



## Report of Second State Finance Commission



May 2001





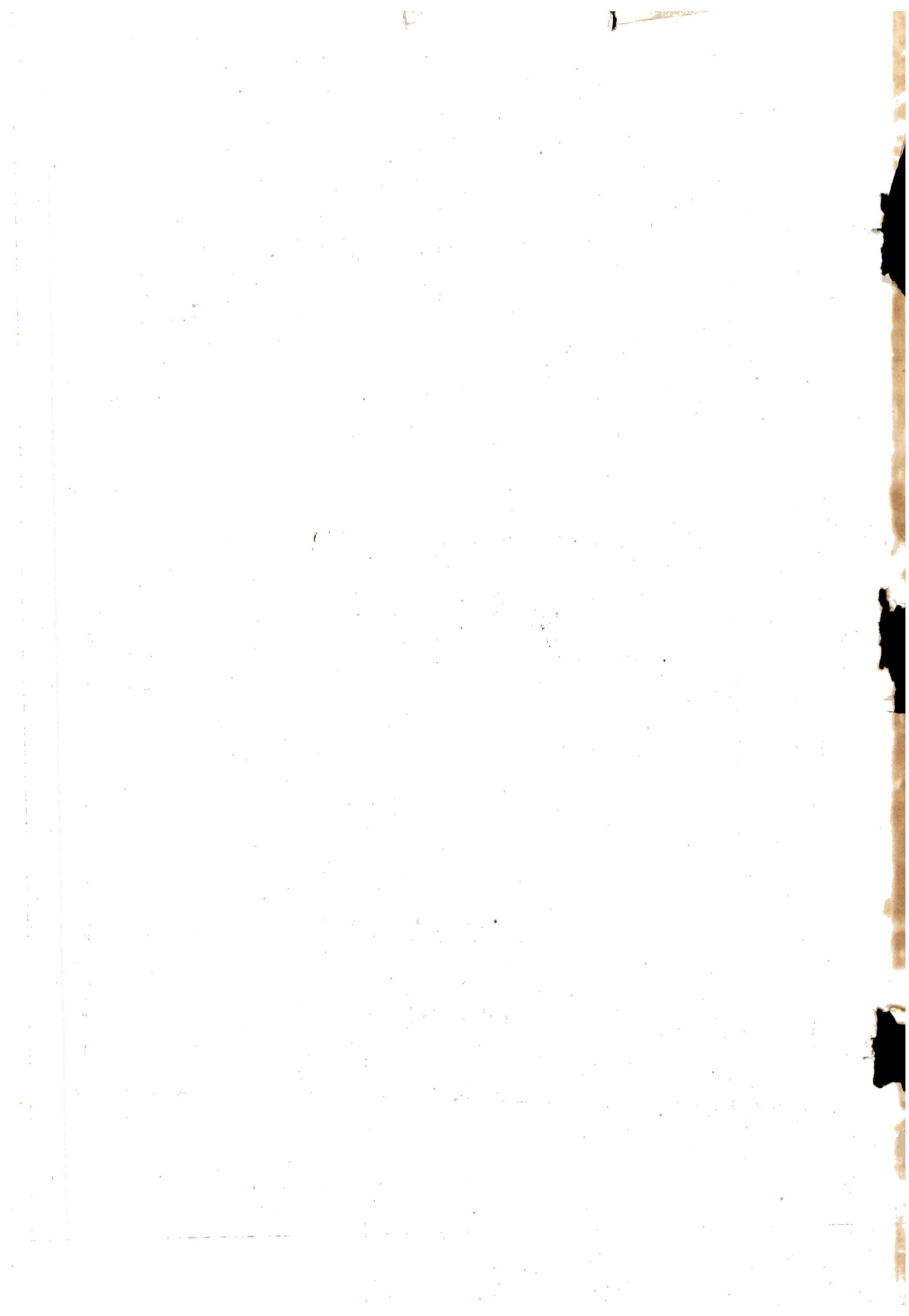
**Report & Recommendations of  
Second State Finance Commission  
Tamil Nadu**

**2002 – 07**

**May 2001**

**VOLUME - I**

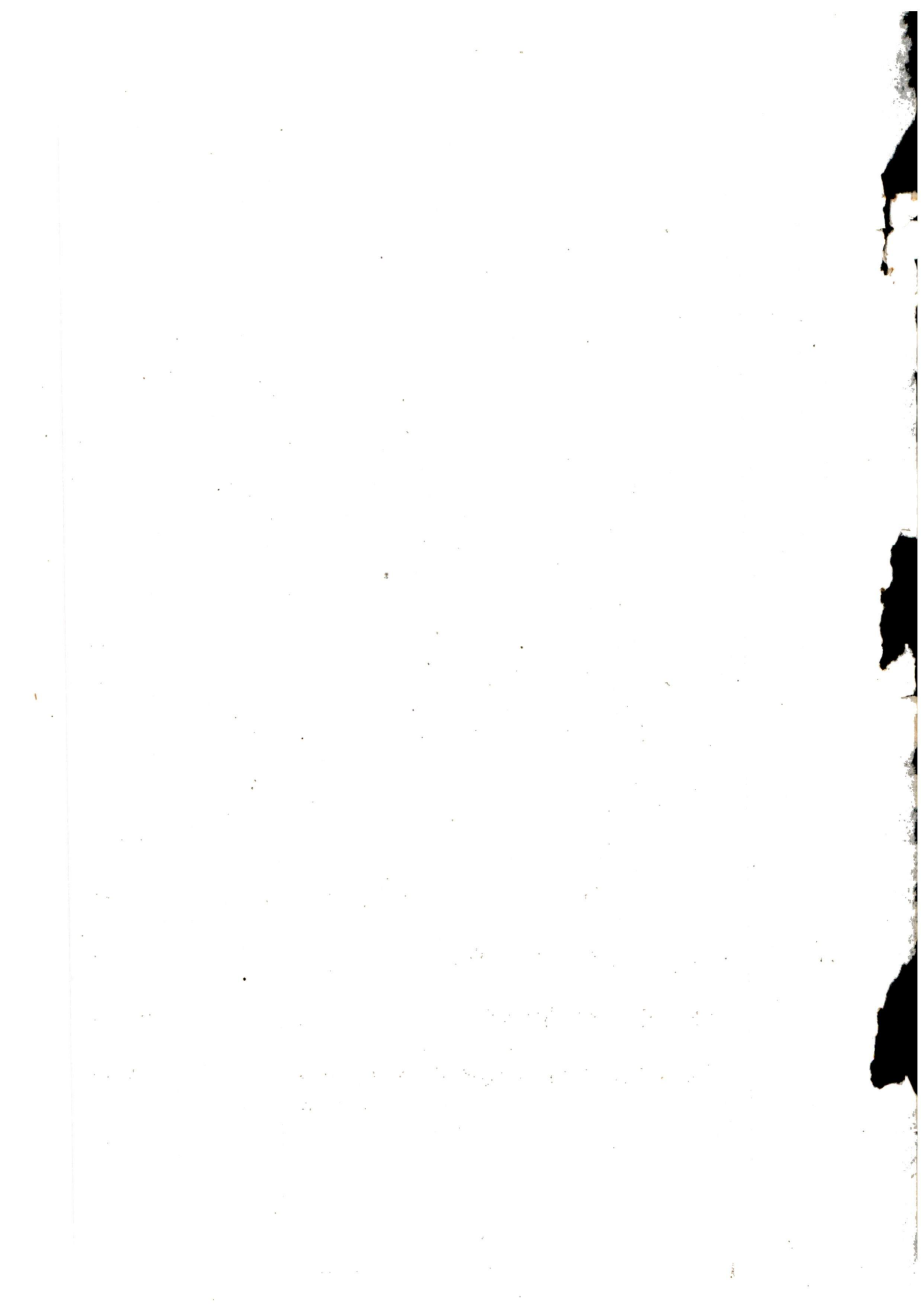




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**TAMIL NADU SECOND STATE FINANCE COMMISSION**

Under Article 243 I (1) and 243 Y (1) of the Constitution of India, Section 198 of Tamil Nadu Panchayats Act 1994, and relevant provisions under Municipal Corporations' Acts, District Municipalities Act and in terms of the notification issued in G.O.Ms.No.103 Finance (Resources) Department dated 3-3-2000, the Tamil Nadu Second State Finance Commission in its meeting held on 17-4-2001 resolved to accept and adopt the final report for presentation to the Governor of Tamil Nadu.

*Sukavaneshvar*  
**SUKAVANESHVAR** 17.4.2001  
(CHAIRMAN)

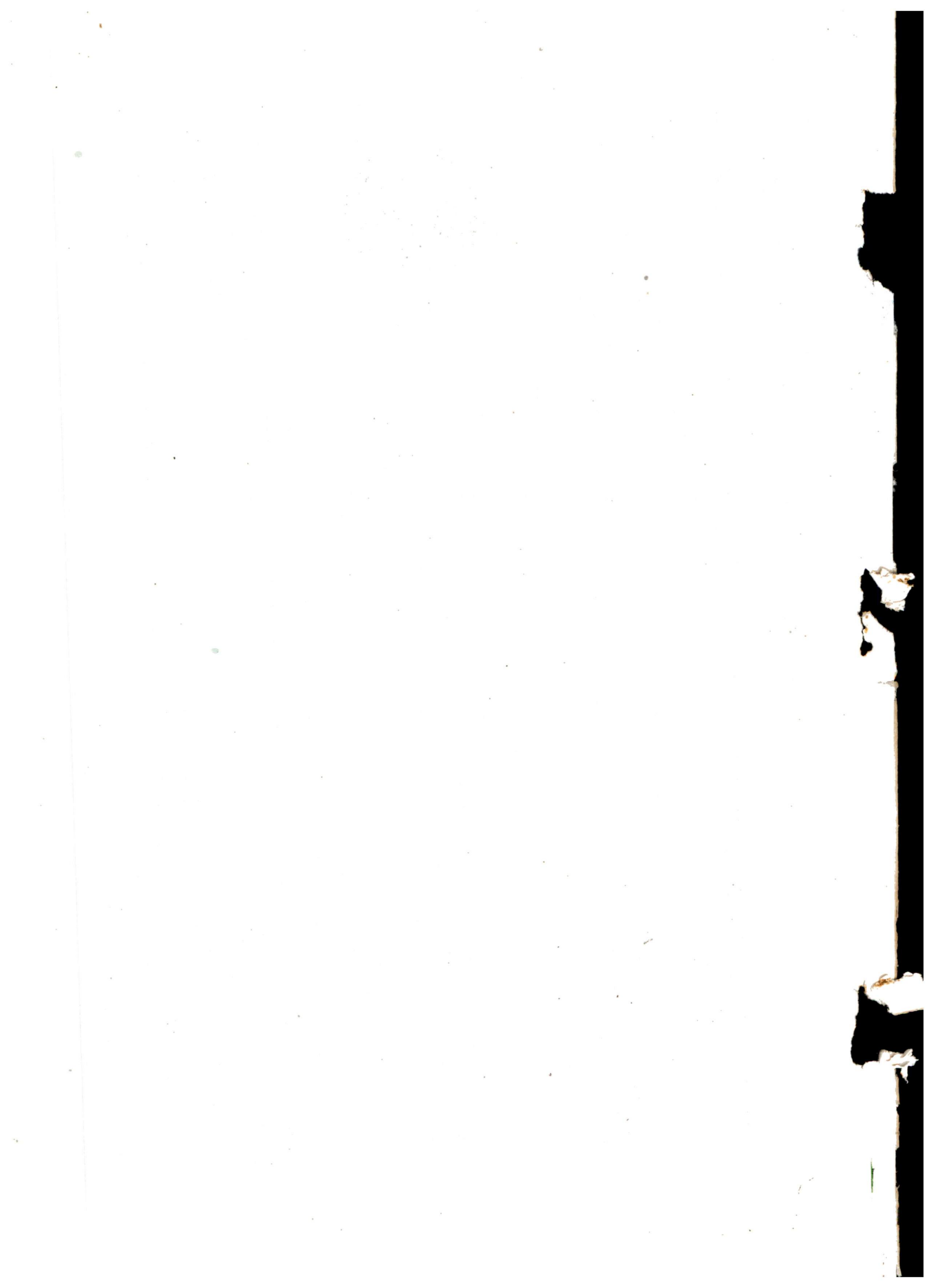
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(Commissioner of Municipal Administration)

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**K.SHANMUGAM**  
(Commissioner of Rural Development)

*B. Anand*  
**B.ANAND**  
(Member-Secretary)





## ABBREVIATIONS

AEE	- Assistant Executive Engineer
AG	- Accountant General
AR	- Assigned Revenue
ARV	- Annual Rental Value
ASC	- Additional Surcharge
BOO	- Build, Operate and Own
BOOT	- Build, Operate, Own and Transfer
BOT	- Build, Operate and Transfer
BT	- Black Top
CAM	- Commissioner for Agricultural Marketing
CD	- Community Development
CE	- Chief Engineer
CENTRE	Central Government
CFC	- Central Finance Commission
CGM	- Chief General Manager
CMA	- Commissioner of Municipal Administration
CMA	- Chennai Metropolitan Area
CMDA	- Chennai Metropolitan Development Authority
CMWSSB	- Chennai Metropolitan Water Supply and Sewerage Board
CRD	Commissioner of Rural Development
CRISIL	- Credit Rating Information Services of India Limited
CT	- Commercial Taxes
CV	- Coefficient of Variation
D&O Trade	- Dangerous and Offensive Trade
DA	- Dearness Allowance
DGM	- Director of Geology and Mining
DLFA	- Director of Local Fund Audit
DP	- District Panchayats
DPC	- District Planning Committee
DRDA	District Rural Development Agency
DTCP	- Director of Town and Country Planning
DTP	- Director of Town Panchayats
EAS	- Employment Assurance Scheme
EFC	- Eleventh Central Finance Commission
EO	- Executive Officer
ET	- Entertainment Tax
EXNORA	- Excellence Novel Radical
GDC	Government Data Centre
GOG	- Government of Gujarat
GOI	- Government of India
H&RW	- Highways and Rural Works
HDFC	- Housing Development and Finance Corporation
HH	- House-holds
HP	- Hand Pump
HP	- Horse Power
HSC	- House Service Connection
HUDCO	- Housing and Urban Development Corporation
ICICI	- Industrial Credit and Investment Corporation of India



ICRA	-	Investment Information and Credit Rating Agency
IDFC	-	Infrastructure Development Finance Company Limited
IDSMT	-	Integrated Development of Small and Medium Towns
IGR	-	Inspector General of Registration
IIT	-	Indian Institute of Technology
ILFC	-	Industrial Leasing Finance Corporation
IMFL	-	Indian Made Foreign Liquor
INTACH	-	Indian National Trust for Art and Cultural Heritage
IRDP	-	Integrated Rural Development Programme
JE	-	Junior Engineer
JVVT	-	Jawahar Velai Vaippu Thittam
Km.	-	Kilometre
LBs	-	Local Bodies
LC	-	Local Cess
LCS	-	Low Cost Sanitation/ Local Cess Surcharge
LF	-	Local Fund
LIC	-	Life Insurance Corporation
LPCD	-	Litre Per Capita per Day
LR	-	Land Revenue
LRG	-	Local Roads Grant
MC	-	Municipal Corporations
MIDS	-	Madras Institute of Development Studies
MLA	-	Member of Legislative Assembly
MLALADP	-	Member of Legislative Assembly Local Area Development Programme
MLD	-	Million Litres Daily
MoU	-	Memorandum of Understanding
MP	-	Member of Parliament
MPLADP	-	Member of Parliament Local Area Development Programme
MUDF	-	Municipal Urban Development Fund
MVT	-	Motor Vehicle Tax
NA	-	Not Available
NGO	-	Non-Governmental Organisation
NICNET	-	National Informatics Center Network
NIPFP	-	National Institute of Public Finance & Policy
NIUA	-	National Institute of Urban Affairs
NMP	-	National Master Plan
NMR	-	Non Muster Roll
NPCB	-	National Pollution Control Board
NREP	-	National Rural Employment Programme
NRY	-	Nehru Rojgar Yojana
NSDP	-	National Slum Development Programme
NSS	-	National Service Scheme
NTADCL	-	New Tiruppur Area Development Company Limited
O&M	-	Operation and Maintenance
OR	-	Own Revenue / Operating Ratio
PAC	-	Public Accounts Committee
PC	-	Planning Commission
PD	-	Panchayat Development
PDS	-	Public Distribution System
PF	-	Provident Fund

PMGSY	-	Pradan Mantri Gram Sadak Yojana
PO	-	Project Officer
PRI	-	Panchayat Raj Institutions
PUC	-	Panchayat Union Council
PUs	-	Panchayat Unions
PWD	-	Public Works Department
RCC	-	Reinforced Cement Concrete
RE	-	Revised Estimate
RILS	-	Recovery in Lieu of Surcharge
RLEGP	-	Rural Landless Employment Guarantee Programme
RWH	-	Rain Water Harvesting
SC	-	Surcharge
SJGY	-	Swarna Jayanthi Gram Yojana
SJSRY	-	Swarna Jayanthi Sahari Rojgar Yojana
SP	-	Stand Post
SPC	-	State Planning Commission
SSFC	-	Second State Finance Commission
ST	-	Sales Tax
SVL	-	Sodium Vapour Lamps
SWM	-	Solid Waste Management
TNAct	-	Tamil Nadu Act
TNAU	-	Tamil Nadu Agricultural University
TNEB	-	Tamil Nadu Electricity Board
TNGST Act	-	Tamil Nadu General Sales Tax Act
TNHB	-	Tamil Nadu Housing Board
TNP Act	-	Tamil Nadu Panchayats Act
TNPCB	-	Tamil Nadu Pollution Control Board
TNSCB	-	Tamil Nadu Slum Clearance Board
TNSFC	-	Tamil Nadu State Finance Commission
TNUDF	-	Tamil Nadu Urban Development Fund
TNWSSP	-	Tamil Nadu Water Supply and Sewerage Project
ToSWS	-	Task Force on Sanitation and Water Supply
TPts	-	Town Panchayats
TUFIDCO	-	Tamil Nadu Urban Finance and Infrastructure Development Corporation
TUIFSL	-	Tamil Nadu Urban Infrastructure & Financial Services Limited
TWAD	-	Tamil Nadu Water Supply and Drainage Board
UBSP	-	Urban Basic Service Programme
UGD	-	Under Ground Drainage
ULB	-	Urban Local Body
VAT	-	Value Added Tax
VPC Fund	-	Village Panchayat Consolidated Fund
VPs	-	Village Panchayats
W I	-	Work Inspector
WBM	-	Water Bound Macadam
ZC	-	Zakaria Committee

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## CHAPTER - I INTRODUCTION

Two diverse trends were discernible the world over in the 1990's, globalization of the economies and localization of authority. The traditional approach of public finance economists to decentralization known as fiscal federalism, calls for a sub-national-Government structure with several tiers with each tier delivering those services that provide benefits to those residing in the jurisdiction. Experience shows that this approach, while useful, has some limitations and that Government should carefully develop the regulatory framework that allows for the sharing of the responsibilities. Local Bodies usually administer services that are location specific.

2. The structure of sub-national-authority in each democracy is of interest to our country as India is the largest democracy in the world. The USA and most countries in Western Europe have three tiers. For instance, the USA has Federal Government, 50 States, 39000 counties and Municipalities and 44,000 special purpose local authorities. Details are available in the Annexure (I.1). The question of, which tier of Government controls, which resources, is perhaps the thorniest issue of decentralization. First, sub-national-authorities need resource commensurate with their responsibilities.

Second, sub-national authorities need to operate under firm budget constraints so that they do not spend or borrow excessively in the hope of bail out.

3. In India, the local bodies did not have Constitutional status till 1992. Their powers were derived out of the laws enacted by the State Governments. The importance of conferring Constitutional status for the third tier of the Government had been debated right from independence but no headway was made till 1988. The 73<sup>rd</sup> & 74<sup>th</sup> Constitutional Amendment Acts 1992 mark a watershed in the history of local body administration in the country.

Prior to the enactment of the 73<sup>rd</sup> & 74<sup>th</sup> Constitutional Amendments, the Local Bodies in the State of Tamil Nadu were largely governed by the provisions of District Municipalities Act, 1920, Madras Panchayats Act, 1958, and Madras District Local Boards Act 1920 as amended in 1950. While the Urban Local Bodies administered by the District Municipalities Act 1920 had by and large attained the goal of local self-government, in the case of the Panchayats the Madras Village Panchayats Act (X of 1950) and the Madras District Boards Act (XIV of 1920) as amended in 1950 had clothed these Panchayats with adequate powers and they were truly local self-government, as contemplated in Article 40 of the Indian Constitution. The Madras Panchayats Act 1958 reformulated the Panchayat Raj Institutions set up with two-tiers replacing the district boards by advisory District Development Councils.

By the end of 1970's, most of the Local Bodies in various parts of the country were superseded due to one reason or other and the vibrant traditions of village republics were quietly allowed to fall in disuse and even in Tamil Nadu, after a very long time, elections to Local Bodies were held in 1986, after a gap of nearly sixteen years and again when the next elections were due in 1991, they were not conducted.

While all over the world the tendency was towards decentralization, in India alone, in practice till 1992, it was found that re-centralization was going on. Realizing that the country of continental dimensions such as India cannot be managed from New Delhi and various State capitals, the Government of India brought the Constitutional Amendment in the year 1991, which could not obtain the approval of the Parliament but ultimately buckled under pressure and eventually enacted 73<sup>rd</sup> & 74<sup>th</sup> Constitutional Amendment Acts in 1992 containing provisions which are diluted versions of what were originally contemplated in 1988 and 1991.

