the GST loss compensation if any received from Government of India also be shared with the local bodies in the global sharing ratio. The local taxes/surcharges related to local bodies be excluded from the purview of State GST as and when GST is implemented.

CHAPTER-XII

RECORDING OF BEST PRACTICES

> *You get the best efforts from others not by lighting a fire beneath them, but by building a fire within.*
> **-Mac Anderson**

XIII FC made a study on the best practices and identified a number of best practices which could be emulated by local bodies in the States. XIII FC recommended a template for the preparation of SFC report in an uniform pattern throughout the country which necessitates all the States, among others to record best practices in local bodies of their States and to recommend for adoption by other local bodies.

2) Para 3 (b) of the TOR requires the Commission to review the measures needed to improve the financial position of the local bodies and to suggest possible new avenues for tapping resources in rural and urban local bodies. Best practices are essentially certain broad guiding principles embodied in certain physical activities of any Government / Institutions, etc. Such useful principles even from practices not in use any more or left incomplete have to be picked up and avenues for sustainable replication in other areas have to be explored. With this objective in mind, the Commission interacted with district level officials and made field visits so as to identify the best practices prevailing among local bodies. The Commission took note of best practices in certain rural and urban local bodies which resulted either in saving or augmenting the resources and which would fetch the same results, if replicated in other local bodies. The Commission also noted best practices in terms of planning and execution of infrastructure projects among the local bodies.

3) In pursuance of the template of XIII FC as well as the TOR issued to the Commission, the best practices witnessed by the Commission during its field visits in Tamil Nadu and other States are listed and recorded below for adoption by local bodies:

RURAL LOCAL BODIES

VILLAGE PANCHAYATS:

Pethureddipatti – Supply of mineral water:

In Pethureddipatti Village Panchayat of Sattur Panchayat Union in Virudhunagar District, Reverse Osmosis plant has been erected at an estimated cost of Rs.4.00 lakh by utilizing the ‘Uthamar Gandhi Award’ for 2007-08 received by the Panchayat President. The plant is functioning with effect from 05-06-2010. 20 litres of mineral water is being sold at Rs.2/- to the public and thereby an amount of Rs.10,000/- is earned by the Panchayat per month. This project saved the people of Pethureddipatti from health hazards owing to sulphate content of the ground water and at the same time provided safe drinking water to the public at a lesser cost.

Vilachery – Efficient Water Management:

In Madurai District, the neighbouring Thiyagarajar College of Engineering adopted Vilachery Village Panchayat and prepared the maps of the water pipelines of this Village so as to detect link lines of water supply, excess flow of water and also the places which require valves and which has resulted in efficient water management.

TWAD is said to supply 90 kilo litre of water at the rate of Rs.3.50 per kilo litre to Vilachery Village Panchayat. As per the rate, the average monthly water charges to be paid to the TWAD was Rs.9,400/-. Since the meter was not properly working, TWAD accounted for 90 kilo litre per day at an average and calculated the bill on water charges. The Panchayat President insisted that the tank with the capacity of 90 kilo litre should be filled up every day and the water meter repaired. Accordingly, she paid only lesser water charges, after the faulty meter was rectified.

Energy saving exercise:

Out of 272 street lights available in the Panchayat area, 110 street lights were fitted with CFL lights during the year 2009. The EB bill paid prior to the installation of CFL lights was Rs.1.05 lakh and the same after installation was Rs.90,000/-. Thus the saving for 2009-10 in this regard was Rs.15,000/-

Pongalur – Village Health Centre:

In Pongalur Village Panchayat, V.Vavipalayam Panchayat Union, Tiruppur District, under Clean & Green Village initiative called "Valamigu Vavipalayam-2010", Village Health Centre was established at a cost of Rs.48 lakh with public contribution and without any assistance from State Government.

Thaniyamangalam – Deep bore well using GIS

A deep bore well was installed at Thaniyamangalam, Melur block at a cost of Rs.0.85 lakh by identifying the exact site for water potential through remote sensing by Geologists. The deep bore wells installed adjoining this particular bore well without using GIS technology failed in extracting water.

Deep bore well installed at Thaniyamangalam, Melur block, Madurai District through remote sensing

Mudichur - Solid Waste Management:

Mudichur Village Panchayat closer to Tambaram Municipality in Kancheepuram district is a role model in Solid Waste Management. With the sanction of Collector's discretionary fund of Rs.4.35 lakh, they have established a dumping yard at Indra Nagar to convert the organic waste into manure. A tractor was purchased from the fund received (Rs.8.00 lakh) from CMDA. After initiating at source collection and segregation of solid wastes, the District Collector encouraged the Panchayat by sanctioning another installment of Rs.20.00 lakh. Adding own source of Rs.6.00 lakh, the Village Panchayat extended the facilities to all the wards. The unit was managed by the NGOs 'Hand in Hand' and 'SEED'. The ward members and SHG members are playing a major role in spreading the awareness among the public.

Of the total number of 4163 households in the Panchayat, about 60 per cent of the households participate in the garbage removal scheme. The garbage is collected from the households directly for a service charge of Rs.30/- per month. Nearly 24 green friends, 2 watchmen, 1 tractor driver and 3 supervisors are involved in this activity. Every day, around 800 Kgs of organic waste is collected. The shops and hotels are charged at the rate of Rs.50/- and Rs.100/- per month respectively for collecting the wastes. The Panchayat is selling the compost at the rate of Rs.10 per Kg.

The residents of the Village formed an 'Environment Rights Protection Committee' for the effective implementation of Solid Waste Management Programme and to take over the function of the NGO from October 2011.

URBAN LOCAL BODIES

Coimbatore Municipal Corporation

i) Leveraging advertisement rights to create public infrastructure:

(a) Foot path

A tiled footpath on the sides of race course road has been formed by a private company with its contribution of Rs.2.50 crore along with own funds of Rs.20.00 lakh by the Coimbatore Municipal Corporation. The length of the foot path runs to 2 ½ km. A net revenue of Rs.15.00 lakh is earned by the Corporation through licensing for small advertisements placed in the median adjoining the footpath. This is a good example of private participation in creation of public infrastructure.

(b) Bus Shelters

High class bus shelters with stainless steel rods and chairs have been built in 4 Zones of Corporation at a cost of Rs.15 crore by private companies. The companies have been given advertisement rights in the bus shelters. Coimbatore Corporation earns Rs.2 crore per annum through advertisement tax from this initiative. Thus, a public infrastructure is created and revenue is also generated by leveraging advertisement rights on a concession for a three year period.

ii) Model Transfer Station for solid wastes at Peelamedu:

The Integrated Solid Waste Management project at Peelamedu estimated at a cost of Rs.96.51 Crores is being implemented under the JNNURM. The Corporation is implementing the project with the funding pattern of 50% grant from the Government of India, 20% grant from the Government of Tamil Nadu and 30% from its own source. The project is being implemented by the Corporation in two parts. Part-I of the project, comprising source segregation of waste, primary collection, secondary collection and transportation of segregated waste up to the transfer stations is being implemented by the Corporation itself at a cost of Rs.26.91 crores. Part-II of the project comprising the component works beyond the transfer stations namely construction of 4 Modern Transfer Stations, secondary transportation of waste up to the processing site (Compost Plant/Disposal site (Sanitary Landfill facility), construction of Compost Plant, Construction of Sanitary Landfill facility including closure of the 3 existing dumpsites is being implemented through PPP arrangements at a cost of Rs.69.90 crores.

Integrated modern solid wastes transfer station at Peelamedu, Coimbatore.

The solid wastes collected by the Corporation staff in the wards are transported to the transfer station by means of dumper placers, refuse collectors, compactor vehicles. The waste deposited at the transfer station are compacted by means of stationery compactor bins and thereafter transported to the waste processing/disposal facilities constructed at Vellalore by means of Hook Loader trucks. The benefit accrued in resorting to a waste transfer station is that the number of trips made by the dumper placers, refuse collectors, compactor vehicles has been increased from 3 trips to 6 trips in a day. Since the secondary transportation is performed in closed bins, there is no spillage of waste due to transportation.

iii) Modernised Fish Market

The modernized fish market is situated in Ukkadam which is a prime location of Coimbatore city. The market occupies 90 cents of construction site.