4. Thus, in this scenario, the Government of Tamil Nadu consequent to the enactment of 73<sup>rd</sup> & 74<sup>th</sup> Constitutional Amendment Acts, enacted the Tamil Nadu Panchayats Act 1994 and also made amendments to the District Municipalities Act 1920 and also in the Municipal Corporations Acts. It conducted the first election to the Local Bodies as per the 73<sup>rd</sup> & 74<sup>th</sup> Amendments in October 1996.



### Constitution Of Second State Finance Commission:

5. The institution of State Finance Commission was alien to our country. The Australian Commonwealth Government created commonwealth grants commission in 1933 to make recommendations to provide grants to the poorer states of the Australian federation to bring up certain essential public services to the level of those obtained in the richest state of New South Wales. This Commission was subsequently reclassified in 1973 as the Australian grants Commission. The framers of the Indian Constitution adopted the Australian model after obtaining a report from the study-team. The team recommended the creation of a Finance Commission in the Constitution. Accordingly the Indian Constitution conceived the Central Finance Commission, under Article 280 to make recommendations on the devolution of financial resources from the Central Government to the State Governments.

6. Article 243 (I) and 243 (Y) of the Constitution of India which have been the off-shoots of Constitution 73<sup>rd</sup> and 74<sup>th</sup> Amendment Acts heralded a new era in the history of the Local Bodies by providing for the constitution of a State Finance Commission in all the States within one year from the commencement of the Constitution (73<sup>rd</sup> Amendment) Act 1992 initially and thereafter at the expiry of every fifth year. The First State Finance Commission was constituted in April 1994 with Member Secretary. It was later enlarged in September 1994 as per the provisions of Tamil Nadu Panchayats Act 1994. It gave its report to the Governor in November 1996 covering the period April 1997 to March 2002.

7. As per the provisions laid down in the Constitution of India and also in the concomitant Tamil Nadu Panchayats Act, 1994 and various Urban Acts, the Second State Finance Commission was constituted with the Finance Department Notification No.11 (1)/Finance/112 (a)/99 dated 1.12.99 published at page 1 of part 2 section 1 of the Tamil Nadu Government Gazette Extraordinary dated 1.12.99. It has been notified that the Commission shall make its report available by 31<sup>st</sup> October 2001 for the five-year period commencing from 1<sup>st</sup> April 2002.

The composition of the commission has been ordered to be as indicated below. (vide Annexure I.2).

- |                                    |                       |
|------------------------------------|-----------------------|
| i. Thiru. Sukavaneshvar, I.A.S.,   | - Chairman            |
| ii. Thiru. Ma. Vea. Narayanaswamy, | - Non-Official Member |
| iii. Thiru. K. Ganesan, I.A.S.,    | - Ex-officio Member   |
| iv. Thiru. K. Shanmugam, I.A.S.,   | - Ex-officio Member   |
| v. Thiru. B. Anand, I.A.S.,        | - Member Secretary    |

8. The Terms of Reference for the Second State Finance Commission were issued in G.O.M.S. No.103 / Finance (Resources) Department dated 3.3.2000. (Vide Annexure I.3)

9. The Terms of Reference of First State Finance Commission were largely on the basis of the provisions contained under Article 243 (I) & 243 (Y) of the Constitution and as per Section 198 of Tamil Nadu Panchayats Act 1994 and relevant provisions in Urban Acts. But the Terms of Reference issued to Second State Finance Commission contain additional themes:- it has been requested to make detailed analysis of repayment of loans extended by Government from time to time to the Local Bodies. It has also been asked to suggest measures and changes needed in the system of payment of pension, assessing the accountability of the Local Bodies in utilizing the resources raised or received from the State and Central Governments and other agencies. Besides the Second State Finance Commission shall take into account the likely transfer of devolution from Eleventh Finance Commission award and to study their adequacy. Further there is a residuary clause in the Terms of Reference, which suggests that the Commission can make suitable recommendations regarding any other issues having a bearing on Terms of Reference.

10. The Commission started its work as soon as Terms of Reference were notified. The methodology and approach are discussed in the next chapter.

“தள்ளா விளையுளும் தக்காரும் தாழ்விலாச்  
செல்வரும் சேர்வது நாடு”

(குறள்:731)



## CHAPTER II METHODOLOGY AND APPROACH

### 1. Procedure for State Finance Commission: -

Under Article 243 I (3) of the Constitution of India, the State Finance Commission is competent to determine its procedure. In the light of the above provision, the State Finance Commission has evolved suitable procedures for: -

- a. The Commission's functioning.
- b. The Commission's Secretariat.

The details of the working procedure as adopted by the Commission are in the Annexure (II-1).

2. Based on the procedure evolved, the Second State Finance Commission has elicited information for compilation of data for the report. Major source of eliciting information was through questionnaires carefully designed for all those connected with Local Bodies.

### 3. Questionnaires to Mayors, Chairmen & Presidents of Local Bodies: -

Unlike the situation in 1995-96, when the First State Finance Commission prepared and presented its report, during our tenure the elected representatives have been in office in all Local Bodies. In this scenario, the Commission considered it a prime task to have the views of elected representatives. Accordingly, separate Questionnaires were prepared and sent to all Mayors of Municipal Corporations, Chairmen of Municipalities, Town Panchayats, District Panchayats and Panchayat Unions besides Village Panchayats Presidents.

Response from the elected representatives was overwhelming. In fact more than 60% have positively responded to the various issues directly arising out of the 73<sup>rd</sup> & 74<sup>th</sup> Constitutional Amendment Acts. Some major issues have been adequately dealt with by representatives from the people's angle.

### 4. Questionnaires to Local Bodies: -

The Local Bodies both rural and urban were requested to furnish primary data through the questionnaires separately designed for each type of local body.

The questionnaires sent to Local Bodies were: -

1. Panchayat Unions	:	385
2. District Panchayats	:	28
3. Town Panchayats	:	611
4. Municipalities	:	102
5. Municipal Corporations	:	6

The questionnaires consisted of distinct sections, namely, general information, staff position, income and expenditure, service levels, debt and non-debt liability and felt needs. Before obtaining the data extensive training classes were conducted by the officials of the Commission at various district head quarters. The data for Urban Local Bodies have been obtained both in manuscript and through computer floppies. The computer floppies were designed in such a way that the language (MS-Excel) was user-friendly in generating various analysis. In respect of Rural Local Bodies the data have been obtained only in manuscript form considering the difficulty of the Rural Local Bodies in furnishing computerized information.

The data obtained from Rural Local Bodies were fed into the computer by obtaining the services of Government Data Centre, Chennai. It may be seen as Presidents of Village Panchayats are executive functionaries, one set of questionnaires was issued to them. For all other Local Bodies, two questionnaires were issued viz., one for the elected representatives and the other for the executives.

### 5. Questionnaires to other Stakeholders: -

Besides issuing questionnaires to the Local Bodies and their representatives, information and views have been elicited from other stakeholders of Local Bodies. In all 45 different types of questionnaires were issued for the above category. Of them, majority have sent their replies.

The list of stakeholders may be seen in the annexure(II-2).

**6. Interaction with elected representatives: -**

As already stated the Commission has attached utmost importance to the views of elected representatives by consulting them at every stage. In the first stage, even for designing questionnaires, the Commission interacted with the following: -

1. Chairmen of Municipal bodies viz., Alandur, Pallavaram, Tambaram, Avadi, Ambattur & Tiruvottriyur.
2. Chairmen of Town Panchayats viz., Porur, Valasaravakkam, Maduravoyal, Maraimalai Nagar & Mamallapuram.
3. Elected representatives of Rural Local Bodies namely, Kuthambakkam, Mudichur, Villivaram Village Panchayats and Chairmen of Kattankulathur Panchayat Union and District Panchayat, Kanyakumari.

**7. Interaction with Officials: -**

Interaction was organized with the following officers, based on their replies furnished to our questionnaires.

1. Chairman, Tamil Nadu Electricity Board, Chennai 2.
2. Commissioner of Chennai Corporation, Chennai 3.
3. Commissioner of Agricultural Marketing, Chennai 5.
4. Commissioner of Municipal Administration, Chennai 5.
5. Commissioner of Town & Country Planning, Chennai 2.
6. Director of Evaluation and Applied Research, Chennai-108.
7. Director of Local Fund Audit, Chennai 108.
8. Director of Rural Development Department, Chennai 15.
9. Director of Town Panchayats, Chennai 108.
10. Director, Geology & Mining, Guindy, Chennai 32.
11. Inspector General of Registration, Santhome High Road, Chennai 28.
12. Managing Director & CEO, Tamil Nadu Urban Infrastructure Financial Services Ltd., Chennai.
13. Managing Director, Chennai Metropolitan Water Supply & Sewerage Board, Chennai.
14. Managing Director, Tamil Nadu Slum Clearance Board, Chennai 5.
15. Managing Director, Tamil Nadu Water Supply & Drainage Board, Chennai 5.
16. Member Secretary, Chennai Metropolitan Development Authority, Chennai 8.
17. Principal Accountant General, Chennai.
18. Secretary to Government, Finance Department, Chennai 9.
19. Secretary, Education Department, Chennai 9.
20. Secretary, MA & WS Department, Chennai 9.
21. Secretary, Rural Development Department, Chennai 9.

**8. Field visits: -**

The State Finance Commission undertook tours to various Districts to hold discussions with elected representatives, Collectors, and district officials. Madurai visit covered districts of Madurai, Ramnad, Sivagangai, Theni and Dindugul on 17<sup>th</sup> & 18<sup>th</sup> August 2000. Coimbatore visit covered Coimbatore and Erode districts on 29<sup>th</sup> & 30<sup>th</sup> August 2000. Trichy visit covered Trichy, Pudukkottai, Karur and Perambalur districts on 12<sup>th</sup> & 13<sup>th</sup> September 2000. (Special Officer for Ariyalur district also attended). Salem visit covered Salem and Namakkal districts on 28<sup>th</sup> & 29<sup>th</sup> September 2000. Kanchipuram visit covered Kanchipuram, Thiruvallur, Vellore and Thiruvannamalai districts on 4<sup>th</sup> October 2000.



During the visit to Districts, the elected representatives pleaded for more devolution of powers and resources, in the wake of people's expectations. The major refrain was devolution of 29% of state's resources to the Local Bodies just as the Centre transfers 29% of its revenue to the States. The participation of Madurai Mayor and Salem Mayor brought to focus the issues, which need to be attended to in the respective Corporations. Similarly the lack of linkages in and between Panchayat Raj Institutions was highlighted by elected representatives of Rural Local Bodies. In addition, Non-Governmental Organizations and experts also shared their perceptions with the Commission during the visits.

#### **9. Visits to other States:**

Member Secretary, of the Commission visited Hyderabad in January 2000 and interacted with the Director, State Finance Commission Cell, National Institute of Rural Development Director, Thiru. Sivasubramanian on issues relating to Rural Local Bodies. This was followed by a visit to Delhi in February 2000 to meet the following officials.

- i. Thiru.J.C.Jetli, I.A.S., (Retd.), Member, XI Central Finance Commission .
- ii. Thiru.T.N.Srivastava, I.A.S., Member Secretary of Eleventh Finance Commission.
- iii. Thiru.Sudhir Krishna, I.A.S., Joint Secretary of Eleventh Finance Commission.
- iv. Prof. M.A. Oomen, Institute of Social Sciences,
- v. Prof. O.P. Mathur of National Institute of Public Finance and Policy.
- vi. Director and other officials of National Institute of Urban Affairs.

He went to Thiruvananthapuram along with Commissioner of Rural Development and Director of Evaluation and Applied Research in December-2000, to study Kerala's experience in devolution related issues.

#### **Visit to Mumbai and Ahmedabad by Urban Review Committee: -**

The Urban Review Committee, vide Para 15 below visited Mumbai and Ahmedabad to study the functioning of Municipal Corporations and other Urban Local Bodies in the two States and also to record its findings in the report

#### **Visit to Bangalore**

The Executive Advisor of the Commission, Dr. T. Nagasundaram, and Deputy Commissioner, Chennai Corporation, Dr. P. Senthilkumar, I.A.S., went to Bangalore in October 2000 to study the Property Tax - Self-Assessment Scheme, Solid Waste Management and also to study the relationship between Bangalore Development Authority and Bangalore Municipal Corporation.

#### **Visit to Hyderabad: -**

The Deputy Secretary, Second State Finance Commission, Thiru. B. Thyagarajan, went to Hyderabad to participate in the national seminar on Rural Local Bodies sponsored by National Institute of Rural Development in October 2000.

#### **Visit of Maharashtra State Finance Commission to Tamil Nadu:-**

A team consisting of Chairman and Member Secretary of Maharashtra Finance Commission visited Chennai and other places in April 2000. They held detailed discussions with our Commission.

#### **10. Brainstorming sessions:**

Brainstorming sessions were held in March 2000 in two spells on the issues, which the Commission has set forth to cover. The following officials took part in the meeting.

1. Thiru. Rameshram Mishra I.A.S., Former Member Secretary, First State Finance Commission.
2. Thiru. L. Krishnan I.A.S., Special Secretary to Government, Finance Department.
3. Thiru. K. V. Palanidurai, Full time Member, State Planning Commission.
4. Dr. Tmt. Shanthi, Professor, IFMR.
5. Dr. Thiru. Hanumantha Rao, Electricity Regulatory Authority.
6. Thiru. J.V. Chandrasekaran, I.A.S., (Retd.) and former Joint Secretary, MA & WS Department.
7. Thiru. K. Shanmugam, I.A.S., Director of Rural Development.
8. Thiru. K. Ganesan, I.A.S., Commissioner of Municipal Administration.
9. Thiru. D. Chandrasekaran, I.A.S., Director of Town Panchayats.
10. Dr. P. Senthil Kumar, I.A.S., Deputy Commissioner, Chennai Corporation.
11. Dr. Shanmugam, Professor, Madras School of Economics.

The views expressed by them on various issues were duly taken note of in preparing questionnaires and in formulating issues and options.

#### **11. Holding of State Level Seminars: -**

##### **Town Panchayats: -**

A seminar for Town Panchayats was conducted in May 2000 in which Director of Town Panchayats, senior officials, the Assistant Directors of Town Panchayats, Assistant Executive Engineers, and Executive Officers of select Town Panchayats participated. The participants were divided into six working groups to deliberate on major issues on Town Panchayats. The details of working groups and group leaders are available in the Annexure(II-3). The views, which emerged during the seminar, have been made use of in the Commission's report.

##### **Seminar on Corporations and Municipalities: -**

The Municipal Seminar was conducted in June 2000 in which five working groups were formed to analyze issues of Municipalities and Municipal Corporations. This forum included both elected representatives and concerned officials. The details of working groups and group leaders are available in the Annexure(II-4).

##### **Seminar on Panchayat Raj Institutions: -**

The Panchayat Raj Institutions Seminar was held in August 2000 in which four working groups were formed. This included both elected representatives and concerned officials. The details are available in the Annexure(II-5).

##### **Regional Seminar of experts from the Southern States: -**

Southern regional seminar was jointly sponsored by Madras Institute of Development Studies and Second State Finance Commission on 22.09.2000 & 23.09.2000. Academicians and representatives from the four States presented their papers on the devolution of funds and functions to the Local Bodies in their respective states. Besides, a paper on impact of Eleventh Central Finance Commission's report was presented by Prof.M.A.Oomen.

Also, two working groups, one for Rural Local Bodies and another for Urban Local Bodies were formed to discuss major issues of Local Bodies. In the working groups elected representatives were also included to air their views on the functioning of Local Bodies in Tamil Nadu. The details of the seminar are made available in the Annexure(II-6).

#### **12. Appointment of Task Force Committee for Urban Local Bodies:**

The task force committee for Urban Local Bodies was constituted by Second State Finance Commission and the job was entrusted to Tamil Nadu Urban Infrastructure Financial Services Ltd in April 2000. The agency was given suitable Terms of Reference, based on which it was requested to prepare its report. The details of the Terms of Reference are available in the Annexure(II-7). The Tamil Nadu Urban Infrastructure Financial and Services Ltd. has conducted field study in 50 Town Panchayats, 10



Municipalities and all Municipal Corporations. Data validation was done by the Commission. It has also obtained some data needed for generating its report on core civic services and debt burden. The Task force committee interacted with the Commission and also with the officials of the Commission Secretariat at various stages. The report was presented before the Commission in December 2000.

**13. Appointment of Task Force Committee for Rural Local Bodies: -**

This task force committee was also constituted in April 2000. This job was entrusted to Director of Evaluation and Applied Research for preparing report on Panchayat Raj Institutions based on massive survey of 1000 Village Panchayats and 50 Panchayat Unions. The Terms of Reference given to Director of Evaluation and Applied Research are available in the Annexure(II-8). The Director of Evaluation and Applied Research formed several teams of officials to visit Panchayat Raj Institutions all over the State, collected data for generating report on Rural Local Bodies. The task force personnel took part in the training classes conducted by officials of the Commission. It has also interacted with Commission at various stages on several issues before finalising the report. The report was presented before the Commission by Director of Evaluation and Applied Research in October 2000.

**14. Appointment of Pension Sub-Committee: -**

The pension sub-committee was constituted by the Commission in May 2000 to look into the entire gamut of issues relating to pension payment by Local Bodies with reference to Para 8 of the Terms of Reference issued to the Commission. The Committee co-opted Additional Director from Commissionerate of Municipal Administration, Additional Directors from the offices of the Director of Rural Development, Director of Town Panchayats and Deputy Commissioner from Chennai Corporation. The Committee gathered primary data from all Local Bodies and entrusted the analysis work to Director of Evaluation and Applied Research. The report was presented before the Commission in January 2001. The Terms of Reference issued to the Committee are available in the annexure(II-9).

**15. Urban Review Committee:-**

The Urban Review Committee was constituted by Second State Finance Commission in July 2000 to study in depth various issues, as follow up of the Municipal Seminar. The details of Terms of Reference are available in the Annexure(II-10). The committee also interacted with the Commission on various issues. The final report was presented before the Commission in January 2001.

**16. Panchayat Raj Institutions Review Committee: -**

Panchayat Raj Institutions Review Committee was constituted in August 2000 to look into the aspects, which needed to be studied in depth as a sequel to state level seminar for Rural Local Bodies. The details of Terms of Reference and other issues highlighted are made available in the Annexure (II-11).

In addition to Kerala visit mentioned in Para 9 above, the committee had interaction with various field level staff in the state. It had also interacted with the Commission. The final report was presented before the Commission in January 2001.

**17. Rainwater Harvesting Committee: -**

Tamil Nadu is not well endowed with water. It was, therefore, decided to set up a Rainwater Harvesting Committee to study the availability of rainwater harvesting potential and its use. The Committee was constituted in April 2000. The salient features of Terms of Reference issued are available in the Annexure II-12. The Committee studied the water-harvesting devices used by TWAD in Namakkal and Dindugul Districts. The water experts, Thiru.K.R.Gopinath, and Thiru.Felix Ryan have also provided information on the use of technology in other countries. The final report of the committee was presented before the Commission in October 2000.

**18. Committees to study the needs of Training and Infrastructure in Tamil Nadu Institute of Urban Studies, Coimbatore and Panchayat Raj Institutions Training Institutes.**

A Committee was constituted in October 2000 to look into the training needs and infrastructure for the Institute of Urban Studies, Coimbatore, based on the request by the Secretary to the Government, Finance Department. The issues, Terms of Reference and recommendations are made available in the



Annexure(II-13). The Committee undertook visit to Coimbatore for studying the needs of Tamil Nadu Institute of Urban Studies, Coimbatore. It also took into account the training imparted by TNUDP-II. The final report of the Committee was presented before the Commission in January 2001.

A committee was constituted in January 2001 to examine the scope for upgradation of the quality of training to the elected representatives of local bodies, officers and staff of Panchayat Raj Institutions. The issues and Terms of Reference are made available the Annexure (II - 13a). It took into account the training imparted at SIRD Maraimalai Nagar and five Regional Training Centers and setting up additional Rural Extension Training Centers. The final report of the committee was presented before the Commission in February 2001.

**19. Studies on Grama Sabha: -**

The 73<sup>rd</sup> Constitutional Amendment Act has provided for constitution of Grama Sabha under Article 243(A). The Grama Sabha is the forum envisaged for participatory mechanism in Panchayat Raj. In order to study the functioning, the Commission has requested, in July 2000, Gandhi Gram Rural Institute to conduct in-depth study of Grama-Sabhas in six districts. Simultaneously, the Director of Evaluation and Applied Research was requested to conduct study on the functioning of Grama Sabha in 23 districts. The details are brought out in the chapter on residuary terms of reference.

**20. Website: -**

The Government by GO M.S. No. 300 (MIE) dated 3.11.97 have outlined the information technology policy of Government of Tamil Nadu. In keeping with the Information technology policy, Government organizations have set up websites designed for their respective clients. Compared to public finances of the Centre and the States, local body finances are less widely known and debated.

In this Information Age, many interested persons and organizations may not be able to form their views unless information about State Finance Commission, Terms of Reference and the related materials are made available through the electronic device by way of Website. Based on the approach of other Government organizations, the Commission launched the Website in September 2000 for obtaining views from the experts and the public on the various issues concerning Local Bodies. The address of the Website is [www.tnsfc.tn.nic.in](http://www.tnsfc.tn.nic.in). The Tamil version of the Website was also launched in December 2000.

On both occasions advertisement was released through newspapers, including leading Tamil daily. The Website contains a home page with the following subsections.

- i) Constitution of First State Finance Commission, its Terms of Reference, its recommendations, Action Taken Report (ATR) of Government.
- ii) Flow of funds to Local Bodies by way of devolution drawn, assigned revenue and the capital grants for the period from 1997-98 to 2000-2001.
- iii) Constitution of Second State Finance Commission, Terms of Reference, and Questionnaires issued to various stakeholders.
- iv) Excerpts from Tenth Central Finance Commission Report
- v) Eleventh Central Finance Commission Report on Local Bodies (Chapter VIII) and also the connected Annexures and Appendices.