The market is constructed at a cost of Rs.137 lakhs. The market has a total of 68 shops sized 10' x 10' with a common cold storage room which helps to keep the fishes preserved for a long time. Platforms have been made in each shop to display the fishes. Water supply, electricity and drainage facility is unique in each shop and has been provided in a proper way. The market has lavatories for the shop keepers.

Separate cutting shed of size 100' x 10' has been constructed to cut the fishes. Here too, water supply and drainage facilities are provided in a proper manner.

Modern fish market at Ukkadam, Coimbatore.

An effluent treatment plant is in place to collect and process the waste water discharged from the shops and the cutting shed.The fish market also houses a spacious parking lot and with such features it is a unique one in the city.

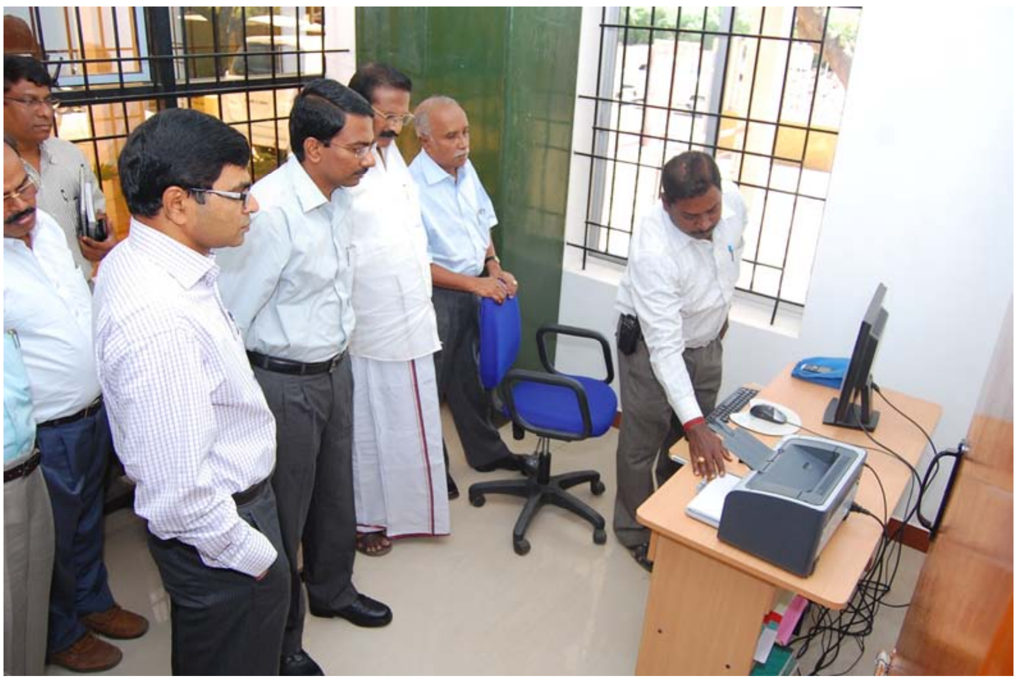
Revenue generated by way of auctioning the shops in fish market is Rs.3,60,293/- per month, which will result in a payback period of three years for the investment.

iv) Modern Sanitary Inspector Ward Office, Kempatti Colony

A modern Sanitary Inspector Ward Office was constructed in Kempatti Colony by the Corporation. The main purpose of the new ward office is to give elegant, healthy and refreshing environment to the workers and to facilitate easy accessible service to the people.

The ward office building was constructed at a cost of Rs.36 lakhs with the construction area of 1,850 sqft in ground floor and 750 sqft in first floor.

The Ward office also issues Birth and Death Certificates online. ISO 2009 Certificate has been issued to this Ward Office.



Field visit to modern sanitary inspector ward office at Kempatti Colony, Coimbatore.

v) West Zone HDFC Bank – Tax Collection Centre, R.S.Puram

There are 4 Zonal Offices established by HDFC and 12 collection centers are there for the collection of taxes. HDFC deals with all transactions through online. The total revenue collection dealt with by HDFC is Rs.29.00 lakh per month. Since the staff deployed/outsourced by HDFC are dealing with web based transactions, no commitment on collection staff is borne by the Corporation. HDFC is also planning to reduce the overhead expenditure. Coimbatore Corporation saves Rs.60.00 lakh per annum towards the salary of collection staff.

vi) New Bus Stand at Mettupalayam Road

A new modern 25 bays 'B' Class Bus Stand with all facilities like cloak room, food court, air conditioned rest room, modern toilets, parking yard, mother's feeding room, windmill, etc. was constructed at Sanganoor Village in 3.009 acres extent along Mettupalayam Road at an estimated cost of Rs.700.00 lakh by the Corporation to prevent the traffic congestion of north bound buses i.e Mettupalayam, Coonoor, Ooty, Kothagiri, Kundha and Gudaloor in the city and in Gandhipuram Central Bus Stand. ISO Certificate has been awarded to this bus stand.