As on 31.03.2001, 1090 persons have viewed the website.

**21. Commission sittings: -**

The Second State Finance Commission met frequently to monitor the progress of work and to chalk out the future course of action keeping in mind the onerous task entrusted to it under the Constitution. The Commission had fourteen sittings as indicated below for the above purpose.



First sitting	10.01.2000
Second sitting	10.03.2000
Third sitting	24.04.2000
Fourth sitting	13.06.2000
Fifth sitting	03.08.2000
Sixth sitting	20.09.2000
Seventh sitting	31.10.2000
Eighth sitting	11.12.2000
Ninth sitting	08.01.2001
Tenth sitting	31.01.2001
Eleventh sitting	22.02.2001
Twelfth sitting	16.03.2001
Thirteenth sitting	12.04.2001
Fourteenth sitting	17.04.2001

## 22. Approach of the Commission: -

As a result of widest possible consultations indicated in this chapter, Second State Finance Commission has developed and maintained equidistant stance vis-à-vis Government and Local Bodies; similar approach as between Local Bodies and line agencies; and has accorded due and equal importance to rural and urban bodies.

Our Commission has had the benefit of comparative picture of Local Bodies and their finances for all States emerging out of Eleventh Central Finance Commission's analysis and studies by various All India Institutions.

Of the three tiers of the Government, in India, the local bodies, which have a goal of attaining local self-government by virtue of being the closest to the people, are duty bound to provide various civic amenities to the populace living therein. The three components of meaningful decentralization are; Functions, Funds and Functionaries in that order. Therefore functions precede finance. Presently, the affairs of both the Local Bodies and the State Government are inextricably intertwined and their respective roles are not clearly defined. In other words, at present, the functions of the local bodies and the State Government are concurrent in nature and this results in a situation where the public are not in a position to clearly demand services from a particular level of Government and whenever they approach the local body, which is closest to them, the concerned local body pleads paucity of funds as a reason for its inability to satisfy the citizens' requirements.

Accordingly, when the next batch of elected representatives take position later in 2001, role clarity has to emerge with well-defined functions to be performed by the local bodies. These well-defined functions may be, to start with, the basic civic amenities, which every citizen of India is clamouring for and the absence of which, despite spending several crores of rupees since independence, leads sometimes to a feeling of neglect among the masses.

Having clearly delineated their functions, the next step is to provide adequate finances to the local bodies to provide these services in a reasonably satisfactory manner. As mentioned earlier, over a period of time, the local bodies have come to excessively depend on the State Government for discharging their functions in a satisfactory manner. This dependency syndrome needs to be gradually and steadily replaced by a self-reliance index and the local bodies will have to be helped to stand on their own legs. Perhaps during the award period of the Second State Finance Commission, this self-reliance index, will have to be gradually stepped up by 5 to 10%. To achieve this target, the State needs to give total freedom to the local bodies to tap their resource potential to the maximum extent possible by laying down clear-cut guidance wherever possible without however interfering.

While enabling the Local Bodies to raise their resources and after building in suitable weightage for own resources of Local Bodies, the State needs to duly devolve funds to see that Local Bodies provide civic amenities satisfactorily to a growing population. In as much as these are core or obligatory services, State needs to look upon devolution to Local Bodies as first charge to the same extent as salaries and pensions to Government servants are.

Meaningful decentralization cannot be completed with just functions and finances as the third element of decentralization, i.e. functionaries need also to be eventually placed at the disposal of the local bodies for a harmonious development of the country as a whole. Although it would be very desirable to place all these functionaries who are concerned with the basic functions, which have been enumerated above, as it is a very sensitive subject and cannot be defined, the State Finance Commission has consciously decided to proceed cautiously on the subject. The details of the approach of the State Finance Commission with reference to these functionaries will be enumerated in the respective chapters where the State Finance Commission has given a set of alternatives and the Government may select whichever is the best in its judgement.

Further, Second State Finance Commission is specifically charged with a responsibility of identifying the financial viability of Local Bodies and to suggest reclassification on the basis of the terms of reference. The Commission has sought to address this delicate issue.

Structural reforms, initiated in 1991, had their focus at Central Government. In the later half of 1990s the reforms have shifted action to the States. The States include Local Bodies. Hence the Commission has sought to identify reforms package as relevant to Local Bodies.

**“ சமன் செய்து சீர்தூக்கும் கோல்போல் அமைந்து ஒருபால்  
கோடாமை சான்றோர்க்கு அணி”**

**(குறள்:118)**



### CHAPTER III

#### STATUS OF IMPLEMENTATION OF FIRST STATE FINANCE COMMISSION'S RECOMMENDATIONS

The First State Finance Commission had made 413 recommendations under different headings namely taxation, civic services, organisation, and devolution of funds. Tables showing the status of implementation of First State Finance Commission's recommendations are given below.

Table I shows the breakup with respect to the recommendations.

**TABLE 1 Overall status of implementation of the first state finance  
commission's recommendations**

Sl.No.	Topics	Total Recommendations	Accepted	Not Accepted	Under Examination	No orders passed	Accepted in principle only
1.	Taxation and other related issues	195	93	97	2	3	-
2	Civic services	132		-	-	26	106
3	Organisations	14		-	-	9	5
4.	Functions	1		-	-	-	1
5.	Devolution of functions	1	-	-	-	-	1
6.	Staffing Pattern	5	-	-	-	-	5
7.	Human Resources development	11	-	-	-	-	11
8.	Community participation	6	-	-	-	6	-
9.	Adequacy of powers	8	-	-	-	8	-
10.	Control system	7	-	-	-	7	-
11.	Mechanism for performance	4	-	-	-	4	-
12.	Database	6	-	-	-	6	-
13.	Devolution of funds	22	22	-	-	-	-
14.	Capital fund	1	-	1	-	-	-
	<b>Total</b>	<b>413</b>	<b>115</b>	<b>98</b>	<b>2</b>	<b>69</b>	<b>129</b>

Out of 413 recommendations, 49 are common for both rural and urban local bodies. These 49 recommendations have been shown separately under both rural and urban sectors thus taking the number of gross recommendations to 462.

**TABLE 2 The status position of first state finance commission recommendations for PRIS / ULBS**

Sl.No.	Topics		Accepted	Accepted in principle only	Not Accepted	Orders not passed	Under Examination	Total
1.	Taxation and other related issues		93	-	97	3	2	195
2.	Civic services	Urban	-	106	-	-	-	106
		Rural	-	-	-	26	-	26
3.	Organisations	Urban	-	5	-	-	-	5
		Rural	1	-	-	8	-	9
4.	Functions	Urban	-	1	-	-	-	1
		Rural	1	-	-	-	-	1
5.	Devolution of Functions	Urban	-	1	-	-	-	1
		Rural	1	-	-	-	-	1
6.	Staffing Pattern	Urban	-	5	-	-	-	5
		Rural	2	-	2	1	-	5
7.	Human Resources development	Urban	-	11	-	-	-	11
		Rural	-	9	-	2	-	11
8.	Community participation	Urban	-	6	-	-	-	6
		Rural	-	-	-	6	-	6
9.	Adequacy of powers	Urban	-	8	-	-	-	8
		Rural	5	-	-	3	-	8
10.	Control system	Urban	-	7	-	-	-	7
		Rural	1	-	-	6	-	7
11.	Mechanism for Performance	Urban	-	4	-	-	-	4
		Rural	2	-	-	2	-	4
12.	Database	Urban	-	6	-	-	-	6
		Rural	4	-	-	2	-	6
13.	Devolution of funds	Urban	-	-	-	-	-	-
		Rural	22	-	-	-	-	22
14.	Capital fund	Urban	-	-	-	-	-	-
		Rural	-	-	1	-	-	1
	<b>Total</b>		<b>132</b>	<b>169</b>	<b>100</b>	<b>59</b>	<b>2</b>	<b>462</b>

## 2. Urban Local Bodies:

The recommendations of the First State Finance Commission have been mostly given effect to one way or the other. The Government in MA & WS Department have categorised the recommendations in the following manner: -

1. Recommendations accepted.
2. Recommendations accepted in principle only.
3. Recommendations not accepted.



The Government in MA & WS Department, in July 2000, have given an outline regarding the status of implementation of the First State Finance Commission's recommendations. The recommendations accepted in principle by Government have been incorporated in the act / rules enacted in 1998 or by way of clarifications to the effect that the Local Bodies should approach the capital market for borrowing so as to meet the civic norms set by the First State Finance Commission. Horizontal distribution of devolution among the Corporations, Municipalities and Town Panchayats has been revised by the Government with effect from 2000-01.

### 3. Panchayat Raj Institutions:

In the case of Panchayat Raj Institutions, the implementation mainly centered around devolution and its related packages. On civic services, the Government have fixed the norms only for water supply. In respect of other civic services, no specific orders have been passed either retaining the norms recommended by First State Finance Commission or modifying them. In respect of other subjects such as functions, organisation, staffing pattern, human resources development and control system, no specific orders have been issued as yet.

### 4. Modifications:

In some of the recommendations the Government have made some modifications, which the First State Finance Commission had not suggested.

They are: -

- Abolition of house tax matching grant in the Tamil Nadu Panchayat Act 1994.
- Abolition of LCS matching grant in the Tamil Nadu Panchayat Act 1994.
- Adoption of population as the only criterion for inter-se distribution instead of the population along with service indicators and per capita income.

The Government in its Action taken report placed before the legislature in April 1997 had accepted the recommendation for direct remittance to the Village Panchayats account of the local body share on minerals and also share from black granite but subsequently Government in Rural Development Department of the Secretariat have rejected this recommendation.

### 5. Devolution package:

One of the basic concepts put forth by First State Finance Commission is global sharing. In fact, it is considered to be a progressive step by expert bodies. The concept of global sharing from Central revenues to States has been given effect only recently based on consultations after the Tenth Central Finance Commission had mooted it. It is indeed gratifying that when the concept of global sharing was in the process of take-off at the Central level, Government of Tamil Nadu positively responded to the concept of global sharing with the Local Bodies. This has led to a steady increase in the fund flow to Local Bodies.

The following statements amply prove this point.

**TABLE 3 Devolution of funds prior to devolution by first state finance commission (1996- 97)**

	Grants	Assigned Revenue	Total
	(Rupees in Crores)		
Rural	105.87	66.99	172.86
Urban	179.51	235.88	415.39
<b>Total</b>	<b>285.38</b>	<b>302.87</b>	<b>**588.25</b>

\*\* - This does not include commitment of Government on Local Bodies pension, which was about Rs.60 Crores for that year.

**Statement showing devolution of funds under pool A (Assigned Revenue) and pool B (Global Sharing)**

Year	Pool A	Pool B	Total
	(Rupees in Crores)		
1997-98	295.10	612.56	907.66
1998-99	364.91	792.94	1157.85
1999-2000 (Actuals)	391.96	805.19	1197.15
2000-01 (Budget Estimate)	298.09	1036.41	**1334.50

\*\* - This includes commitment of Government on Local Bodies pension.  
(Source: State Budget Documents)

2000-01

01-02

02-03

03-04

04-05

867.14

867.14

407.60

13

1331.44

1269.67

1766.73

1100.07



The global sharing in addition to assigned revenue is another noteworthy feature. The comparison between fund flow in 1996-97 and in the post-devolution period needs to be quantified with reference to various transfers outside devolution. This is discussed in subsequent chapter.

Even though the First State Finance Commission has recommended for the increase in devolution percentage at 1% every year from 8% to 12% for the years 1997-98 to 2001-02 respectively, the Government have frozen the percentage at 8% for all the five years owing to resource crunch.

**6. Equalization fund:**

This fund was intended by the First State Finance Commission to make good the imbalance and inadequacy, if any, to Panchayat Raj Institutions / Urban Local Bodies consequent on the adoption of inter-se distribution criteria. But this has been modified by the Government to help select local-bodies on discretionary basis sometimes for creation of capital infrastructure. No norms have been evolved either by Rural Development Department or MA & WS Department of the Government, regarding this fund.

**7. Incentive Fund:**

This fund created out of the devolution package has motivated the Local Bodies to achieve maximum collection.

**8. Unaccepted Recommendations:**

Some of the major recommendations, which have not been accepted by Government, are: -

- a. Calculation of LC and LCS based on average land revenue.
- b. Compensation for Local Bodies towards LC / LCS during the period of waiver / remission of land revenue.
- c. House -Tax: Moving over to plinth-area based tax.
- d. Water Tax.

These are dealt with in the respective chapters. Besides, around 20 recommendations, which suggested individual tax sharing, became redundant because of the acceptance of the concept of global sharing. The Action Taken Report placed in the legislature is kept as Annexure (III-1)

**9. Utilisation of State Finance Commission Devolution:**

The State Finance Commission recommended specifically that the devolution is meant to cover maintenance of the assets at the time of the award as also the assets to be created during the award period and the salary and wages of the Local Bodies. This has been visualized with a view to maintain the assets created and also to avoid delay in payment of salary to the employees of Local Bodies. But in practice, the Government have set apart a sizeable sum for works with the view to improve basic amenities both in rural and urban areas. Further, the Government have deducted at source the debt repayment payable by local bodies to other institutions / agencies. On the other hand, the recommendation relating to remittance of provident fund dues (contribution) to the respective accounts has not been implemented. Moreover the entire devolution money has been credited to the general fund account of the concerned Local Bodies. While specific orders have been issued for the maintenance of separate cashbook for the utilisation of devolution fund in the Urban Local Bodies, no specific order in respect of Panchayat Raj Institutions has been issued. Experience shows that there is need for the separate account to monitor the utilisation of the said devolution at frequent intervals.

Even though devolution was primarily intended to take care of the salary and O&M expenses, the formula adopted was based largely on population. The change in the approach has been highlighted during interaction with officers and also in State level seminars.

A review of the utilisation of SFC devolution reveals that the state devolution has been by and large utilised for salary and O & M.

10. In its Terms of Reference, the First State Finance Commission was not specifically required to recommend reorganisation or restructuring of Local Bodies. However, for ensuring better fiscal management, economy and efficiency, the First Commission formed a separate task force for suggesting various measures to be taken for restructuring the Local Bodies and to organise staff. The recommendations made for restructuring the Local Bodies on the urban side for creation and upgradation have been accepted and incorporated in the new Urban Local Bodies Act, 1998, with modifications on the norms of population and income. However, in the case of Panchayats, Government did not pass any orders on the First State Finance Commission's recommendations. In a parallel exercise the Government have rejected in May 2000, the modified recommendation of the Director of Rural Development for restructuring Village Panchayats with the population of more than 2000. The First Commission also suggested reorganisation of Panchayat Unions for more accessibility and better administration by the district officials, by redefining their jurisdictions and with population between 60,000 to 75,000. No order seems to have been issued in this regard.

11. **Conclusion:**

The quantum of devolution furnished in the statements in para 5 above indicates increase in transfer of funds to Local Bodies consequent on the recommendations of the First State Finance Commission. The global-sharing of tax revenue enables aggregate buoyancy of the State economy to be shared with Local Bodies, which leads to substantial step-up annually in flow of funds from Government to Local Bodies.

“பருவத்தோடு ஒட்ட ஒழுக்கல் திருவினைத்  
தீரமை ஆர்க்கும் கயிறு”

(குறள்:482)



## CHAPTER – IV RESOURCE BASE OF LOCAL BODIES

### Introduction

Para 5(iii) of Terms of Reference envisages that we shall have regard to revenue resources of the local bodies in the award period on the basis of level of taxation reached in 1999-2000 and the potential for increase in revenue. Likewise, para 2 (a) (ii) of Terms of Reference requires our Finance Commission to make recommendations as to the principles, which should govern the determination of taxes, duties, tolls, and fees, which may be assigned and appropriated by the local bodies. While studying the basic issues, this Commission came to the conclusion that the resource base of local bodies is not elastic, as revision of property tax, house tax and profession tax is done once in five years. Non-tax items are not significant. The annual buoyancy in income has to come from increase in property stock, which is dependent on market conditions. In addition to the base being small, it has all along been subjected to ceiling and other Government controls with the result that the local bodies are unable to bear the annual increase in expenditure without matching income. In fact, the Eleventh Central Finance Commission has recommended that the local bodies should be allowed to tap their resources without any interference from State Governments. At the same time this Commission feels that whenever local bodies are recalcitrant and deliberately fail to undertake these statutory functions and raise resources, then the Government should intervene. Likewise, where the local bodies are most unlikely to raise resources for various reasons, Government need to play pro-active role, issue guidelines, fix minimum rates and ensure that the local bodies do not shy away. The above approach has been adopted in analyzing the resource base of local bodies with recommendations to strengthen the same.

### TAX INCOME

#### 2. Property tax

2.1. The first State Finance Commission had made 31 recommendations on property tax reforms. Treating them as one package, the Government have broadly accepted the recommendations with minor modifications in the light of the Supreme Court judgement on the property tax case relating to Patna Municipal Corporation. The newly enacted Tamil Nadu Urban Local Bodies Act, 1998 and the rules framed there under (now kept in abeyance) provide for levying property tax on the basis of zonal rates and carpet area. The property tax now levied has components like water supply, drainage and education. When the Tamil Nadu Urban Local Bodies Act is put into operation, during the next revision, the Urban Local Bodies will be in a position to levy separate tax for water supply, sewerage and education. The present property tax is a general purpose tax.

2.2. Even though the revision effected from October 1998 did try to rationalize the levy of property tax in respect of new assessments, old assessments could not be brought on par as the levy envisaged resulted in manifold increase. Based on representations, the Government in order to contain the rise to reasonable limits, prescribed ceilings on the existing assesseees as detailed below:

Table IV-1

a. Owner occupied buildings	25%
b. Rentals	50%
c. Commercial properties	100%
d. Industrial properties	150%

2.3 The elected representatives who interacted with Second State Finance Commission mentioned about anomalies due to the wide gap between old assessments and new assessments. Similar concern was also voiced by various NGOs and experts. Besides, the exemptions given to all educational institutions and central government properties have also been resented by the elected representatives. While the new act envisages levy of service charge not exceeding 75% of the property tax, this has not been given effect to owing to the suspension of the Act.

## 2.4. Property Stock pattern

The following table indicates that commercial and industrial properties constituting roughly 15% of the total properties yield approximately 41% of the income under property tax. They require close attention all through.

**Table IV-2.**

Sl. No.	Type of property	Corporations		Municipalities		Town panchayats	
		No.	Yield in lakhs	No.	Yield in lakhs	No.	Yield in lakhs
1.	Residential	929317	11801.21	1234700	7490	2073511	2683
2.	Commercial	127844	7902.56	219301	4456	264684	1417
3.	Industrial	13736	462.74	38035	2497	455130	1013
4.	Others	17099	1298.18	14925	872	78103	228
5.	Exempted	7199	--	31537	--	10024	--
	<b>TOTAL</b>	<b>1095187</b>	<b>21464.69</b>	<b>1538498</b>	<b>15315</b>	<b>2881452</b>	<b>5341</b>

2.5. The realization of revenue from property tax for the last five years is given below in respect of all Urban Local Bodies.

**Table IV-3. Revenue Receipts from Own Sources – Taxes Town Panchayats**

Revenue Receipts Item	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	Actuals					Budget
Receipts in Rs. Lakhs						
Property Tax	1898.65	1807.83	1897.25	1724.94	5340.60	5589.22
Sectoral Contribution in Total Revenue Income - in percentage						
Property Tax	17.25	14.38	7.70	6.59	17.95	12.77
Growth Trend - In Percentage						
		1996/97 over 1995/96	1997/98 over 1996/97	1998/99 over 1997/98	1999/00 over 1998/99	Average
Property Tax		-4.78	4.95	-9.08	209.61	50.17

**Source:** Analysis of primary data from all 611 Town Panchayats

**Table IV-4. Revenue Receipts from Own Sources – Taxes Municipalities**

Revenue Receipts Item	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	Actuals					Budget
Receipts in Rs. Lakhs						
Property Tax	7751.87	7930.02	8153.04	7001.73	15314.65	15423.94
Sectoral Contribution in Total Revenue Income - in percentage						
Property Tax	35.95	30.46	22.81	18.82	34.17	28.44
Growth Trend - In Percentage						
		1996/97 over 1995/96	1997/98 over 1996/97	1998/99 over 1997/98	1999/00 over 1998/99	Average
Property Tax		2.30	2.81	-14.12	118.73	27.43

**Source:** Analysis of primary data from all 102 Municipalities

**Table IV-5. Revenue Receipts from Own Sources – Taxes  
Municipal Corporations**

Revenue Receipts Item	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	Actuals					Budget
Receipts in Rs. Lakhs						
Property Tax	10914.82	11747.17	15440.59	17257.74	21464.69	25723.49
Sectoral Contribution in Total Revenue Income - in percentage						
Property Tax	31.7	30.3	31.0	29.4	31.8	30.8
Growth Trend - In Percentage						
		1996/97 over 1995/96	1997/98 over 1996/97	1998/99 over 1997/98	1999/00 over 1998/99	Average
Property Tax		7.6	31.4	11.8	24.4	18.8

**Source:** Analysis of primary data from all 6 Municipal Corporations



The percentage increase in property tax due to revision is as indicated below:

Corporations	: 25%
Municipalities	: 37%
Town Panchayats	: 87%

It is seen that the increase in property tax owing to revision on 1.10.1998 in Town Panchayats is higher because they moved over from House Tax to Property tax. Vital statistics pertaining to property tax in respect of Corporations, Municipalities and Town Panchayats are furnished in the annexure (IV-1-(a), (b) & (c).

2.6. There cannot be any second opinion about the need to bridge the gap between the old assessments and the new assessments. If the Act provisions are implemented without any ceilings as in para 2.2 above, all of them would be brought to same level of taxation. But there could be public outcry. In order to effect moderation and at the same time to enforce uniformity and equity, increase of property tax in respect of old assessments to the level of new assessments can be attempted gradually spread over next two general revisions. But in respect of commercial and industrial assesseees, the levy on par with new assesseees needs to be brought about during the next revision.

2.7. A closer look at the periodicity of revision seems called for. The First SFC had recommended triennial revision but the Government decided on quinquennial revision and have incorporated this in the ULB Act. In response to our questionnaires to various functionaries and in personal interaction by the Commission with them, no doubt varying views were expressed by them. One perception was that the ULBs should have indexation for annual or biennial increase. Public will not feel the pinch if small increase in property tax is done on such annual or biennial basis. On the other hand if the property tax is done once in five years, public are likely to raise hue and cry. Just as expenditure is going up in ULBs due to inflation, half-yearly D.A. increases for the employees etc., revenue also needs to be increased frequently in small doses. Keeping this logic in the backdrop as also the number of properties involved in residential and other categories, the Commission feels that the property tax needs to be revised as detailed below.

Residential properties	- Once in five years
Non-Residential properties	- Once in two years.

2.8. It is reliably learnt that there are large number of properties, which are escaping assessment. The list of assessment needs to be updated annually after thorough physical verification, by reconciling the details of new completed buildings as ascertained from Town Planning Section in each local body. Moreover, the building license is given for three years. Hence there is need to reduce the license period. With the advent of computers, it is possible to enter the data relating to building licenses online so that assessment of property tax is done at the expiry of the license period. Also the electoral rolls used for local body election may be an index for verification of the tax assesseees.

2.8.1. It is significant that the First Karnataka State Finance Commission in its report estimated that as many as 35% of the properties in Bangalore have been omitted from the levy property tax. We tried our best to assess the exact percentage of properties in Chennai city, which may have escaped levy of property tax. First we did an exercise comparing properties with electoral rolls, ration cards, census house - holds, water tax assessments etc. The Chennai Corporation also in one study gave the number of property tax assessee as 4.5 lakhs but in TUIFSL report, it was 4.2 lakhs at one stage. Despite our best efforts, we have not been able to reconcile the figures and reasonably conclude that all properties would have been taxed. We feel that a detailed tax mapping needs to be undertaken by an outside consultant on which a specific recommendation is given in para 2.12.

2.9. About 10% of the total assesseees in Town Panchayats pay Rs.10/- or less as property tax. There is therefore every need to fix a minimum amount keeping in mind the inflation and the cost involved in the collection.



2.10. Urban Review Committee appointed by the Commission visited Mumbai and Ahmedabad and reported about various features of property tax in those cities and in the States of Maharashtra and Gujarat in general. The Commission also studied the system prevailing in Bangalore by deputing a team of officers from the Commission and Chennai Corporation.

2.11. **Critique :** As Property tax is the most important source of revenue for Urban Local Bodies, a critique on the same based on detailed study is kept as annexure –IV-1(d) to this chapter.

2.12. **Education Tax:** As per Article 243W(b), the State may confer powers on Urban Local Bodies, including those in relation to the subjects mentioned in XII Schedule of the Constitution. The Tamil Nadu Urban Local Bodies Act, 1998 provides for levy of education tax (Section 91) not exceeding 5% of the property tax to take care of the maintenance needs of schools. **This levy may continue till the maintenance of school buildings is taken over by the Government.**

2.13. As the Tamil Nadu Urban Local Bodies Act and Rules there under have been carefully drafted, implementation thereof would take care of most of the measures needed to raise resources. With this in background, **our Commission recommends the following package:-**

- a) **Levy of property tax may be done as enshrined in the Tamil Nadu Urban Local Bodies Act, 1998 during the next revision. If for any reason, the act provisions could not be given effect to prior to the revision, the provisions dealing with property tax as contemplated in the Tamil Nadu Urban Local Bodies Act, 1998 may be incorporated in the Act in force at that time. The property tax as contemplated in the Act shall be general-purpose tax. A minimum property tax of Rs.25/- per half year shall be levied in Town Panchayats wherever it is less than this amount.**
- b) **The periodicity of revision will be quinquennial in respect of residential properties and in respect of non-residential properties it will be once in two years. This may be effected in October 2003 after suitably amending the existing Act. The list of assesseees should be updated annually by regular inspections. All Urban Local Bodies should ensure that all properties eligible for the levy of property tax are assessed properly without any omission by ensuring co-ordination between Town Planning and Revenue wings of the respective local bodies.**  
**Further, the Commission recommends that in Chennai city, a detailed tax mapping exercise can be given to a reputed consultancy firm which can give upto date data-base incorporating all the properties (commercial, industrial and residential etc.) in six months and this can be updated once in five years, just prior to the property tax revision. On the basis of experience of the same, it may be extended to all other Municipal Corporations and selectively for major Municipalities.**
- c) **Levy of water tax shall be done by all Urban Local Bodies and sewerage and education tax shall be levied by the Urban Local Bodies where sewerage projects / educational institutions are in operation. The rates shall be as suggested in the Tamil Nadu Urban Local Bodies Act.**
- d) **All assesseees shall be brought under database and an assessee card as suggested in Form 12 in Tamil Nadu Urban Local Bodies Rules, 2000 containing the tax and non-tax dues may be issued. Computers have been provided in all Corporations and several municipalities. These Urban Local Bodies should computerize the entire tax administration, so that online updating of property tax can be monitored in the most efficient manner as is being done in banks and railways.**
- e) **Self Declaration Scheme is to be introduced in all Urban Local Bodies to make the tax administration simple, transparent and assessee friendly. The property tax needs to be restructured based on zonal rates applicable to residential buildings and non-residential buildings separately.**



- f) For the above purpose, a property tax Guideline Committee may be immediately constituted for each Urban Local Body consisting of the executive authority of the Urban Local Body concerned, Municipal engineer and Town Planning Officer. In the case of Town Panchayats the Guideline Committee will consist of Executive officer of Town Panchayat, Municipal Engineer and Town Planning Officer from the nearest Municipality.
- g) The Property Tax Guideline Committee will carefully classify zones in each Urban Local Bodies taking into consideration areas adjacent to the following categories of roads. To illustrate, Chennai Corporation will take into consideration, the following categories of roads.
  - i) National Highways / State Highways
  - ii) Bus Route Roads
  - iii) Arterial Roads
  - iv) Medium width Roads
  - v) Small Roads
  - vii) Lanes and
  - viii) Slums

For Municipalities and Town Panchayats, the present criteria may continue. The Guideline Committee will adopt a combined index based on both general price inflation and the real estate value for the purpose of fixing rates of lands and buildings. The Property Tax is to be assessed on the plinth area basis only, as this is easy to verify and measure. The Guideline Committee will adopt the criteria like the location, type of construction, built up area of property and age of building in fixing the zone rates. Owner occupations may be given 30% relief.

- h) For Chennai Corporation, the Self declaration returns filed under the self declaration scheme should be disposed of within a period of 9 months from the date of notification on revision as per the time table shown in the Annexure IV-2-a. The assesses who have not opted for submitting the returns under self-declaration scheme will have to be dealt with by the regular revenue wing within one year. (Annexure IV-2-b)
- i) These time limits need to be adhered to, so that based on property taxes finally decided, Metro water could fix water-tax. Such synchronization needs to be ensured.
- j) For other Urban Local Bodies, it should be possible to go through the process within six months.
- k) Levy of fine at 2% per month on the value of tax amount for non-filing of returns and false returns.
- l) In the next phase, basic rate may be linked with budget needs after two years in respect of non-residential properties and proportionate increase effected. This may be given effect to from October 2003.
- m) To bridge the gap between the pre-1998 assesseees and post-1998 assesseees, in the payment of property tax, the following approach is recommended. Commercial and industrial assessments belonging to pre-1998 period may be brought on par during next revision with effect from 01.10.2003. In the case of residential properties, this may be effected in two phases viz. during the general revisions in 2003 and 2008.
- n) Levy of service charges for exempted properties including Educational institutions shall be undertaken from 1.4.2002 at the rates fixed by the tariff Guideline Committee and completed before 30.9.2002.



- o) At present no legal measures can be taken, if the property tax claim is more than six years old. The property tax is the first charge on property. Both are statutory provisions. In view of the later provision, there should be no time limit to initiate legal proceedings for recovery of tax except the provisions under Limitation Act viz., 12 years. An amendment may be effected.
- p) Other measures in the critique on property tax administration also need to be implemented. (Annexure IV –1(d))

### 3. House tax

3.1. House tax is considered to be a major revenue yielding own source of income to Village Panchayats.

**Table – IV-6 House Tax Income**

Years	Income (Rs. in Lakhs)	% to the			Per Panchayat (Rs.)	Growth for the Year	Per Capita
		Own Tax	Own Income	Total Income			
1995-96	1105.58	43%	9.00	7.70	8761	43	3.40
1996-97	1578.63	46%	11.70	8.01	12510	43	4.85
1997-98	1954.49	43%	8.20	4.00	15488	23	6.01
1998-99	2491.45	45%	7.60	4.00	19744	27	7.60
1999-2000	2866.22	45%	7.40	4.40	22714	15	8.80

Above table indicates the tax yield, per capita, and overall growth over the years.

Section 120 of Tamil Nadu Panchayats Act, 1958 empowered the village Panchayats to levy house tax on capital value, annual value or plinth area basis or one or more of the above methods. Section 172 of the Tamil Nadu Panchayats Act, 1994 empowers the panchayats to levy house tax on plinth area basis with maximum and minimum rates or basis on which such tax was levied before commencement of the Act but without provision for one or more methods in the same area. Most of the panchayats earlier adopted capital value basis and continue the same basis till now, subject to ceiling on increase prescribed by Government.

First State Finance Commission recommended adoption of annual rental value related to plinth area instead of direct plinth area tax basis to enable the general revision of rental value without revising the rate of taxation. Government have not passed orders on the above recommendation.

Even when provision was available for general revision by executives in the previous Act, general revision was banned during the absence of elected panchayats for more than a decade.

3.2.1. The field survey conducted in Village Panchayats discloses that out of 1000 Panchayats, only 59% of the Panchayats had opted for upward revision of the House Tax as under: -

**Table-IV-7 Position regarding general revision in sample Panchayats**

Increase by %	No . of village panchayats
10	303
25	143
50	104
100	43
Total	593

Source: -DEAR

It is also observed that generally minimum House Tax is levied at Rs.3/- for huts, at Rs.20/- for tiled roof house and Rs.50/- for RCC House and surprisingly there are also cases where tax of Re.1/- is still levied.

If general revision is resorted in all Panchayats there is scope for substantial growth of income. If the basis is switched over to plinth area, further growth can be expected besides ensuring transparency. However, unless the ceiling of increase fixed by Government is removed, the Panchayats will be limiting the increase to 100%. Since the existing tax is found as low as Re.1/- any increase may not be meaningful. Therefore there is need for fixing minimum rates, as discussed in a subsequent para.

3.2.2. An illustration would highlight the anomalous situation in house tax levied in a Village Panchayat, compared to neighbouring Town Panchayat and municipality. In a case study made by the Department of Evaluation and Applied Research (DEAR) house tax rates in Nolambur Village Panchayat of Villivakkam Block have been compared with the adjacent Madhuravoyal Town Panchayat and Ambattur Municipality. Following table indicates the wide variations.

**Table IV-8 Differential House Tax Rates**

Sl. No.	Nature of Building	House Tax Demand per 100 sq. ft.		
		Nolambur Village Panchayat	Maduravoyal Town Panchayat	Ambattur Municipality
		(B - Zone)		
		(Rs.)	(Rs.)	(Rs.)
1.	Thatched House	11.00 (Irrespective of area)	37.50	100.00
2.	Tiled House	5.50	56.25	150.00
3.	Terraced House	44.00	75.00	200.00

**Note:**

1. Town Panchayat classified as A, B & C Zones (A – 1.00/B - 0.75/C - 0.50 per sq.ft.)
2. Municipality classified as A, B & C zone (A – 2.50, B – 2.00/C/ 1,50 per sq. ft)
3. Village Panchayat is not classified as Zones.

The State Finance Commission believes that such vast variations need not exist between house tax rates of Village Panchayat and the property tax rates of neighbouring Town Panchayat. In fact there has been mushroom growth of new colonies in most of the village panchayats in the metro belt area and also in the areas adjoining corporations and cities in the State. Most of these villages in view of their locational advantage could mobilise larger resources as these villages are well connected by public transport and are within short reach of the main towns and resources so mobilised can be duly ploughed back for providing basic amenities as these villages are likely to face continuous demographic pressure in the years to come. As a thumb rule, in such villages adjoining urban belt, at the floor level, house tax rates need to be 50 percent of property tax rates of neighbouring urban local bodies.

3.3. Types of houses are given below.

**Table: IV-9 No. of Assessés in different types of houses – Village Panchayats as per Data analysis**

					No. in lakhs	
	RCC / Madras	Tiled	Huts		Group House	Total
			Small	Big		
Residential	16.90	28.65	18.24	11.02	6.21	81.02
Commercial	0.84	0.84	0.44	0.24	--	2.36
<b>Total</b>	<b>17.74</b>	<b>29.49</b>	<b>18.68</b>	<b>11.26</b>	<b>6.21</b>	<b>83.38</b>
Percentage to total	21.2	35.36	22.40	13.50	7.44	

Source: GDC

It is also observed that J.V.V.T / IAY group houses and houses in Samathuvapuram have not been subjected to taxation in many Panchayats.

3.4. The plinth area rental value will be more appropriate basis for house tax in Village Panchayats around urban areas, vide para 3.2.2 above and classified plinth area tax will be the better basis for interior Village Panchayats. To enable this, the Act should have option for the different types of levy as in the Act of 1958.



3.5. The self-financing educational institutions running on commercial basis are found not subjected to levy of house tax under the garb of exemption. Rule 15 of the rules relating to levy of house tax indicates that only educational institutions, which are not run on commercial basis alone, are exempted from House Tax.

**3.6. Period for General Revision:**

According to Sub Rule (2) of Rule 14 relating to levy of house Tax, the general revision shall be taken up once in five years. Views have been expressed before our Commission that the revision of tax could be undertaken every year or at least once in three years. Revision of Tax cannot be done every year for want of required machinery in Village Panchayats. If a four year period is adopted as in the case of property tax discussed in the earlier section, the Panchayats may have to revise only once during their term and there may not be resistance from elected representatives or from public.

The present rules permit postponement of general revision, or stay of the proceeding for a period of one or more half years at a time not exceeding, in any case, four half years viz. two years. This is detrimental to tax raising efforts and amounts to interference on local bodies function. Such provision is not available on urban side and hence needs to be deleted.

**3.7. Issues relating to collection**

**Table – IV-10 Collection of House Tax  
In Percentage**

	For all Panchayats
95-96	75
96-97	73
97-98	65
98-99	69
99-2000	71

*Source: Primary data.*

The collection of taxes in Panchayats is being done only by Panchayat Assistants and 'Makkal Nala Paniyalargal', in rare cases, are assisting Panchayat Assistants in collection.

There has been some increase in collection of house tax due to incentive grant made available to Panchayats. However there is scope for considerable improvement.

The collection performance could be improved by revising the formula of incentive grant by providing higher weightage for higher performance combined with weightage for increase in rate of levy / general revision which is discussed under "Incentive grant under State Finance Commission devolution". It was posed whether collection work could be entrusted to private agencies. It is felt that such a method might not be workable in Village Panchayats. The existing system, with improved method of incentive and better supervision could improve collection.

**3.8. Based on the above analysis, the State Finance Commission recommends the following:**

1. House Tax Levy should be either on plinth area basis or plinth area related rental value. In the next revision, switching over to the plinth area method under the present Act may be effected through suitable amendment to the Act.
2. Plinth area rate as prescribed in Schedule-I under Section 172(i) of Tamil Nadu Panchayats Act, 1994 may be adopted along with minimum flat rate of tax for those dwelling in less than 9.29 sq.m. (100 sq. ft) as below.



Table IV-11.

1.Huts/Thatched house Homesteads	Rs.10/- for every 9.29 sq.m. and less
2. Houses constructed under various Government schemes	Rs.15/- for every 9.29 sq.m.
3. Tiled houses	Rs.20/- for every 9.29 sq.m.
4. RCC Terrace	Rs.100/- for every 9.29 sq.m.

3. Educational institutions should be brought under tax net by way of service charges as in Tamil Nadu Urban Local Bodies Act 1998. Hence the Government may be addressed to amend Rule 15 in Tamil Nadu Panchayat Act 1994 for deleting the words 'On commercial basis' and in their place substituting service charges.

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

6. a. General revision of house tax may be effected once in five years in respect of residential properties and once in two years in respect of non-residential properties fixed subject to minimum flat rate indicated in Recommendation No. 2 and the ceiling on the net increase of tax during general revision or for revision of tax rates now prescribed may be dispensed with.
- b. In villages adjoining urban belt, at the floor level, house tax rates (on properties other than huts) need to be 50% of property tax rates of adjoining urban local body.

6. The following methods for accelerating the collection performance may also be adopted.
  - a. Collection performance could be increased by linking the incentive to Village Panchayats with special reference to general revision / rate revision.
  - b. Sanction of incentive to Panchayat Assistants who are engaged in collection may be accorded in villages where tax revision is effected as above, e.g., 3% subject to a ceiling of Rs.12.000 P.A. of collection of house tax when collection exceeds 90%. This will be in addition to their salary.

3.9. **Levy Of Development Cess by Panchayat Unions :** Panchayat Union Councils are laying new link roads up to the level of BT standard through various centrally and state sponsored programs especially under P.M.G.S.Y Scheme. At present, out of the total length of 29570 kms Panchayat Union roads, B.T. Roads comprise 13265 kms. The remaining roads will also have to be upgraded over a period of time as black topped roads. Most of the Panchayat Unions are experiencing financial crunch for taking up maintenance of roads as a result, B.T. Roads are re-laid as capital works due to non-maintenance. The only own source of income for Panchayat Unions, is Local Cess Surcharge, which depends upon the collection of land revenue. This income is hardly sufficient for meeting salary of Panchayat Union staff. Both LCS Matching grant @ Rs. 50 Crores and Local Roads grant @ Rs. 20 Crores released till 1996-97 to Panchayat Unions for taking up maintenance work have been dispensed with.

Further, Panchayat Unions have to maintain school buildings, Anganwadi Centers, P.D.S. Buildings and other infrastructure created through various source of funds. The only source of State Finance Commission devolution funds could not cater the demand of maintenance work. The Panchayat Union Councils have no option except to augment their own sources even for taking up maintenance works. They need to levy some kind of "Development cess" since Panchayat Union Councils are incurring expenditure more than one crore of rupee under Developmental scheme for creation of durable assets. If this Development cess is levied at minimum rate of Rs.5/- for house tax assessment on residential purpose and at Rs.10/- for commercial purpose as minimum, it would yield annual income of Rs.9.00 cores.



State Finance Commission therefore recommends that Panchayat Union Councils may be authorized to levy "Development cess" at the rate of Rs.5/- per annum for residential properties as minimum and Rs 10/- per annum as minimum for commercial properties. This will be collected by Village Panchayats and passed on to Panchayat Unions.

#### 4. Profession tax

4.1. The levy of profession tax has had a chequered history in post-independent India. Levy of this tax is provided under Article 276 of the Constitution read with Schedule VII, vide S.No.60 in the State list. However, its collection and administration were done by the local bodies, on the basis of the powers vested with the local bodies through state legislation. The collection machinery was not equipped to handle the task with the result that the revenue derived from this tax was meagre and paltry. The Presidential ordinance for recovering the tax at source and the reforms initiated in 1976 were put in cold storage until 1988 when Government of India amended Article 276 merely to revise the ceiling for levy. This enabled the State Government to revise and streamline the collection of the above tax. In Tamil Nadu, a State Act on Professions Trade, Calling and Employment was enacted in 1992.

4.2. Prior to April 1992, profession tax was based on the provisions available in the respective legislation governing the corporations or other local bodies. The maximum and minimum rates leviable based on the income of the individuals / establishments were indicated in the Act itself. Since profession tax was levied mainly on the basis of income of the persons, tax in respect of self-employed professionals like doctors, lawyers, engineers and others could not be correctly assessed.

4.3. The 1992 Act prescribed rates for salaried personnel, trade, professionals and other sections based on the different criteria to mop up revenue and there was sizeable income. In order to devolve more powers to local bodies, the first State Finance Commission had recommended that the power to levy, revise and administer the profession tax be vested with the concerned local body. In addition, there were representations from traders also on various aspects. Accordingly, the Government of Tamil Nadu cancelled the 1992 State Act and in its place, suitable provisions empowering the local bodies to administer the tax have been incorporated in the Tamil Nadu Urban Local Bodies Act, 1998 and in Tamil Nadu Panchayats Act, 1994. Under the amended provisions, the tax has been reduced and the maximum amount has been brought down from Rs.900/- to Rs.600/- and in respect of trades from Rs.720/- to Rs.600/-. In other words, the maximum amount payable has been brought down to Rs.600/-.

4.4. Despite bringing down the rates, the compliance from trading community was poor. This was partly due to the absence of penal provision against willful defaulters. The amended provisions empower local bodies to collect taxes based on average half yearly income for all including traders, business and industrial establishments. The following are the slabs prescribed:

Table IV-12

S. NO.	Average Half-yearly Income	Tax (Rs.)
1.	Upto Rs.21,000	Nil
2.	Rs.21,001 to Rs.30,000	60
3.	Rs.30,001 to Rs.40,000	150
4.	Rs.40,001 to Rs.60,000	300
5.	Rs.60,001 to Rs.75,000	450
6.	Rs.75,001 and above	600

4.5. While the responsibility for levying and collecting the tax in respect of salaried class lies with the pay disbursing officer, in respect of traders and other business / industrial establishments, the responsibility lies with them by way of filing returns. There is no specific clause empowering distraint proceedings.