New bus stand constructed with modern facilities at Mettupalayam Road, Coimbatore

POLLACHI MUNICIPALITY:

Best practices in the delivery of Services:

i) Street Lights:

(a) Privatization:

Maintenance of street lights is privatized. Before privatization, the average maintenance cost including employees' salary and vehicle maintenance was Rs.29.30 lakh per annum. But after privatization, the maintenance cost is Rs.9.83 lakh only resulting in a saving of Rs.19.47 lakh per annum.

(b) Energy savings:

Prior to energy saving exercise done by Pollachi Municipality, there were 30 numbers of street lights with 125 watts MVL fittings and 90 street lights with 250 watts MVL fittings consuming 114975 units of energy per year costing Rs.4.02 lakh per year. After erecting 120 Nos. of CFL lights the energy consumption was 37843 units costing Rs.1.32 lakh per year thus the Municipality saved Rs.2.70 lakh per year.

ii) Water Supply:

Energy audit was undertaken in the headwork of Water Supply Improvement Scheme. Three old pump sets were replaced with high efficiency pumps. Now, after source augmentation, the water supply to the town is 13 MLD with 135 LPCD comparatively higher than the previous status of 9.70 MLD with 90 LPCD. Previously, 1368 litres of water were distributed per unit of power consumption. After completion of energy audit, it was 1625 litres per unit. This improved the delivery of services as well as increased the non-tax revenue of the Municipality.

iii) Solid Waste Management

The total strength of sanitary workers required as per norms is 450 and the posts sanctioned was 308, of which the posts filled up at present are 221 only. The maintenance of Compost yard is outsourced to Sivasakthi Environmental Improvement Trust thereby the Municipality saved the manpower to the extent of 50 sanitary workers who are diverted for other civic works and also saved salary expenditure of Rs.72.00 lakh per annum, through outsourcing.

Moreover, this Trust is giving royalty for the garbage at Rs.25/- per tonne to the Municipality. During the current year, the Municipality received Rs.26,500/- as royalty and lease rent of Rs.7,900/- till October 2010.

The deficit in the number of sanitary workers is also managed by engaging Women Self Help Groups (70 numbers) on temporary basis in Solid Waste Management activities. If the solid waste management activities are done by the 87 permanent sanitary workers of the Municipality, the cost of salary would be approximately Rs.125.28 lakh per annum. The expenditure towards wages given to SHGs is approximately Rs.20 lakh per annum. Hence, excluding the wages given to SHGs, the Municipality saves more than Rs.1.00 crore per annum through outsourcing the sanitation activities to SHGs.

iv) Underground Sub-way near Bus Stand

An underground Sub-way near Bus Stand was constructed by the Municipality at a cost of Rs.40.00 lakh of which Rs.25.00 lakh was met from Traffic Improvement Scheme under Town and Country Planning Fund and Rs.15.00 lakh was contributed by the Municipality.

Subway constructed by Pollachi Municipality

It is rare among Municipalities to conceive such a concept and to go in for such projects to ease traffic congestion.

v) New Bus Stand:

A new Bus Stand has been constructed by the Municipality at an estimated cost of Rs.175.00 lakh of which Rs.157.50 lakh was met from loan and Rs.17.50 lakh from General Fund of the Municipality. The Bus Stand is having 35 shops through which Rs.19.00 lakh per annum is earned by the Municipality.