Comparative position of the number of assessees, during 1993-94 and during 1999-2000, is given below.

Table IV-13

Local Bodies	1993-94 (Nos.)	1999-2000 (Nos.)
Municipal Corporations	562770	160207
Municipalities	420000	257703
Town Panchayats	465000	411938
Village Panchayats	NA	2272774



During district visits of the Commission, it was revealed that there is slump in number of assessees owing to non-filing of returns by business community and self-employed professionals.

The demand collection and balance for the years, 1998-99 and 1999-2000 are furnished below.

**TABLE IV-14**

(Rupees in Crores)

	1998-99			1999-2000		
	Demand	Collection	Balance	Demand	Collection	Balance
Chennai Corporation	22.97	21.05	1.92	23.05	20.74	2.31
Other Corporations	12.40	7.21	s	13.38	10.00	3.38
Municipalities	16.24	12.93	3.31	15.28	12.89	2.39
Town Panchayats	10.99	9.32	1.67	10.55	10.17	0.38
Village Panchayats	-	22.95	-	-	25.47	-

The above details show that there is poor compliance from trading community and professionals in filing self-assessment return. Admittedly, if the rates and enforcement had been as before the buoyancy in revenue would be much higher.

4.6. In the above context, the practices of the neighbouring States in the levy and collection of Profession tax have been studied. In Andhra Pradesh the State Government has been collecting the tax and apportioning a major share to local bodies as assigned revenue. In Karnataka too, the State administered Act works well and there is a sizeable collection from trading community. The rates of levy are also high in Karnataka, on companies and individuals (vide Annexure IV-3)

4.7. Chennai Municipal Corporation Act, 1919, empowered the Municipal Corporation to levy company tax. Citing this, First State Finance Commission had recommended that the levy may be extended to other Municipal Corporations. This has been rejected by the Government and the power to levy company tax by Chennai Corporation has been done away with. Added to this, the power to tax the companies under the Profession Tax Act has also been brought down. Taking the above two aspects together, there is need to enhance the level of tax for companies / industries. At the same time, powers devolved to the local bodies to collect Profession Tax may have to be retained. But the collection machinery needs to be strengthened by involving suitable State Government Department, such as Commercial Taxes Department. We are given to understand that with liberalization in sales tax regime (with self-assessment system for traders upto Rs.1 crore), the department could identify staff for redeployment. The periodicity appears to be a long one. Hence it may be a triennial one. In fact, the Eleventh Finance Commission has found the States wanting in improving the tax base of the local bodies. It has also observed that the ceiling that was fixed in 1988 needs to be suitably enhanced. Hence, the State needs to enable the local bodies to realize the potential from the existing ceiling.

4.8. In the light of the above analysis, the State Finance Commission makes the following recommendations: -

- The local bodies may continue to exercise the powers of levy. It may also continue to collect the tax from the salaried class
- The levy based on income as provided in the relevant acts may continue to be operative upto 31.3.2002. The new rates are given below. Subsequently, triennial revision may be effected. The income slabs of the salaried class for levy and the rate of tax for the period from April 2002 be revised as noted below.

**Table IV-15**

Sl. No.	Average Half-yearly Income	Half-yearly Tax (Rs.)
1.	Upto Rs.25,000	Nil
2.	Rs.25,001 to 35,000	100
3.	Rs.35,001 to 45,000	200
4.	Rs.45,001 to 60,000	400
5.	Rs.60,001 to 75,000	600
6.	Rs.75,001 to 1,00,000	750
7.	Rs.1,00,001 and above	900



- c. From April 2005 the rates may be revised as under.

Table IV-16

Sl. No.	Average Half-yearly Income	Half-yearly Tax (Rs.)
1.	Upto Rs.30,000	Nil
2.	Rs.30,001 to 50,000	250
3.	Rs.50,001 to 75,000	600
4.	Rs.75,001 to 1,00,000	900
5.	Rs.1,00,001 to 1,50,000	1000
6.	Rs.1,50,001 and above	1250

- d. In respect of Industries registered under Industrial Relations Act and Companies registered under Companies Act, 1956 the maximum amount of Rs.2500/- p.a. may be levied from April 2002 itself. But the individual employees working in that establishment shall be covered under the income brackets as aforesaid.
- e. In respect of traders, the collection may be entrusted to the Commercial Taxes department, which will assess and intimate the derived income to the respective local body for levy of Profession Tax, by using the surplus staff with them. A nominal service charge not exceeding 5% of the tax demand reported by them may be deducted and the balance 95% remitted to local bodies by Commercial Taxes Department every quarter. A committee may be constituted with Principal Commissioner and Commissioner of Commercial Taxes, Commissioner of Municipal Administration, Director of Rural Development and Director of Town panchayats to review the above process once in six months.
- f. In respect of self-employed professionals, the income cannot be assessed. In order to bring them under Profession Tax net, the Karnataka pattern of service and experience based system may be introduced, vide para 4.6 above read with annexure IV-3. This may be done by a suitable committee to be constituted by the Government and its report may be obtained within three months, so as to enforce the new rates from 1.4.2002.

## 5. Advertisement tax

5.1. The first State Finance Commission recommended for streamlining the levy relating to advertisement tax. It had also suggested levying this tax in all local bodies, which was till then limited to Chennai and other Municipal Corporations. Based on the recommendation of the first Finance Commission the Government have incorporated a proviso for collecting advertisement tax in the existing Municipal Act as well as in The Tamil Nadu Urban Local Bodies Act, 1998, and in Tamil Nadu Panchayats Act, 1994.

### Hoardings:

Hoardings as explained under Section 131 of Tamil Nadu Urban Local Bodies Act 1998, (now kept in abeyance) and Rules 135 to 138 cover the erection of hoardings in Municipal land, Government land or in road margin. The fees for such erection will be separate and that the publicity it gains by way of hoarding will attract advertisement tax as contemplated under Section 92 of the above Act. The fees for hoardings and advertisement tax for the publicity have not been fully tapped as ascertained from the Tamil Nadu Private site Hoardings Owners Association, who have claimed that the resource potential from this source in Chennai alone is roughly Rs.30 crores.

Recently the Madras High court has upheld the two State legislation relating to hoardings (i) To regulate and grant licences to advertisement hoardings (ii) Giving powers to the authority concerned to take steps to remove unauthorized hoardings that were visible to traffic.

The Commission is informed that subsequently the Supreme Court (April 2001) has modified the ruling of High Court order to the effect that the power to remove the existing hoardings needs to be exercised only if the hoarding concerned is hazardous and is a disturbance to safe traffic movement. It has therefore directed the persons desirous of obtaining a hoarding licence under the Act be given 30



days time to make the applications along with the prescribed fee. It is hoped that the Urban Local Bodies will endeavour to keep the cities clean and simultaneously maximize revenue from the hoardings.

5.2. The Government have already fixed the minimum and maximum tax payable in Schedule I of the Tamil Nadu Urban Local Bodies Rules, 2000 (which is available in annexure IV-4). Similarly, for Village Panchayats, the rates have been fixed and notified in the rules, vide GO.Ms.No.218 RD Department dated 14.10.1999. Even though all advertisements other than public buildings are covered in the Act/rules, yet the realization in terms of revenue is poor. During interaction the issue was raised by this Commission with Corporation Commissioners and Municipal Chairpersons. They admitted that many assesseees have not been brought to tax net and promised that they would enforce it vigorously in future. Based on the experience gained so far, **Second State Finance Commission makes the following recommendations.**

- i. **The rates fixed by the Government may be adopted and the revision may be done once in three years.**
- ii. **It may be ensured that all assesseees under trade license are covered in the advertisement tax. It may be ensured that all business establishments / trade and industry assesseees covered under Profession Tax are brought under advertisement tax.**
- iii. **Collection of advertisement tax may be done along with property tax / profession tax / trade license fee so that no one escapes from the net.**
- iv. **The Urban Local Bodies shall levy a fee on hoardings on Municipal / Government land subject to the satisfaction of other conditions by invoking Section 131 of Tamil Nadu Urban Local Bodies Act, 1998 (now kept in abeyance) besides the advertisement tax as contemplated under Section 92.**

## **6. Other taxes**

### **6.1. Vehicle Tax and other taxes:**

The first State Finance Commission had recommended levying of tax on vehicles, which did not come under the purview of Motor Vehicles Act, such as mopeds, tractors etc. But the Government did not accept the suggestion. Moreover, the combined Tamil Nadu Urban Local Bodies Act does not envisage for levying tax on vehicles. Hence the Second State Finance Commission does not recommend for levying the tax, in view of possible poor income from this source. Similarly, the tax on timber and tax on company have not been recommended as the Government have rejected similar recommendations made by First State Finance Commission. However, tax on Companies has been built into Profession tax, vide paras 4.7 and 4.8. above.

### **6.2. Vacant Land Tax:**

The recommendation of first State Finance Commission has been accepted and incorporated under Section 85 in the Tamil Nadu Urban Local Bodies Act, 1998. The rates have been suggested under Rule 114 of Tamil Nadu Urban Local Bodies Rules, 2000. The Second State Finance Commission suggests that the above provisions may be strictly enforced and the income from this source may be fully tapped.

### **6.3. Pilgrim Tax:**

#### **6.4. 6.3.1. The first State Finance Commission has recommended for levy of this tax on:-**

- a. Places of Holiday resort.
- b. Temple / Tourist towns.
- c. Towns known for archeological / historical interests.

The Government have rejected the suggestion. However, it has been incorporated vide Section 111 of Tamil Nadu Urban Local Bodies Act, for levy of toll fee on every motor vehicle entering the Local Body.



6.3.2. In practice, no levy is made for state-owned buses. Since the Act specifies that every Motor Vehicle entering the local body should pay the toll, it includes state-owned buses also. The definition of motor vehicles has also been given in the Act as contemplated under Section 2 of the Motor Vehicles Act 1988. As such all motor vehicles may be taxed. Other details are narrated in the section on non-tax receipts of Local Bodies. A similar provision may also be made in Tamil Nadu Panchayats Act or the rules framed there under.

#### 6.4. Motor Vehicles Tax:

6.4.1 The first State Finance Commission had recommended for sharing with the local bodies, 40% of motor vehicles tax, in view of the extensive use of local bodies' roads by all motor vehicles in case global sharing was not accepted. The Government have not accepted this recommendation in view of the global sharing of taxes. But in the state level seminars conducted by our Commission, a view was expressed by both officials and non-officials that adequate share from motor vehicles tax may be set apart to make good the damage caused to the roads by the vehicles. In fact, creation of "Pool C" for a separate sharing has been specifically suggested. As a matter of fact under Section 17 of the Tamil Nadu Motor Vehicles Taxation Act 1974, the utilization of the proceeds of the tax has been proposed, after deducting the following:-

- (i) the amount credited to the Tamil Nadu Rural Road Development fund under Sub-section (1) of Section 10.
- (ii) the expenses of collecting the tax under this Act and,
- (iii) the costs incurred by the Government in exercising their administration functions in regard to the control of motor vehicles in this State.

The balance shall be apportioned between the Government and local authorities and such apportionment shall be in accordance with such rules as may be made in this behalf.

The above provisions fully justify inclusion of motor vehicles tax as assigned revenue. But the past experience in the adjustment of the existing assigned revenue items makes one wonder whether it will really serve the purpose, vide paras 8.7, 10, 11 and 13 below. Hence, Second State Finance Commission suggests that there is no need for separate apportionment and it may as well be included in the gross tax revenue of the State, to be shared with local bodies on global sharing pattern.

6.4.2. However as per the Motor Vehicle Act provisions, (Sub Section 1 of section 10) not exceeding 10% of the Motor Vehicle Tax collection shall be credited to Tamil Nadu Rural Road Development Fund. But the figures made available to us for the past 10 years indicate that the entitled amount has not been credited to the fund nor spent duly on rural roads vide Annexure IV-4(a). **Hence the Second State Finance Commission recommends the amount entitled for apportionment and the actual amount adjusted may be reconciled and the dues atleast for the period 1997-2002 may be adjusted in the financial years 2002-2003 and 2003-2004 and used for road development schemes in rural areas.**

#### 6.5. Tax on Cable T.V.

Till 1999-2000, tax on Cable T.V. has been collected as part of Entertainment Tax under Tamil Nadu Entertainment Tax Act, 1939. The First State Finance Commission had recommended for apportioning the entire amount after deducting the collection charges. However, the Government in September 2000 have entrusted the functions of collecting the tax to the Local Bodies under Entertainment Tax Act. As this is a recent development, the collection is expected to pick up momentum soon, notwithstanding the limited stay given by High Court for Nagapattinam district. The potential under this head is good as Rs.10,000/- per cable T.V. operator as security deposit is expected to be collected. Besides, annual tract rent has also been ordered to be collected on the following rates.

Table IV-17

Chennai Corporation	-	Rs.9,400/- p.a. for 1 km. length
Other Municipal Corporations	-	Rs.6,300/- p.a. for 1 km. length
Municipalities/Town Panchayats / Village Panchayats	-	Rs.5,500/- p.a. for 1 km. length

The Second State Finance Commission agrees with the above approach and recommends revision of rates once in three years.



## 7. Other Taxes:

7.1. Other taxes recommended for individual sharing by First State Finance Commission have been covered under global sharing of total tax revenues of the State, as stated by the Government in the Action taken report.

7.2. The Corporation council of Chennai passed a set of resolutions and sent a memorandum to this Commission requesting us to recommend introduction of octroi. There was also a suggestion to levy entry tax on vehicles carrying commercial goods into the city. We do not recommend both these taxes as many States where octroi was prevalent earlier have abolished it as octroi is considered obnoxious in the present era of economic reforms.

## 8. Non-tax income of PRIs.

8.1. The following table gives overview of the non-tax revenue of the Panchayat Raj Institutions.

**Table IV-18 NON TAX REVENUE OF PRIs**

YEAR	Amount		Per Panchayat Union	Per Village Panchayat	Per Capita	Per Capita
					Panchayat Union	Village Panchayats
	Rs. In Crores		Rs. In Lakhs	Rs.	Rs.	Rs.
1995-96	64.17	16.67	12.56	9,953/-	19.73	3.87
1996-97	79.23	20.58	14.79	11,720/-	24.36	4.55
1997-98	51.63	13.41	25.33	20,073/-	15.88	7.79
1998-99	133.29	34.62	32.35	25,794/-	40.99	10.00
1999-00	55.40	14.39	38.95	30,366/-	17.04	11.97

**Table IV-19 Non-Tax Revenue Receipt – Village Panchayat**

Year	D & O License Fees	2C Patta Trees	Water Charges Water Tax	Fisheries	Social Forestry	Other Non-tax Item	Total	Average	Per Panchayat
	Rupees in Lakhs								Rupees
1995-96	166.12	89.06	203.75	52.77	64.71	249.56	825.97	137.66	6545.45
1996-97	172.06	155.59	219.62	50.71	54.24	146.09	798.31	133.05	6326.25
1997-98	147.04	187.56	341.61	103.83	215.74	262.34	1258.12	209.69	9970.05
1998-99	210.88	224.07	478.80	178.10	160.61	481.57	1734.03	289.01	13741.42
1999-00	241.77	280.43	773.70	125.81	136.91	466.44	2025.06	337.51	16047.71

8.2.1. It is seen that D & O trade license fees, building license fees are included in the non-tax base of Panchayat Unions since they were being collected by Panchayat Unions earlier. As per the latest position they need to be collected by Village Panchayats directly. Non-Tax items in Panchayat Unions will therefore be confined to rent on buildings, market and shandies belonging to Panchayat Unions and any other remunerative schemes implemented by them. Thus the scope for Non Tax items in Panchayat Unions will be considerably low. There is scope for increase of income for Village Panchayats when the above items of income are separated from Panchayat Unions and collected by Panchayats themselves. The details regarding individual items are discussed below.

8.2.2. It is seen from Table - IV 18 that there is a spurt in growth of non-tax income during 1998-99. As stated in para 8.2 above this includes items of income, which are legitimately due to Village Panchayats but held back by Panchayat Unions. From the year 1999-2000 onwards, the collections are being made by Village Panchayat's Accounts. Now social forestry and other items are directly credited to Village Panchayats. Taking into consideration the above facts, the projection for the period 2002-2007 under Non-tax item has been made in the Chapter "Devolution Mechanism" based on actual income, which the Panchayat Unions are legitimately entitled to.



### 8.3. D & O License fees

The license fees were so far levied and collected and passed to Village Panchayats by the respective Panchayat Union.

The Government have amended the Section 159 (2) of the Tamil Nadu Panchayat Act 1994 suitably to enable the Village Panchayat themselves to levy and collect D&O License fees. However, this has not been implemented in several districts and Panchayat Unions continue to collect the D&O license fee at the old rate. The rates under D&O license fee have been fixed long back and have not been revised. The First State Finance Commission had recommended the revised rates for adoption. **The Second State Finance Commission reiterates that the Village Panchayats should be empowered to adopt the revised rates and collect the fees after due notification issued through the Collector of each district.**

### 8.4. 2C Patta trees

The avenue trees are leased to Panchayats on payment of lease amount to be fixed by Government in Highways Department. The usufructs of avenue trees will be availed of by Panchayats by auctioning them. This Commission makes the following recommendations:-

- 1) **Wind fallen trees should be auctioned by a committee consisting of representatives of Panchayat, Panchayat Union Commissioner and Revenue official concerned. The auction should be decided by the Committee to ensure better price.**
- 2) **The auction amount may be remitted to the Panchayat Union Council Treasury for credit to the Village Panchayat funds.**
- 3) **In case of dead trees, the Panchayats should be given powers to report the fact and initiate action to remove them from the roads and sell them, ensuring quick disposal of the trees and realization of better revenues.**

### 8.5. Water charges / Water Tax

At present, there is no provision for collecting water tax. Village Panchayats are levying only water charges. Whenever house service connections are given, a sum of Rs.1000 is collected as deposit and Rs.30/- per month collected as water consumption charges. Although Government have empowered the Village Panchayat Presidents to give house service connections, it has been noticed that more and more public taps are still being provided and the provision of house service connection enabling collecting water charges have not been availed of. There is general consensus for levy of water charges and service tax in the seminars conducted by our Commission. The levy of service tax had been suggested by the Damodaran Committee also in 1990. The Director of Rural Development has also suggested that in addition to water charges, as in urban local bodies, water tax may also be fixed as a component of house tax at 10% of the house tax. **Second State Finance Commission recommends that surcharge of 10% of house tax may be fixed as water tax. This may be done in villages, to start with, where there is more or less assured supply of water all through the year. Further, there is urgent need to enforce discipline in the matter of illegal connections.**

### 8.6. Fisheries

8.6.1. The Village Panchayats lease the ponds and the Panchayat Union lease Panchayat Union tanks in the Panchayat area for fishing rights. Formerly the fishermen co-operative societies were having monopoly on this, but in view of their failure to pay the local bodies properly, the Government permitted the panchayats to grant lease to any person. Now, the cooperative societies have only the option to participate in the auction along with others. It has been observed that in most cases, the local people themselves connive and depress the auction value and after taking the bid, they sublease the right for higher amounts and utilize the difference in bid amount for public causes of the locality such as temple festivals etc. Counseling the elders of the village may be tried to reduce the impact of the above practice.

8.6.2. It is also learnt that the lessees release the water from PWD tanks in order to derive maximum exploitation. This will lead to depletion of ground water level. **Committee consisting of President of Panchayat, Revenue Inspector, and Inspector of Fisheries Department may be constituted for conduct of lease. It has further been suggested that fishery rental in respect of M.I. Tanks of Panchayat Union may be shared on 50:50 basis between Panchayat Unions and Panchayats. The proceeds of fisheries in PWD Tanks should also be shared between or among all Panchayats covered in the tank area. Second State Finance Commission recommends the above package.**



## 8.7. Social Forestry

8.7.1. The income under this head is shared between Village Panchayats and Forest Department in the ratio of 60:40 respectively, after deducting expenses incurred for payment of salaries to gardeners, workers, watchmen, etc. working in the plantations. Inordinate delay has been notified in disbursing the share of the Village Panchayats. For instance, the share of the Village Panchayats for the years 1993-94 to 1994-95 worked out as Rs.8.75 crores has been settled only in the year 2000. The share of the Village Panchayats from this income for subsequent years from 1995-96 is yet to be settled. This is indeed inordinate and unconscionable delay. As the auction of proceeds under Social Forestry is done by Forest Department without any role / representation assigned to Village Panchayats, the latter feel that the auction amount could have been more, if they had been involved. The Village Panchayats have also pleaded for an increase in their share from this revenue.

8.7.2. Taking the above factors into consideration, **SFC recommends;**

- i) **A Committee may be formed including Village Panchayat President and Forest department officials for conducting auction periodically, and fixing upset price.**
- ii) **The share of the Village Panchayat and Forest department may be fixed in the ratio of 70:30 after deducting actual working expenses.**
- iii) **The Village Panchayat share may be directly credited to their account after the conduct of auction to avoid delay.**
- iv) **The above system, as also timely adjustment may be monitored annually by a Committee consisting of Secretary to Government, Environment and Forest Department, Principal Chief Conservator of Forests and Director of Rural Development.**

## 9. Non-tax income of ULBs

### 9.1. Water Charges:

9.1.1. Chennai Metropolitan Water Supply & Sewerage Board has been performing the functions of water supply and sewerage. This Board collects water and sewerage tax and water charges and shoulders the responsibility of providing civic amenities viz. water supply and sewerage in Chennai Corporation area. While 80% of the house service connections are un-metered, the remaining 20% represent metered connections. While water charges are said to cover sewerage maintenance also, yet in many areas water supply is erratic, even in normal years. This is dealt with in the relevant chapter. The revenue income derived and the revenue expenditure incurred are available in annexure. However, as per the figures made available, CMWSSB is yet to collect an arrear amount of nearly Rs.154 crores from the consumers. This may be collected at the earliest. As far as levying of water tax / sewerage tax, it is said to be of the order of 7% of ARV (or 23% of property tax). As per the new Tamil Nadu Urban Local Bodies Act, the local authority can levy upto 35%. This may be made use of as and when the Board is able to provide assured water supply, in a normal year, to all its consumers, including those at the tail end areas.

9.1.2. In respect of other Urban Local Bodies, water supply is one of the core civic services, the water account as indicated below reveals that water charges have not been properly levied.

**Table IV-20 Town Panchayats**

Revenue Receipts Item	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	Actuals					Budget
Receipts in Rs. Lakhs						
Water Charges	766.44	800.02	943.17	1100.20	1538.20	1939.82
Others Income	157.20	170.29	180.36	157.57	176.63	223.17
Total Income	923.64	970.31	1123.53	1257.78	1714.83	2163.00
Expenditure in Rs. Lakhs						
Establishment	419.36	474.92	565.89	707.39	787.00	891.59
Power Charges	500.17	561.89	764.31	864.87	948.73	1071.02
Tamil Nadu Water Supply & Drainage Board payments	114.10	216.54	346.66	736.66	879.93	994.10
Others	802.45	948.86	1260.51	1451.06	1674.51	1890.67
Total Expenditure	1836.08	2202.21	2937.36	3759.99	4290.17	4846.38
Status - Surplus/Deficit	-912.44	-1231.90	-1813.83	-2502.21	-2575.34	-2683.38



Table IV-21 Municipalities

Table IV-21 Municipalities						
Revenue Receipts Item	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	Actuals					Budget
Receipts in Rs. Lakhs						
Water Charges	1540.97	1591.32	1672.75	1720.34	2663.63	2716.02
Others Income	285.24	295.84	398.35	518.69	546.70	557.45
Total Income	1826.21	1887.16	2071.10	2239.03	3210.33	3273.47
Expenditure in Rs. Lakhs						
Establishment	854.70	994.77	1203.11	1466.89	1638.61	1916.20
Power Charges	802.45	1177.64	1279.62	1274.95	1529.50	1675.11
TWAD Board payments	40.16	74.52	235.58	204.06	202.01	221.24
Others	1050.36	1176.43	1003.00	1471.67	1959.10	2145.60
Total Expenditure	2747.66	3423.37	3721.30	4417.57	5329.21	5958.15
Status - Surplus/Deficit	-921.46	-1536.21	-1650.20	-2178.54	-2118.88	2684.6

Table IV-22 Municipal Corporations

Table IV-22 Municipal Corporations						
Revenue Receipts Item	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	Actuals					Budget
Receipts in Rs. Lakhs						
Water Charges	985.22	1023.40	1225.57	1263.45	1668.19	2467.12
Others Income	322.39	289.55	291.11	392.81	849.85	2651.50
Total Income	1307.61	1312.95	1516.68	1656.26	2518.04	5118.62
Expenditure in Rs. Lakhs						
Establishment	413.18	480.56	487.94	627.27	720.05	858.80
Power Charges	391.19	411.60	667.52	255.79	345.25	425.30
TWAD Board payments	0.00	18.96	43.90	144.34	110.00	110.00
Others	146.91	225.87	1066.06	880.05	1892.96	3063.15
Total Expenditure	951.28	1136.99	2265.42	1907.45	3068.26	4457.25
Status - Surplus/Deficit	356.33	175.96	-748.74	-251.19	-550.22	661.37

The deficit takes away much of the tax revenue for maintenance purpose. Unless breakeven is achieved in tapping the revenue from water supply, it will continue to eat away the major chunk of the revenue. It is therefore necessary to work out the maintenance cost of water supply including overheads and the income derived now. The difference in income to expenditure has to be made good by way of increase in user charges. The Tamil Nadu Urban Local Bodies Act and the rules framed there under prescribe revision once in three years; hence this should be made use of duly revising the water charges.

## 9.2. Measures recommended to augment the resource-base of Local Bodies:

- The Town and Country Planning Act, 1971 provides for collection of development charges for development of land and building. The Chennai Metropolitan Development Authority and other Local Planning Authorities are collecting development charges, OSR etc., for granting planning permission for construction activities. These charges are intended for local development. However, the revenue shared by CMDA with the Local Bodies from this source is negligible. In a case study made by our Commission, Town Panchayats, which had contributed by way as OSR had got back only negligible, as can be seen from the details available in the annexure (IV-5). As against a total amount of Rs. 313.28 lakhs collected by CMDA, the concerned Town Panchayats have received by way of CMDA grant Rs.35.02 lakhs only. This is also the case with development charges. **Hence the Second State Finance Commission recommends that the developmental charges and OSR collected within the local area be transferred to the Local Bodies concerned at 75% of the total collection.**
- The development control rule provides for collection of improvement charges from builders of multi-storied building (more than 4 floors and 15.5 mts height). If an enabling provision is made in the Town And Country Planning Act 1971 for levy and collection of infrastructure improvement charges by the Local Bodies while granting the planning permission, sustainable additional revenue will be realized by the Local Bodies. The functionaries during interaction have mentioned that the FSI was fixed upto 2 on the condition that higher FSI would bring in higher developmental charges. However within CMDA area, the FSI has been fixed at 1.5. But in non-CMDA area it is 2 and more. Hence it has been



suggested that within CMDA area, viz. central business district for high-rise buildings FSI may be enhanced to 2 to 2.5 so as to fetch higher revenue.

- c. In this connection, experts are of the opinion that there is need to decongest the already congested Metropolitan area. One way of reducing congestion is to spread the network of basic amenities to suburban areas and to additionally tax the multistoried apartments. Even though many yardsticks have been suggested for levying the tax, the SSFC considers and recommends that in respect of 1 + plus 3 (ground floor + 3 floors and above) buildings used for residential purposes a congestion tax at the rate of 10% of property tax may be levied. In respect of 1 + plus 2 (ground + 2 floors and above) constructions used for commercial / industrial purposes, a congestion tax at the rate of 20% of property tax may be levied to augment the income of Urban Local Bodies to attend to the growing civic needs. This congestion tax may be levied and collected, to start with, in Chennai Corporation area by the Corporation. Wherever buildings are subjected to service charges the congestion levy to the extent of 10% may be imposed for buildings with 1+3 (ground + 3 floors) and above.
- d. The National Institute of Rural Development, Hyderabad after a study of several States has identified several sources of revenue for PRIs, which are found in the Annexure V-6 and suggested for tapping the resources. Even though it may not be possible to tap the tax potential immediately, an effort needs to be made to gradually tap the revenue potential.

e. **Bus stand fees:**

Under the Motor vehicle taxation rules 1989, the rate of bus stand fees is fixed depending on the class of bus stand viz. A,B,C,& D. The rates were fixed under the rules in the year 1989 as follows:

Class A	Rs.4/- per day
Class B	Rs.3/- "
Class C	Rs.2/- "
Class D	Rs.1.50 "

Subsequently Government raised the rates as noted below:

Class A	Rs.7.50/- per day
Class B	Rs.6/- "
Class C	Rs.4/- "
Class D	Rs.2.50 "

Aggrieved by this, some vehicle operators have filed writ in Madras High court and obtain the stay. Meanwhile the Government have cancelled the order. It is a known fact that cost of maintenance has gone up during the last 12 years where revision was effected. It is understood that the revision is under the consideration of the Government. The Second State Finance Commission feels that local bodies as owners of the property should have the powers for revision of rates. Hence the Second State Finance Commission recommends that Urban Local Bodies / Panchayat Raj Institutions may be given the powers to revise the Bus stand fees once in 3 years. Expeditious steps may be taken to get the court stay vacated and effect the revision by April 2002. Necessary changes may be effected under Motor Vehicle Rules 1989. While effecting the increase the rates below are recommended as the minimum pending issue of amendment to the relevant Act.

Class A	Rs.15/- per day
Class B	Rs.12/- "
Class C	Rs.8/- "
Class D	Rs.5. "

Further separate rates will be notified for Koyambedu.



### 9.3. Sale Of Unused Land

Manual scavenging has been abolished in the Local Bodies and in fact it is an offence now. The Municipal sanitary workers are not sent for cleaning dry latrines in households and a massive programme has been taken up with assistance from HUDCO for conversion of dry-latrines into flush-out latrines. In old towns public scavenging lanes were provided behind the households. Since these lanes are not used, they are slowly being encroached by house owners or misused by dumping waste materials and garbage, posing danger and health hazard and choking the drains. Majority of the Municipalities consider that these lanes are no longer useful for Municipal purpose. At the same time, the land value in such main town area is substantial.

Wherever the land covered by these scavenging lanes is not required for any future public purpose like underground sewerage, storm water drains, etc., it seems better to sell these lanes now.

**The Second State Finance Commission recommends that the above mentioned lanes which are not required for public purposes may be sold to the willing owners at market rate in one lump-sum.**

### 9.4. Library Cess

Spreading literacy and providing access to books through public libraries, which was originally the function of local bodies have been completely taken over as Government function as early as in 1982, even though formal amendment has been effected to statute only in February 2001. It was previously a component of property tax levied at the rate of 3.93% of property tax. After 1998, a separate levy at 10% of Property tax is collected as library cess and it is no longer a component of property tax. However the entire money collected by local bodies is passed as to library department. With an elaborate outfit for library administration, it would be appropriate if this is taken over by Library department. Till this is effected, similar to the collection charges retained by Government for collecting entertainment tax, and surcharge on stamp duty, the local bodies may also be permitted to retain a percentage as collection charges for collecting library cess for which the local bodies spend substantial time to collect and account for the revenue. **The Second State Finance Commission recommends that 10% of such collected amount under library cess may be retained by local bodies as collection charges.**

### 9.5. Construction Workers Welfare Fund

Constructions Workers Welfare Fund @ 0.3% is collected from the amount spent by local bodies for executing capital works and the value of individual building licenses issued by local bodies. It is learnt that roughly Rs.3 crores per annum is passed on to Tamil Nadu Corporation for Construction Workers Relief Fund by urban local bodies. **SFC recommends that 10% from out of the amount due to this fund may be retained by local bodies as collection charges.**

#### 9.6.1. Lease Revenue

Municipal shops and stalls were leased out regularly. Because of some problems in early 1980's, amendments to rules were issued in 1985. Due to litigations, the Supreme Court quashed the amendments in 1991, directing that the lessees should not be dispossessed as long as they pay the lease amount fixed by the Municipal Councils, which should not be more than 15% per block of three years over and above the previous period. This had caused stagnation in revenue. Now High Court of Chennai has interpreted the order to the effect that the local bodies are free to auction their properties. In the Tamil Nadu Urban Local Bodies Act, 1998, provision has been made for auctioning municipal shops and stalls once in three years. **This may be enforced strictly to stop the confusion in leasing out municipal properties. In line with IMFL auction, advance collection of one-year lease amount may be prescribed and renewal for each of the next two years may be subject to payment of one-year lease amount in advance on each occasion.**

#### Agricultural Markets:

9.6.2. The Government have launched nearly 100 *Uzhavar Sandhais* by taking over the Municipal lands to accomplish the goal of bringing quality vegetables at affordable prices to consumers without the intervention of middlemen, so that both farmers and consumers benefit. The scheme is indeed laudable. However, it is understood that the Government have not paid any lease for the land taken over or full land cost while taking possession of the same. In fact, only in Tindivanam, a paltry sum of lease was sanctioned. A field study reveals that many urban local bodies are paying the principal and interest for the



loans taken by them for improving their sandhais. One such instance is Tharapadaveedu Town Panchayat in Vellore district. It has lost an annual lease of nearly Rs.1.79 lakhs per annum. Besides it is yet to repay a total of Rs.16 lakhs to DTCP for the principal and interest on the Integrated Urban Development Programme loan availed by it. **Hence, the SFC recommends that wherever the Municipal land is taken over / acquired for launching uzhar sandhais, the lease amount now fixed by Revenue Department in respect of Government lands by following well-laid down procedures as in vogue may be fixed in respect of lands of local bodies and paid by the market committees or Agricultural Marketing Department.**

**9.6.3.** Madhya Pradesh First State Finance Commission had suggested that the Madhya Pradesh Government should try to generate resources of the order of Rs.50/- to Rs.60/- crores through agricultural marketing Board/Marketing committees by enacting suitable Acts and framing rules there under by which a certain percentage of such revenue would accrue to the local bodies to enable them to perform their essential basic functions.

In Tamil Nadu too there is need to collect service charges for the markets operated by the Agricultural Marketing Committees. The functionaries who interacted with the Commission have claimed that they are not availing any civic services. But the fact remains that the roads, water supply, light and garbage clearance are attended by the respective local body outside the Marketing Committee premises. In fact, the First State Finance Commission had recommended that 50% collection by the Marketing Committees be transferred to the concerned local bodies. Considering all these, **we recommend that service charges as contemplated under Section 88 of Tamil Nadu Urban Local Bodies Act 1998 may be levied against Agricultural Marketing Committees for the civic services rendered by the local bodies. If need be, the Agricultural Marketing Committees' Act may be amended suitably.**

**9.6.4. Unused Shopping Complex Constructed by TAHDCO**

This Commission has learnt that in several places in the State shopping complexes constructed by TAHDCO on local bodies lands are lying unused. Such non-utilisation for various reasons is not proper. **Hence the Second State Finance Commission suggest that properties constructed by any Government Department / Agency particularly on local bodies lands remaining idle may be handed over to the local bodies for proper utilisation.**

**9.7. Unapproved Lay Outs:**

**9.7.1.** In order to tackle various problems arising out of unapproved layouts in urban areas, the Government have stipulated that prior approval from local body should be obtained before any land is registered. It is in fact an amendment to Sec. 22A of Registration Act and notification issued thereon. This was also later upheld by the Madras High Court. **SFC reiterates this Government order and recommends its strict implementation.**

Government have recently outlined a package for regularizing such plots in unapproved layouts. This may be implemented to fetch due revenue to the local bodies concerned.

**9.7.2.** In certain areas like Valasaravakkam the Housing Board has notified almost the entire area under acquisition scheme way back in 1971. Meanwhile many owners sold their plots and the buyers have constructed houses. As the acquisition notification has not been cancelled, the Town Panchayat is levying tax on super structure only. The building license in many cases has not been issued resulting in revenue loss to local bodies.

**9.7.3.** Hence the Second State Finance Commission recommends that wherever Housing Board acquisition notification (e.g., Valasaravakkam), has been issued but the scheme has not been taken up, after five years, such notifications may be cancelled so that the local bodies may be able to levy property tax in full measure and also levy building license fees, penalty etc.

**9.8.** In major Municipalities and Corporations, credit cards may be accepted for payment of tax and non-tax dues.



## ASSIGNED REVENUE

10. This includes the class of taxes and levies traditionally collected by the Government and assigned to the local bodies. The Commission considers the assigned revenue as part of resource base of the local bodies and feels that the base needs to be kept in tact.

### Entertainment Tax:

10.1. Based on the recommendation of the First State Finance Commission, the Government have issued orders for transfer of 90% tax proceeds to Local Bodies, as indicated in the action taken report to the Legislative Assembly in April 1997. But during interaction with officials it was revealed that the transfer of 90% of the tax proceeds is not effected as per the Government order but restricted to 65% or in certain cases no adjustment is made by citing the non-amendment of Financial Code rules.

**Table IV-23 Entertainment Tax – Assigned by Government of Tamil Nadu**

Receipts	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	Actuals					Budget
	Rs. in Lakhs					
Town Panchayats	763.56	767.13	741.96	1163.86	915.12	1005.48
Municipalities	2782.08	3280.55	3068.88	4487.12	3931.87	4506.30
Municipal Corporations	3255.89	3199.08	3758.76	4047.92	4660.00	5230.00
Village Panchayats	501.65	524.04	396.86	710.17	834.08	593.76
Panchayat Unions	269.12	249.22	176.10	239.94	197.78	--
<b>Total Income</b>	<b>7572.30</b>	<b>8020.02</b>	<b>8142.56</b>	<b>10649.01</b>	<b>10538.85</b>	<b>11335.54</b>
<b>Sectoral Contribution in Total Revenue Account - in percentage</b>						
	1995/96	1996/97	1997/98	1998/99	1999/00	Average
Town Panchayats	6.94	6.10	3.01	4.45	3.08	4.71
Municipalities	12.90	12.60	8.59	12.06	8.77	10.98
Municipal Corporations	9.5	8.2	7.6	6.6	6.9	7.7
Village Panchayats	7.87	8.29	7.17	8.25	9.51	8.33
Panchayat Unions	1.56	1.22	0.84	0.75	0.80	--
<b>GROWTH TREND - IN PERCENTAGE</b>						
		1996/97 over 1995/96	1997/98 over 1996/97	1998/99 over 1997/98	1999/00 over 1998/99	Average
Town Panchayats		0.47	-3.28	56.86	-21.37	8.17
Municipalities		17.92	-6.45	46.21	-12.37	11.33
Municipal Corporations		-1.7	17.50	7.70	15.10	9.60
Village Panchayats		4.86	-24.56	78.94	17.44	66.26
Panchayat Unions		-23.81	-67.70	130.13	-28.45	-50.37

10.2. When the issue was brought to the notice of Principal Commissioner and Commissioner of Commercial Taxes, he stated that the assignment of Taxes collected under the compounding system is on the basis of old rates prescribed in Tamil Nadu Financial Code. He has also observed that there is no provision in Tamil Nadu Entertainment Tax Act, 1939 to assign the net proceeds of tax collected under the compounding system and he has suggested suitable amendment of the Financial Code.

10.3. The Commission feels that non-amendment of the code cannot at all be a reason for withholding legitimate revenue to Local Bodies since the Government have issued orders for transfer of 90% of the Entertainment Tax revenue to Local Bodies.

10.4. Hence the Second State Finance Commission recommends that the statutory transfer of revenue from Entertainment Tax as already ordered by Government may be implemented without any further delay. Regarding PRIs, the existing formula may be continued. In order to ensure these, a half-yearly review meeting may be arranged by Principal Commissioner and Commissioner of Commercial Taxes with Commissioner of Municipal Administration, Director of Rural Development and Director of Town Panchayats to review the revenue transfer relating to Entertainment Tax, once in the month of May - June every year and the second time by November-December.



**10.5. Adjustment Of Entertainment Tax To Local Bodies:** This Commission has analysed the collection and adjustment figures of Entertainment Tax compared with the figures made available from the Finance department and found that the situation calls for very meticulous and monthly reconciliation of figures both at the District level with the Treasury concerned and at the State level with the Accountant-General, vide varying figures tabulated in Annexure - IV-9. The study also reveals that there are delays in adjustment and mismatch between the amounts due to local bodies and actual adjustments. This Commission feels that the sharing of Entertainment Tax collection with the local bodies at the prescribed ratio is the legitimate right of the local bodies and there should not be any delay in adjusting the amount to them. The only spillover can be relating to the last quarter of every year to the first quarter of the next financial year. But even so, the figures arrived at cannot be erratic. Hence, this Commission recommends that the adjustment of Entertainment Tax collections to the local bodies should be completed before the end of the respective year itself and unadjusted amount, if any, for the period from 1997-98 to 2001-02, i.e., as on 31.3.2002, should be adjusted in the first quarter of the financial year 2002-03.

#### 11. Surcharge On Stamp Duty:

**11.1.** The rate of Surcharge to be collected on the duty imposed under the Indian Stamp Act, 1899 on Transfer of Property under Sub-Section (1) of Section 94 of Tamil Nadu Urban Local Bodies Act, 1998 and Section 123 of the rules framed there under shall be 5%. The surcharge amounts devolved to the Local Bodies are given below.

**Table IV-24 Surcharge on Stamp Duty:**

Receipts	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	Actuals					Budget
	Rs. in Lakhs					
Town Panchayats	3421.23	3547.39	4090.12	4231.63	4406.65	4841.73
Municipalities	2604.10	2937.72	3531.47	3504.99	3767.82	4318.30
Municipal Corporations	6959.19	6529.07	6618.64	6553.09	8015.00	8385.00
Village Panchayats	4885.40	4979.24	3922.93	6048.22	6667.06	28.28
<b>Total Income</b>	<b>17869.92</b>	<b>17993.42</b>	<b>18163.16</b>	<b>20337.93</b>	<b>22856.53</b>	<b>17573.31</b>
<b>Sectoral Contribution in Total Revenue Account - in percentage</b>						
	1995/96	1996/97	1997/98	1998/99	1999/00	Average
Town Panchayats	31.08	28.22	16.61	16.17	14.81	21.38
Municipalities	12.08	11.28	9.88	9.42	8.41	10.21
Municipal Corporations	20.20	16.80	13.30	10.60	11.90	14.60
Village Panchayats	47.84	44.37	31.05	35.69	35.11	--
<b>GROWTH TREND - IN PERCENTAGE</b>						
		1996/97 over 1995/96	1997/98 over 1996/97	1998/99 over 1997/98	1999/00 over 1998/99	Average
Town Panchayats		3.69	15.30	3.46	4.14	6.65
Municipalities		12.80	20.23	-0.75	7.50	9.94
Municipal Corporations		-6.20	1.40	-1.00	22.30	4.10
Village Panchayats		1.92	-21.22	54.17	3.61	28.28

The First State Finance Commission among other things had recommended that the dues to Local Bodies towards surcharge on stamp duty should be adjusted by the District Registrar himself instead of routing it through District Collector. Even though it is a good suggestion, it could not be implemented as the dues to Panchayats are apportioned on the basis of land revenue demand. But in the case of Urban Local Bodies the dues shall go to the respective Urban Local Bodies. Hence it is suggested that the dues to Urban Local Bodies may be straightaway adjusted to concerned Urban Local Bodies without routing it through the District Collector.