New bus stand constructed by Pollachi Municipality from own funds and loan.

vi) Modern School Building:

A new modern school building (Municipal Girls Higher Secondary School) equivalent to a college in terms of infrastructure has been constructed by the Municipality at an estimated cost of Rs.8.47 crore (Elementary Education Fund - Rs.5.32 crore, E.T fund - Rs.2.00 crores, Government grant - Rs.0.95 crore and MLA fund - Rs.0.20 crore). There is proper utilization of Education tax collected along with property tax to meet the cost of infrastructure. This is one of the best assets of the Municipality and got the ISO 9001 : 2008 Certificate. The school building is having a separate administrative block, academic block and sophisticated laboratories, a large library with proper landscaping on both front and back sides of the school.

Municipal Girls higher secondary school, Pollachi.

Municipal Girls higher secondary school library, Pollachi.

Thudiyalur Town Panchayat:

The Town Panchayat has taken commendable efforts in energy saving exercise. The total number of street lights are 1905 and the EB connections for those street lights are 132. Energy saver CFL lights have been fitted in all the connections in a phased manner and the total expenditure for this was Rs.26.56 lakh. The E.B. bill of the Town Panchayat prior to energy saving exercise was Rs.9.58 lakh and the same after fitting energy savers was Rs.4.68 lakh thereby saving Rs.4.90 lakh per annum.

The first electric Crematorium has been created in this Town Panchayat under Namakku Naame Thittam. Rs.750/- is charged for the usage and 410 persons utilized the Crematorium in one year.

For Solid Waste Management, 'Hand-in-hand', a prominent NGO is involved and the ITC Limited collects all plastic wastes for recycling. 320 Kg of solid wastes are collected per day and organic manure at 3 tonnes produced per month and sold to farmers at Rs.3/- per Kg. 26 permanent employees and 43 Self Help Group members are involved in solid waste management activities. Rs.70/- per day is given as wage to SHG members.

Vermi compost yard at Thudiyalur Town Panchayat.

The plastic wastes are segregated and fed into machines and the molten plastics are used in the preparation of elbow of water/electric pipes through machines.

Plastic waste recycling unit at Thudiyalur Town Panchayat.

BEST PRACTICES IN OTHER STATES:

KARNATAKA:

- Maintenance of accounts through Double Entry Accounting System in Gram Panchayats with the assistance of Chartered Accountants.

- Bruhat Bangalore Mahanagara Palike has completed GIS Mapping of all properties within its limits.

- Rebate at 5% of Property tax to assessees who pay Property tax on or before the end of April and interest at 2% per month levied for belated payments.

- Water tariff revised once in 3 years and in case of hike in power tariff, the water tariff also gets revised.

- Adoption of accounts formats as prescribed in the National Municipal Accounting Manual by Municipalities.

- Lok Ayuktha looks into the complaints of corruptions and maladministration against the functionaries of local bodies.

- Vehicles used for Solid Waste Management are provided with GPS so as to monitor the movement of vehicles from collection point to disposal point.

- Slaughter house wastes are used as manure in various parks of Mysore City Corporation.

- Levy of Solid Waste Management Cess along with Property tax.

- Social technical and financial audit are conducted in the month of August during local body Jamabandhi.

- Successful implementation of GIS in Maddur Town Municipal Council which has resulted in increase in the property tax revenue by 100%.

- Levy of Vacant site tax (non-agricultural) in Gram Panchayats.

ANDHRA PRADESH:

- Hyderabad Municipal Corporation is now using mobile phones on the Global Packet Radio Services (GPRS) to carry out real-time monitoring of services such as solid waste management, street lighting and sanctioning building permits. GPRS technology allows cell phones capture real-time images of sanitary workers employed in the collection of garbage and the technology facilitates monitoring the clearance of more than 4000 garbage bins by 16,000 workers by the Contractor and thereby increasing the transportation of garbage from 76% to 98% and the worker attendance from 85% to 95%.

Source: Report on Indian Urban Infrastructure and Services, MoUD

MAHARASHTRA:

Nagpur – Curbing illegal water connections:

- Nagpur Municipal Corporation faced a huge loss in 2001 due to 18,000 unauthorized water connections which resulted in wastage and acute water shortage. The Corporation planned to regularize such connections and engaged 200 plumbers in the job of deducting illegal connections. For every illegal connection identified, a monetary incentive Rs.50 to Rs.100 was given to the plumbers by the Corporation. The public were instructed to buy only standard meters from approved manufactures. Within a period of four months applications from all the unauthorized connections were received and such connections regularized by the Corporation. This resulted in a substantial increase in the water tax revenue.