**11.2.** Under the Indian Stamp Act, 1989, stamp duty is charged on 65 instruments out of which the surcharge not exceeding 5% is levied only on 5 instruments (even though two more items were included, it could not be given effect owing to the suspension of the operation of the Urban Local Bodies Act 1998).

There are roughly 16 instruments relating to property alone on which surcharge is not at present levied. It appears from the act provision that there is also no prohibition on levying surcharge on other



instruments. However, as a first step the Second State Finance Commission recommends that the surcharge on stamp duty be levied on the 11 items relating to property at the same rate with effect from April 2002. (vide Annexure IV-7)

**11.3.** Another area where ambiguity still prevails is in the collection charge for the surcharge collected; while it is 10% for Urban Local Bodies, it is said to be 3% for other areas. But in the Tamil Nadu Urban Local Bodies Act 1998 the collection charge has been restricted to 5% for Urban Local Bodies. But this has not been given effect to by citing the suspension of the act. The Second State Finance Commission feels that 5% is quite sufficient as there is no separate collection machinery or process involved, as stamp duty and surcharge are collected at one point.

**11.4.** Section 124 of the Tamil Nadu Panchayats Act 1958, contemplated the Surcharge on duty on transfer of property. For distribution of amount to Panchayats, Sub Section (a) of Section 124 of the Act contemplated that the amounts collected in Village Panchayats in development Block as surcharge on the duty on transfer of property shall be pooled every year for the entire Block and distributed among Village Panchayats in Block in proportion to the Land Revenue.

**11.4.1.** Section 175 of the revised Tamil Nadu Panchayats Act 1994 the Act contains the same provision without any modification. The surcharge is collected by Registration department and the amounts due to local bodies are indicated to Collector of the district who distributes the share due to various local bodies.

**11.4.2.** The Second State Finance Commission considered this issue in the present context of increase in real estate activities in villages and the extensive computerization being attempted in the Registration department. There was claim for change in method of distribution to ensure the amount collected in Panchayats close to cities and urban towns is made available as in the case of urban local bodies since such Panchayats do not have sizable Land Revenue and are adversely affected even though higher collections are made within their areas. Land revenue has no relevance to real estate activity.

**11.5.1.** Hence the Second State Finance Commission recommends that the existing system of pooling may be allowed to continue but distribution formula may be modified in respect of Panchayats by according 50% weightage to population and 50% weightage to collection.

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

**11.6.** As in Mumbai, a ready reckoner on stamp duty / surcharge and market value of lands may be brought out as part of transparency in administration. This may be updated at frequent intervals and made available to public at nominal cost.

**11.7.** Moreover the reconciliation of revenue realized has not been done though I.G. Registration promised in Commission's interaction with him in August 2000 to complete this by December 2000 and report to the Commission. There has been variation between the adjusted amount and the actual figures (as reflected in Accountant General's books). The growth in income under stamp duty and growth in income under surcharge on stamp duty assigned to local bodies vary widely as shown in the table below.

**Table IV-25**

Particulars	1995-96	1996-97	1997-98	1998-99	1999-00
	(Rupees in lakhs)				
Receipts of Government of Tamil Nadu under Stamps & Registration	61301	59060	63155	67252	81758
Growth rate %		(-) 4	7	6	22
Surcharge on Stamp duty assigned to LBs	21118	21367	22366	25114	27077
Growth rate %		1	5	12	8

**11.8.** This is single largest source of assigned revenue for the local bodies. The Commission strongly feels that the local bodies should get their legitimate dues and on time.



11.9. The Second State Finance Commission recommends that the transfer of revenue to Urban Local Bodies arising out of surcharge on stamp duty may be done by the concerned District Registrar himself at the Treasury as deduct entry by way of adjustment bill. In respect of Panchayat Raj Institutions the adjustment shall be done as per the revised formula indicated in para 11.5.1 above.

11.10. There must be proper reconciliation of the receipt at District / Head of Department level. To ensure timely remittance of the legitimate dues to local bodies, the Second State Finance Commission recommends that, a monitoring committee consisting of Inspector General of Registration, Commissioner of Municipal Administration, Director of Town Panchayats and Director of Rural Development may be formed and it should review the revenue transfer and reconciliation once in six months.

11.11. We are also aware that there are wide variations between the Department figures, Adjusted figures and Accountant General figures. This could be readily inferred from Table 25 above. Even though solutions have been suggested for prompt reconciliation and adjustment for the period covered in the First State Finance Commission award the situation has not improved in the last four or five years. Hence this Commission recommends that the dues to be adjusted to the local bodies under surcharge on stamp duty for the period ending March 2002 shall be arrived at by the committee referred to above. Efforts should be taken to adjust the dues before the end of the financial year 2002-03.

## 12. Mines And Minerals:

In certain areas, the dues from mines and minerals have not been adjusted. For instance, in Tirunelmalai Town Panchayat, the dues are pending even though no court stay is in operation. In this connection it may be mentioned that the Director of Geology and Mining has communicated to the Commission that practically all dues except those covered by court stay have been adjusted. The promptness with which Director of Geology & Mining has acted deserves commendation. The Second State Finance Commission recommends that the remaining dues may be cleared by issuing suitable guidelines. It also recommends that the G.O.Ms.No.5 Industries Dept. dated 3.1.1998 may be implemented after getting the stay vacated by Madras High Court.

The Commission recommends that revenue from the granite be shared with Panchayat Raj Institutions as under:

- |      |  |       |
|------|--|-------|
| i)   | Village Panchayat concerned                  | - 25% |
| ii)  | Panchayat Union concerned                    | - 25% |
| iii) | Incentive fund of Panchayat Raj Institutions | - 50% |

## 13. Local Cess And Local Cess Surcharge

### 13.1. Local Cess

Under Section 167(i)a of the Tamil Nadu Panchayats Act 1994, State Government is empowered to levy Re.1/- as Local Cess on every rupee of Land Revenue. This local cess so collected is credited directly into the Village Panchayat fund concerned, vide an amendment to Tamil Nadu Panchayats Act 1994, as per recommendation of First SFC. However, our Commission learnt that the Local Cess adjustments are still done to Panchayat Unions instead of directly crediting to the Village Panchayats concerned. Following is the realization from Local Cess over the years.

Table IV-26 Local Cess – Receipts

YEAR	Amount (in lakhs)	Per Panchayat (in rupees)
1995-96	205.28	1627.00
1996-97	213.00	1688.00
1997-98	136.94	1085.00
1998-99	280.67	2224.00
1999-2000	252.33	1997.00



### 13.2. Local Cess Surcharge

13.2.1. Under 168 of Tamil Nadu Panchayats Act 1994, and based on the Panchayat Union's resolution, Local Cess Surcharge is levied on a scale ranging from Rs.5/- at the minimum to Rs.10/- at the maximum on every Re.1/- collected as land revenue. In practice all the Panchayat Unions are levying only the minimum Rs.5/- as LCS. This is based on Government order. Thus for the total land revenue demand of about Rs.5.50 crores for the whole State, the total LCS demand will be about Rs.25 crores. Following is the realization from LCS over the years.

Table IV-27

YEAR	INCOME	PER PANCHAYAT UNION	PER CAPITA
	Rs. in crores	Rs. in lakhs	Rs.
1995-96	26.19 (29.14)	6.80 (7.57)	8.06 (8.96)
1996-97	24.26 (20.29)	6.30 (5.27)	7.46 (6.24)
1997-98	7.35 (24.77)	1.91 (6.43)	2.26 (7.62)
1998-99	14.20 (6.30)	3.69 (1.64)	4.37 (1.94)
1999-2000	15.17 (21.74)	4.93 (5.65)	4.67 (6.69)

13.2.2. For the year 1997-98, the Local Cess Surcharge collection was at the lowest i.e. Rs.7.35 crores. This is because the State Government announced remission of Land revenue, in a year the rainfall was above average and the agricultural production was good. It is no doubt the prerogative of the Government to decide on Land Revenue remission. But to avoid revenue loss to the Panchayat Unions, and in view of weak revenue base of Panchayat Unions as explained earlier, the SFC recommends that whenever land revenue is remitted by State Government, the Panchayat Unions may be fully compensated for the loss of LC/LCS.

13.2.3. The basic land revenue for the State was reckoned by Damodaran Committee to be Rs.5.50 crores. This is an aggregate based upon the demands in all the revenue villages. With Revenue Settlement and Resettlement having been abolished long ago (1937) as policy and with land revenue having been fixed in ex-zamin and other tracts long back (1950's and 1960's), land revenue is a fixed figure, except for small penalties and the like. SFC recommends that the demand of land revenue may be rounded off for each village to the nearest hundred rupee and Local Cess/Local Cess Surcharge based thereon can be taken as basic LC/LCS for the period from 1.4.2002 onwards. Further increase of LC/LCS can be done by the method without reference to land revenue and thereby the local body could predict the revenue from LC/LCS. In the case of Local Cess/Local Cess Surcharge, based on collection upto February of each year 50% may be adjusted before March and the balance in the month of May every year. LC/LCS being based on land revenue are collected along with land revenue by VAO. **In order to improve the collection of L.C/L.C.S., our Finance Commission recommends that 2.5% of the collected LC/LCS may be given as incentive to VAOs and another 2.5% may be retained as collection charges by Government and the remaining 95% may be passed on to concerned local bodies.**

13.2.4. According to well laid down procedure, the Collector has to sanction every month the LC & LCS to Panchayats and Panchayat Union Councils. Government while reiterating the procedure had issued orders in G.O.Ms.834 RD&LA dated 7-6-82 regarding the adjustment of LC & LCS based on land revenue demand stating that Tahsildars should send the details of consolidated demand of LR, LC & LCS and pooled collection amount under LR as a whole before 15<sup>th</sup> October every year after completion of Jamabanthi. After July 1992, based on revised rates of Local Cess & Local Cess Surcharge, for the combined levy of Re.1/- as Land revenue, Re.1/- as LC and Rs.5/- as LCS totaling to Rs.7/- the pooled collection will have to be proportionately accounted for under each head. In other words, out of total collection, the amount due to Village Panchayat and Panchayat Unions will be one-seventh and five-



seventh respectively of pooled collection. However, the following table No.IV-28 illustrate that the above well laid down procedure has just not been implemented.

**Table IV -28**

	1995-96	1996-97	1997-98	1998-99	1999-2000
	Rs. in crores				
Basic LR	6.70	4.27	5.93	4.89	6.35
Local Cess	2.05	2.13	1.37	2.81	2.52
Local Cess Surcharge	26.19	24.26	7.35	14.20	15.19
Total	34.94	30.66	14.65	21.90	24.06

Had the above well laid down instructions of Government been duly implemented the total of Rs.24.06 crores for 1999-2000 would have been apportioned as under.

**For 1999-2000 (Rs. in crores)**

L.R	3.43
L.C	3.43
L.C.S.	17.20
Total	24.06

This clearly indicates that LC and LCS are not at all being adjusted properly and it is not a question of delayed adjustment only, but also the legitimate dues of Panchayats and Panchayat Unions are not given.

**The SFC recommends that LC & LCS to the Panchayats and Panchayat Unions dues during the period from 1997-98 to 2001-02 should be reworked on the basis of the G.O. issued in 1982 and adjusted positively within two year period of 2002-03 and 2003-04.**

During the district sittings, the Commission noticed that several Collectors were not monitoring the adjustment of LC/LCS and were not aware of the amounts and the years upto which adjustment had been effected. This situation needs to be remedied.

**Second State Finance Commission recommends that adjustment of Local Cess Surcharge and Local Cess needs to be monitored both at district level and State level. At the district level, each Collector shall review this along with this Personal Assistant (General) or the Additional Personal Assistant concerned on the revenue side and Assistant Director (Panchayats) on the development side. At the State level, the Principal Commissioner and Commissioner of Revenue Administration, Director of Rural Development and a Collector may meet once a year and monitor the process for the State as a whole.**

13.2.5. It is learnt that the Government is planning to entrust the maintenance of field irrigation channels to Water Users Association. Hitherto the channels are maintained by the PWD officials. In order to ensure that this channels are desilted and properly maintained, Government are examining delinking water rates from basic land revenue and later enhance water rates to cover atleast O&M cost of maintaining these channels. With this objective, the Government have recently passed the Farmers Irrigation Management Council Act 2000 now waiting the assent of President of India.\* While the objective of the Government to maintain the irrigation channels is laudable, it cannot be at the cost of the local bodies. At the same time, any increase in water rates would correspondingly increase the land revenue and the LC/LCS base thereon, it may invite protest from the farmers. Keeping in mind the totality of situation as also the fact that the last revision of LC/LCS was made in 1992 and the need to maintain the channels, the SFC recommends; Since water rates and other user charges are likely to be modified and increased periodically due to market reforms, the land revenue base on which LC&LCS levied is also likely to increase over the years. Hence, delinking water rates from land revenue and then allowing the Panchayat Unions to increase levy of LCS from Rs.5/- is not going to help them as any such increase will be on a shrunken base. Hence, SFC recommends that water rates need not be delinked from land revenue;

\* Since obtained.

instead the Panchayat Unions may increase levy of LCS from Rs.5/- to Rs.7/- and LC from Re.1/- to Rs.2/- on the rounded land revenue. A half of this incremental revenue may be given to the Panchayats and Panchayat Unions as Assigned tax revenue and the remaining 50% may be given to Water Users Association, as Panchayat/Panchayat Union contribution by the Government directly. If the Panchayat Union contribution is insufficient for maintaining the channels, the remaining amount may be raised and contributed by Water Users Association along with Government contribution as in Namakku Naame Thittam. In any case, the resource base of the local bodies should not be eroded.

#### 14. Growths And Projection Of Tax And Non-Tax Base:

The growth of tax and non-tax base for the award period of Second State Finance Commission i.e., 2002-07 is projected. (vide annexure IV-8 a to 8 d). The projection is based on the assumption of the current taxes with the expected buoyancy.

#### 15. Conclusion

15.1. In order to motivate the Local Bodies to raise resources and to wean them away from dependency syndrome, Second State Finance Commission feels that during its award period the own income of local bodies as share of total income needs to be closely monitored and consciously increased. This is to be posed as building up self-reliance as a philosophy.

**Table IV-29**

Sl.No.	Type of local body	Self-reliance index at present	Self-reliance index for the middle of the award period
		Average	Average
1.	Municipal Corporations	54.7%	65%
2.	Municipalities	52.57%	60%
3.	Town Panchayats	39.86%	45%
4.	Village Panchayats	21%	25%

15.2. Hence, the Second State Finance Commission recommends that during the award period of Second State Finance Commission, i.e. 2002-2007,

- i. the own income of Municipal Corporations shall be in the range of 65 to 70%.
- ii. the own income of Municipalities shall be in the range of 55 to 60%
- iii. own income of Town Panchayats shall be about 45%.
- iv. and in respect of Village Panchayats the own income shall be about 25%.

15.3. To achieve this, both Government and Local Bodies have to work together, as explained in this chapter.

“வாரி பெருக்கி வளம்படுத்து உற்றவை  
ஆராய்வான் செய்க வினை”

(குறள்:512)



## CHAPTER –V ASSESSMENT OF CIVIC NEEDS & FINANCES

### Introduction

Para 5(ii) of our Terms of Reference expect us to study “the requirements of the Local Bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the need for generating surplus for capital investment”. In contrast, the Terms of Reference of the First State Finance Commission had required that Commission to study “the maintenance and upkeep of the capital assets owned by, or entrusted to, Panchayats / Urban Local Bodies”. Thus while First State Finance Commission concerned itself only with O&M requirements of Local Bodies, this Commission is not only concerned with O&M but also the need for generating surplus for investment in capital assets. Hence this Commission needs to take into account capital needs of local bodies.

1.2. As a nation, we do not have an inspiring track record in devoting due attention for O&M. This is because of the dichotomy between plan and non-plan classification through our Five Year Plans. The emphasis on increase in plan size year after year at the expense of the non-plan side has resulted in neglect of maintenance. As a refreshing policy departure, the ECFC gave importance to O&M by earmarking the grants for Local Bodies for O&M.

2. Local Bodies are expected to provide certain basic civic amenities to the people. In this chapter, we are not going into dialectics about the functions of the Local Bodies. For the present we are restricting our study to the civic functions traditionally being performed by the Local Bodies. The general perception of the people is that the level and quality of civic services provided by Local Bodies is neither adequate nor satisfactory. One of the major reasons for this perception is ostensibly the paucity of resources, although the fact remains that Local Bodies, with any available resources, can improve the efficiency of resources deployed by better management and administrative culture. Previous studies regarding the level of services required and norms therefore have been enumerated in detail in the report of the First State Finance Commission and therefore we are not going into those details. First State Finance Commission had also recommended norms for various core civic services. Subject to availability of resources, Government in Municipal Administration & Water Supply Department have also passed orders thereon.

3. The following table will clearly indicate that as compared to pre-devolution era, in the post devolution period there has been accelerated creation of capital assets.

**TABLE-1.**

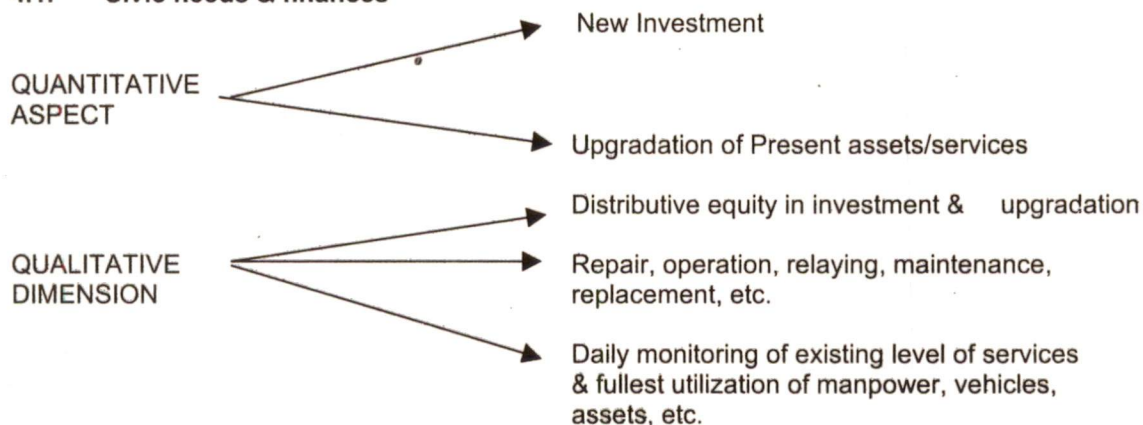
(Rs. in crores)

Local Body	Pre-devolution		Post - devolution		
	1995-96	1996-97	1997-98	1998-99	1999-2000
Town Panchayats	42.43	59.12	118.40	191.39	209.22
Municipalities	37.16	48.48	87.79	117.38	147.84
Municipal Corporations	127.73	130.42	194.40	248.18	276.64
Village Panchayats	27.14	22.11	61.72	94.53	117.28
Panchayat Unions	27.68	31.63	63.91	36.45	64.41

As mentioned earlier in para 1, as the XI CFC has earmarked its grants for the local bodies for the maintenance of assets, this will result in a small surplus from out of the devolution of SSFC, which can be legitimately used for investment in capital assets. However, the first charge on SSFC devolution is towards salary and O&M of concerned local bodies; after fulfilling such obligation we suggest that Corporations and Municipalities can set apart upto 10% of the devolution for building capital assets. We also suggest in the case of Town Panchayats they can use upto 15% of the devolution for building capital assets and in the case of PRIs it could be upto 20% of the devolution for building capital assets.

4. It is granted that in a resource starved country with increasingly high expectations from the public, it may not be possible to fulfill all their expectations during the award period of this Commission. However, if the available limited funds are judiciously invested to fulfill the felt needs of the people after preparing participatory budgets with full transparency, ensuring distributive equity, the feel good factor of the people will be ensured. The above philosophy of the Commission is captured in the following schematic presentation.

#### 4.1. Civic needs & finances



The ensuing paragraphs in the chapter revolve around our philosophy crisply captured in the above schematic presentation.

### PANCHAYAT RAJ INSTITUTIONS

#### Capital needs – PRIs

5. A general analysis of revenue receipts and expenditure of village Panchayats indicate that they have diverted 15 to 20% of revenue receipts during post devolution period for capital works.

**TABLE -2**  
Sector wise Capital expenditure – Village Panchayats

		(Rs. in crores)				
Sl. No.	Capital expenditure item	1995-96	1996-97	1997-98	1998-99	1999-2000
1	Roads and Bridges	7.68	3.96	17.79	29.03	38.16
2	Streets	3.26	2.28	6.54	8.43	10.04
3	Buildings	1.50	2.07	4.40	7.62	10.36
4	Others	5.78	4.82	7.36	9.44	13.39
5	Street lights	2.06	1.97	3.99	7.59	10.31
6	Water supply	4.50	4.38	15.52	23.94	25.98
7	Public Health	2.37	2.63	6.12	8.47	9.05
	<b>Total</b>	<b>27.15</b>	<b>22.11</b>	<b>61.72</b>	<b>94.52</b>	<b>117.29</b>

**TABLE -3**  
Sector wise Capital expenditure – Panchayat Union

		(Rs. in crores)				
Sl. No.	Capital expenditure item	1995-96	1996-97	1997-98	1998-99	1999-2000
1	Buildings	6.43	6.61	5.38	7.91	12.75
2	Roads	6.31	6.32	36.84	8.77	21.23
3	Others	14.94	18.70	21.69	19.69	30.43
	<b>Total</b>	<b>27.68</b>	<b>31.63</b>	<b>63.91</b>	<b>36.05</b>	<b>64.41</b>

5.1. A similar analysis of revenue receipts and expenditure of Panchayat Unions indicates that they have spent mainly on salary and have not met maintenance needs as per norms. Overall analysis confirms that there has been surplus on revenue funds and diversion to capital ranging from 11 to 17% of revenue receipts. Capital needs have been mainly met from development grants, from the Centre and the State.