Source: Report on Indian Urban Infrastructure and Services, MoUD

KERALA:

Adaat Gram Panchayat

Puzhakkal Tourism Village, a land area with estuary water is rented to private party by the Panchayat wherein boating services are done by the private party. Panchayat is earning rent and Entertainment Tax from the private party.

Kumuli Gram Panchayat

The Own Revenue of Kumuli Panchayat for 2004-05 was Rs.23 lakh only which was very minimum and the property tax was not tapped at its maximum potential. Realizing this, the Panchayat President formed committees to list out the various categories of properties and to recommend differential rates of property tax for different properties. He thwarted a lot of problems which arose while adopting the differential rates for property taxation. As a result, one assessment which fetched Rs.4017/- only as property tax now pays Rs.3 lakh as tax. For a resort, the property tax was revised from the earlier Rs.25,000/- to Rs.5/- lakh now. This was as a result of negotiations held with the agitated assessees who had to pay huge demand.

The Bus stand fees were revised from Rs.33,380/- to Rs.65,000/- now and the rates of other license fees were also revised at optimum level.

He organized a ‘Clean Kumuli Project’ under which Solid Waste Management activities were done through a society formed for the purpose. To educate the public on the need for Solid Waste Management, he conducted several seminars. As a result, the resorts are paying Rs.1,500/- per month for garbage cleaning to the Panchayat. The residents pay Rs.30/- per month and hotels pay Rs.1,000/- per month for this purpose. For 2009-2010, Rs.2.00 lakh was collected from this source. He stated that the public are evincing interest in revising the user charge further.

As a result of all such activities, the own revenue of the Panchayat increased from Rs.23 lakh in 2004-05 to Rs. 179 lakh in 2009-10.

Nedumbaserry Gram Panchayat

The Panchayat is maintaining their Annual Financial Statement in the uniform accounting formats prescribed by C&AG and recommended by Eleventh Central Finance Commission. Information Kerala Mission computerized all the accounting activities of the Panchayat.

The allocation of 10% of Plan outlay for the economic upliftment of women and poor by this Panchayat is reported by KILA as a best practice for which the Panchayat was awarded by the State/Central Governments.

Guruvayur Municipality

Building permission is issued by the Municipality and after completion of construction, Occupancy certificate is issued to the individual by the Municipality which is essentially required to get the permanent EB connection by the owner of the building. A copy of this Occupancy certificate is also sent to Revenue wing of the Municipality to bring the building under tax net.

4) Majority of the best practices listed above is concentrated in the areas of resource mobilization and outsourcing of civic activities. It is clear that the above best practices in terms of resource mobilization and service delivery are in the realm of possibility.

5) The Commission recommends that the best practices listed below be implemented in all the local bodies wherever feasible for which the HODs concerned shall encourage the local bodies by honoring them with District / State level awards and also allocate incentive from the SFC devolution for the adoption of best practices which would increase the size of the own revenue significantly and improve delivery of services as explained in the relevant chapter.

i. **Enumeration of properties / persons to be assessed for taxation, every year.**

ii. **Switching over from capital value based house tax to plinth area basis.**

iii. **General revision of house tax once in 5 years.**

iv. **Avoidance of under/non-assessments of house tax.**

v. **Foolproof assessment of self employed professionals, traders and private companies/employees for Profession Tax.**

vi. **Finalization of accounts within the stipulated time.**

vii. **Revision of water charges periodically.**

viii. **Water charges to meet at least 50% of O&M cost of water supply.**

ix. **Involvement of SHGs/NGOs/Trusts/Resident Welfare Associations to participate in the Solid Waste Management and Green Environment activities.**

x. **Conversion of street lights into energy saver CFL lamps.**

xi. **Regularization of illegal water connections and metering all unmetered water supply connections.**

xii. **Encouraging Public Private Participation in the creation of public infrastructure especially in RLBs.**

xiii. **Outsourcing tax collection through banks/online especially in ULBs.**

xiv. **Privatisation of the maintenance of street lights.**

xv. **Energy audit in civic services such as street lighting and water supply.**

xvi. **Identification and listing of common property resources vested with Panchayats and making them productive for revenue generation.**