5.2. Allocation of Rs. 77.65 crores for maintenance needs exclusively by the Eleventh Central Finance Commission (excluding the allocation for accounts maintenance and data base ) will help the Panchayat Raj Institutions considerably.

5.3. Based on normative approach, investment of Rs.1958.52 crores for capital works in PRIs have been proposed as below for the period 2002-2007.

**TABLE - 4**  
**Capital needs for PRIs during the award period**  
(Rs. in crores)

Name of PRI -Tier	Sl. No	Service Sector	Capital Investment needs	Capital Investment Phasing for a year @20% per year					Total Investment
				2002-03	2003-04	2004-05	2005-06	2006-07	
Village Panchayats	1	Road	Upgradation	188.46	207.31	228.04	250.84	275.93	1150.58
	2	Lights	Upgradation / additional lights	15.85	17.43	19.18	21.10	23.20	96.76
	3	Water Supply		100.00	100.00	100.00	100.00	100.00	500.00
		Total 1-3		304.31	324.74	347.22	371.94	399.13	1747.34
Panchayat Unions	1	Road	Upgradation	34.59	38.05	41.85	46.04	50.65	211.18
		Total for PRIs		338.90	362.79	389.07	417.98	449.78	1958.52

5.4. The estimated capital needs for PRIs have been confined to the following service sectors only as detailed in the above Table.

- 1) Water supply
- 2) Roads in Village Panchayats and Panchayat Unions
- 3) Lighting in Village Panchayats

The capital investment is analysed sector wise in Annexure-V-I (a).

#### Choice of Works

6.1. The Constitution specifies that the prime responsibility of the Panchayats is the Planning and implementation of Programmes relating to economic and social Development of India. At present, number of works nearly Rs. 1.00 crore in each Panchayat Union are being executed under various State and Central Schemes and while selecting the work, the choice of works is done without ascertaining the felt needs since they are conceived by executing agencies. There is also need to ensure equity and distributive justice in choice and fund allocation.

6.2. Though both the State and the Centre invest huge outlay for providing the basic amenities, the following issues are not examined by executing agencies.

1. Prioritization among various types of works.
2. Location of work in the light of competing claims among various habitations in same area.
3. Periodicity of inspection.
4. Time frame for completion of works.
5. Correct allocation of funds
6. Integration of scheme without any overlapping.
7. Documentation of work.
8. Inter-departmental co-ordination where different agencies are involved.

6.3. The executing agencies (viz.) either BDO or PO, DRDA as the case may be, have to examine the above aspects while allocating the funds for different types of works under different programmes. At present, it is reliably learnt that funds are allocated without prioritizing. Even the Panchayats as executing agencies have failed to take note of felt needs and works are executed in a discretionary manner.

6.4. The Directorate of Evaluation and Applied Research, while evaluating EAS Programme implemented in this State has brought out certain features.

1. Employment intensity per work was lower due to preponderance of small works like construction of kitchen shed for noon meal centres, P.D. outlets etc., with a view to avoidance of seeking approval from higher authorities.
2. Prioritization of work was totally neglected (viz.,) desilting of water sources under this scheme.
3. Works were mostly executed by outside agencies.
4. No sanctity was attached to annual action plan and it does not indicate priority of work nor the cost of estimate of work.
5. Though guidelines issued under EAS were issued permitting the implementing Agencies to utilize a person from among beneficiaries group leader/facilitator/animator in maintenance of records, this was not adhered to.
6. The local bodies had not prepared an inventory of assets which should be insisted upon about unique numbering system for various types of assets with details on location, cost, year of completion since E.F.C. focuses on maintenance of assets.

7.1. This Commission recommends that Director of Rural Development should ensure that the aspects and safeguards mentioned in paras 6.1 and 6.3 above should be followed while executing any work under any scheme. This Commission suggests that all the works before being taken up under any Programme should be placed in the grama sabha meeting with all details. Where the works are urgently to be executed, in such exceptional cases, the list may be placed in the next ensuing grama sabha without fail.

7.2. In respect of water supply, for choice of habitation, type of work etc. Second State Finance Commission recommends that a Committee may be constituted at District level constituting of Collector as Chairman, S.E(TWAD) Member Convenor and A.D(Pt.) as member. The above Committee will suggest and monitor the works including location etc. and TWAD will act as executing agency only.

#### O & M Analysis

8. Following tables would indicate better attention to assets and their maintenance in the post-devolution period viz. 1997-98 onwards.

**TABLE NO :5**  
**Operation and Maintenance Table - Village Panchayats**  
(Rs. in crores)

Sl.No.	Expenditure item	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01 (Projected)
1	General Administration	16.83	18.88	40.88	60.59	66.97	73.67
2.	Road	10.93	6.24	24.33	37.46	48.18	53.00
3	Health	2.37	2.63	6.12	8.47	9.05	9.96
4	Street lights	23.22	27.73	31.71	56.51	69.16	76.08
5	Water Supply	28.74	27.06	52.52	77.18	88.21	97.03
6	Others(Misc.)	13.61	12.43	30.12	27.47	36.20	39.82
<b>Total</b>		<b>95.70</b>	<b>94.97</b>	<b>185.68</b>	<b>267.68</b>	<b>317.77</b>	<b>349.56</b>

**TABLE NO -6**  
**Operation and Maintenance Table - Panchayat Union**  
(Rs. in crores)

Sl.No.	Expenditure item	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01 (Projected)
1	General Administration	57.53	68.21	132.85	108.06	100.71	110.78
2.	Road	10.71	10.03	11.13	13.89	18.35	20.19
3	Building	0.79	0.85	1.60	5.23	6.32	6.95
4	M.I. Tanks	0.60	0.77	0.94	1.13	1.63	1.79
5	Dispensaries	0.29	0.35	0.30	1.34	1.10	1.21
6	Health	17.43	17.90	17.79	21.62	22.67	24.94
7	Others	21.91	26.42	24.95	20.81	28.62	31.48
<b>Total</b>		<b>109.26</b>	<b>124.53</b>	<b>189.56</b>	<b>172.08</b>	<b>179.40</b>	<b>197.34</b>



8.1. Salary and O&M have been generally met from the revenue receipts during pre-devolution period i.e., up to 1996-97 though there were individual Panchayats and Panchayat Unions, which were not even able to disburse salary or pay current consumption charges. However, since 1997-98, the expenditure on O&M and salary has increased to 83% of revenue receipts in the post- State Finance Commission period. Though there is no neglect on the maintenance of any core service, expenditure towards maintenance on street lighting and water supply is far in excess of norms prescribed. This is confirmed on verification in select districts like Tiruvallur. Maintenance of roads has been neglected in Panchayat Unions as most of the expenditure is towards payment of salary to gang coolies and road Inspectors. This situation needs to be remedied.

8.2. Based on norms, the O&M needs for the award period under each sector are furnished in the tables below: -

**Table No.7.**  
**Village Panchayats - Operation & Maintenance Needs**  
**(Rs. in crores)**

Head	2002-03	2003-04	2004-05	2005-06	2006-07
General Admn. (Staff allowances & contingencies)	89.14	98.05	107.86	118.65	130.52
Roads & Streets	111.67	122.84	135.12	148.63	163.50
Sanitation & Public Health	12.05	13.25	14.58	16.03	17.64
Street lights including EC	156.61	172.27	189.50	208.45	229.29
Water Supply inclusive of CCC	67.74	74.51	81.96	90.16	99.17
Others	43.80	48.18	53.00	58.20	64.13
<b>TOTAL</b>	<b>481.01</b>	<b>529.10</b>	<b>582.02</b>	<b>640.12</b>	<b>704.25</b>

**Roads, lighting and water supply provision as per norms prescribed**

**Table No:8. Panchayat Unions - Operation Maintenance Needs**  
**(Rupees in Crores)**

Head	2002-03	2003-04	2004-05	2005-06	2006-07
General Admn. and Management (Vehicles)	121.86	134.04	147.45	162.19	178.41
Roads	51.04	56.14	61.76	67.93	74.72
Buildings	9.25	10.17	11.19	12.31	13.54
Others	38.09	41.90	46.09	50.70	55.77
<b>Total</b>	<b>220.24</b>	<b>242.25</b>	<b>266.49</b>	<b>293.13</b>	<b>322.44</b>

**Table No:9. District Panchayats - Growth in Expenditure -**  
**(O & M) - Office Maintenance**

Head	2002-03	2003-04	2004-05	2005-06	2006-07
General Administration	4.64	5.10	5.61	6.17	6.79

The above is no doubt upper limit fixed based on past performance. However, there is scope for reduction in expenditure by close vigil and monitoring and fixing responsibilities on the executive authorities of Panchayat Raj Institutions. If such an approach is adopted the expenditure that is likely to be incurred will be as per the figures shown in the Annexure- V-1 (b).

8.3. Rural Development Department has already prescribed ceiling of 20% expenditure on sanitary staff in Village Panchayats; State Finance Commission has indicated ceiling on maintenance cost on streetlights and water supply under "Better fiscal management". So also State Finance Commission has suggested rationalizing staff strength in Panchayat Unions with reference to population as 1.0 per thousand.

8.4. The O&M cost norms for core civic services are given in the annexure-VI-I. If the details available in the annexure are any indication, the pattern of spending reveals that the norms are flouted, as quite evident in the purchase of water supply spares, street lights materials etc.



8.5. The need of the hour is to implement cost effective measures to render qualitatively better service at a lesser cost. This can be achieved by reviewing the expenditure in the first two quarters. Hence, we recommend that If the Village Panchayats / Panchayat Unions do not observe the norms and spend well above the limit, the third and fourth quarter release may be reduced to the extent to which they spent in excess in the first two quarters. This will have deterrent effect on Village Panchayats, which indulge in a spending spree.

## AGENCY FUNCTIONS

9. There are other items of work for which projected requirements may be found in Table No.10 below, entrusted to the Panchayat Unions on agency basis by State Government. These functions are not considered as core functions of the Local Bodies. Being agency functions, Panchayat Unions have to be given adequate grants outside the devolution to attend to these functions. The present level of grants is grossly inadequate and they have to be stepped up at least to 50% of the present day cost. For instance, there are 23,761 M.I. Tanks each with less than 100 acres ayacut totaling 3,28,076 hectares maintained by Panchayat Union by adopting a five-year cycle system. Panchayat Unions are maintaining this as agency function even though they do not derive any income. The phasing of O&M is indicated based on paltry Rs.1/- crore grants released during 1999-2000 at flat rate basis. The distinction between major tanks maintained by PWD and minor tanks maintained by Panchayat Union are artificial and does not serve any purpose.

**Table No:10.** (Rupees in Crores)

Head	2002-03	2003-04	2004-05	2005-06	2006-07
M.I.	4.00	4.00	4.00	4.00	4.00
Dispensaries	1.46	1.61	1.77	1.95	2.14
Health	30.17	33.19	36.51	40.16	44.18
<b>Total</b>	<b>35.63</b>	<b>38.80</b>	<b>42.28</b>	<b>46.11</b>	<b>50.32</b>

10.1. Hence, this Commission recommends that when the major tanks are going to be handed over to Water Users Association as contemplated in the Tamil Nadu Farmers Management of Irrigation system Act 2001, M.I. Tanks can also be handed over to Water Users Association and till such time grants to cover not less than 50% of the expenditure may be given outside the devolution.

10.2. Similarly this Commission recommends that Government takeover the rural dispensaries and ayahs working in maternity centres, as Government had already taken over Public Health functions in 1982 itself and pending such take over sanction grants for maintenance of these functions to cover 50% of the expenditure including maintenance of those buildings may be sanctioned outside the devolution.

11.1. There is wide variation of estimate based on actual expenditure in 1999-2000 and cost need as per norms. To ensure better fiscal management and prevent chances of misuse, and the spending conforms to normative level, the spending behaviour of each Village Panchayat should be watched in the first two quarters. The Village Panchayats, which have incurred expenditure within the limits and at the same time provided better service without complaints may be given the devolution due for the third and fourth quarters for O&M. Those who fail to fall in line without adequate reasons may be disciplined. The Director of Local Fund Audit also during his audit will look into adequacy of O&M expenditure and ensure that there is no excessive expenditure for O&M.

11.2. However the norms need not be considered as a carte blanche (blank cheque) for spending. Each council may take the norms as envisaged as the upper limit and prune down the expenditure judiciously based on resources available.



**11.3.** It is considered necessary to issue guidelines for O & M for which a committee consisting of i) Commissioner of Rural Development, ii) SE in the office of CRD iii) Chairman of a PUC and President of Village Panchayat nominated by Commissioner of Rural Development may be formed. The O & M cost norms adopted by State Finance Commission can be the starting point for fixing norms by the Committee. Based on field realities, resources, constraints etc. the above Committee can suggest O & M norms for each basic service rendered by PRIs. The norms so suggested by the Committee will be initially valid for two years i.e. 2002-03 and 2003-04. For subsequent years, the norms can be updated by the above Committee. The guidelines of this Committee will be the basis for PRIs to fix its O & M budget, based on the factors specific to it. However cash rich Village Panchayats who may be deriving higher income from mines and minerals etc can have higher norms. The ADs (Panchayats) who are responsible for approving the Budget estimates before presenting them to the council shall take into account the conditions of the assets and the need for providing operation and maintenance expenses. In respect of new assets, the need for O & M if any, may be pegged at the minimum level.

**12.1.** Hence Second State Finance Commission recommends that a guideline committee for O & M consisting of the following members may be formed to fix the norms for various core sectors to monitor the expenditure and budget framing within the scarce available resources and at the same time ensuring justice for each sector and to avoid pampering one sector at the expense of the others.

- 1) Commissioner of Rural Development
- 2) SE of the office of Director of Rural Development
- 3) One selected Chairman of Panchayat Union Council
- 4) One selected President of Village Panchayat

**12.2.** This Commission recommends that a monitoring mechanism at the district level headed by Collector as Chairman and Project Officer, DRDA and Assistant Director of Panchayats as members may be evolved to look into the level of investments and the O&M needed for rendering qualitative service / delivery of services.

**Issues Relating to Human Resources:**

**13.** Government has been systematically increasing the allocation for Rural Development every year and the budget allocation, which was Rs.418.35 crores in 1995-96, has increased to Rs.1225.73 crores in 1999-2000. Recognizing the importance of technical supervision, Government have rightly set up a separate Rural Engineering wing and issued separate adhoc rules in the year 2000. In order to strengthen both administrative and technical supervision this Commission recommends the following.

- i) The Rural Engineering Wing set up in 1996 and headed by SE at the State level (similar to the ones in the Commissionerate of Municipal Administration and at Directorate of Town Panchayats ) EE at district level and AE at Block level, is considered sufficient at these levels. However at the field level there are only two Road Inspectors on an average per Panchayat Union. Hence we perceive that at the field level there is need to strengthen technical staff. **This Commission recommends that the nomenclature of the post of Road Inspector may be changed as "Work Inspector" so that the personnel can be deployed for supervision of building and other types of works apart from road works. Further this Commission recommends that one Work Inspector for a group of 5 Village Panchayats may be created, and their salary may be met from Panchayat Union General fund as the devolution of funds to Panchayat Union is quite adequate to absorb this.** It is reliably learnt that there are several technical assistants on daily wage basis for petty supervisions in the Panchayat Union similar to other engineering departments. **Therefore, there should not be any fresh recruitment and preference may be given to the existing Technical Assistants at Panchayat Unions who are otherwise qualified and may be regularized and posted as Work Inspectors.** Further, to the extent possible Technical Assistants working in Highways Department, Tamil Nadu Water Supply & Drainage Board, etc. may be given an opportunity for getting absorbed themselves as Work Inspectors.



- ii) Consequent to the abolition of local roads grant, the gang coolies in Panchayat Unions have no work and they are treated as vanishing category. **We recommend that they be redeployed effectively to maintain the existing Panchayat Union roads, including unclassified roads, which are now treated as Village Panchayats roads/ Panchayat Union roads referred to in para 45.2.** Their salary will continue to be paid by Panchayat Unions.
- iii) The Commission learnt that Government have recently brought out a "Technical Hand Book 2001" containing the details about various types of works and depicting the type design of buildings. This Commission opines that this volume will be a useful tool in the hands of all officials including non-technical persons and elected representatives and suggests that this book may be reprinted once in two years and widely distributed to all concerned.

## TOWN PANCHAYATS

14.1. The sector wise investment in capital works and the sector wise O & M spent during the last five years are given below.

**Table-11.**

### Sector wise Capital Expenditure

(IN LAKHS)

Capital Expenditure Item	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
	Actuals					Budget
Expenditure in Rs. Lakhs						
Water Supply	600.34	1341.56	2185.41	2235.45	1850.32	2137.54
Roads and Buildings	2592.25	2934.34	6929.24	13482.60	14221.95	13791.20
Public Health & Sanitation	229.19	265.35	545.66	663.41	1366.13	1580.62
Conservancy	84.86	46.70	131.04	141.02	147.58	169.47
Street Lighting	231.52	548.39	647.77	555.70	728.29	2621.63
Others	506.48	776.40	1401.76	2060.93	2608.02	841.01
Total Capital Expenditure	4244.63	5912.74	11840.87	19139.17	20922.28	21103.00

**Source:** Analysis Primary of data from all 611 Town Panchayats

14.2. The average growth in capital investment is of the order of 67%. More significant, there is quantum jump since 1997-98 showing that a part of devolution has gone towards capital investment.

**Table-12**

### Operation and Maintenance

(In Lakhs)

Sl. No.	Particulars	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 Projected
1.	General Admn. & Taxes	649.81	1048.69	1490.93	1959.11	2307.53	2596.10	2855.71
2.	Public Works and Roads	445.85	450.63	821.79	1391.87	1297.28	1543.61	1697.97
3.	Public Health & Conservancy	683.55	798.30	1069.37	1345.52	1483.34	1675.27	1842.80
4.	Street Lighting	980.45	1141.93	1737.78	1881.51	2347.90	2646.37	2911.01
5.	Water supply	1836.08	2202.21	2937.36	3759.99	4290.17	3510.72	3861.79
6.	Miscellaneous items	604.67	628.75	1175.28	1275.71	1724.34	1950.16	2145.17
7.	Additional O&M for new investment	0.00	0.00	0.00	0.00	0.00	73.43	73.43
	Total	5200.41	6270.51	9232.51	11613.71	13450.56	13995.66	15387.88

15. The operation and maintenance expenditure of the sectors excluding water supply account accounts for over 39 per cent of total expenditure incurred by all Town Panchayats. The expenditure on these sectors has registered an average annual increase of about 29 per cent from Rs. 34 crores in 1995-96 to Rs.92 crores in the year 1999-2000. General administration, public health and street lighting departments have been the major cost centres with regards to O&M expenditure.



## 16. Capital Needs: -

16.1. An investment of about Rs.2970 crores is required to achieve the set norms (vide Annexure V-2) in the period 2002-07, but the performance of the Town Panchayats in the last five years and sustainability indicate a level of Rs.803 crores as optimum. The sector wise allocation suggested for the proposed investment is given below.

**Table-13**

RECOMMENDED			
Sl.No.	Civic Services	Components	Investments (Rs. in Crores)
I	Water Supply	Augmentation Distribution Storage Treatment	403
II	Sewerage and Sanitation	UGD Public convenience	8
III	Roads	Upgradation and new formation	80
IV	SWD	New open drains and upgradation of Kutcha drains	160
V	Street Lights	Installation	16
VI	SWM	Purchase of Vehicles and Dustbins	16
VII	Others	Bus stand Office buildings Commercial complexes Kalyana Mandapam Others	120
		<b>Grand Total</b>	<b>803</b>

16.2 While the responsibility for filling in the gap in services lies individually with the concerned Town Panchayats, more attention needs to be given to water supply. In water supply only 130 Town Panchayats have crossed the norm of 70 lpcd while the majority viz., 481 are yet to attain the norms. Even if reduced norm of 55 LPCD set for Village Panchayats is reckoned, as many as 424 Town Panchayats fall short of such a norm. This Commission learns that residents in places like 'Uthangarai' in Dharmapuri District and Sayalkudi in Ramanathapuram District receive Water Supply once in a week or in certain cases once in a fortnight. This needs to be improved. The task force which did a field survey of 50 Town Panchayats spread throughout the State has reported that 50% of the Town Panchayats have poor water supply position and in the perception of functionaries, water is their first priority for service level improvement. Based on the above factors, we have suggested Rs.403 crores, i.e. nearly 50% of investment for this sector. We are also conscious of the fact that not all Town Panchayats will uniformly have the same degree of water shortage i.e. some Town Panchayats will be located closer to the source of water supply. Again within Town Panchayats, areas located closer to head works will enjoy more quantity of water and the tail end areas invariably suffer. So in order to ensure distributive justice, we recommend that Rs.403 crores may be apportioned as:

Augmentation	-	Rs.	68.55	crores
Distribution	-	Rs.	314.54	crores
Storage	-	Rs.	4.03	crores
Treatment	-	Rs.	16.12	crores

16.3. In respect of sewerage and sanitation, individual Town Panchayats may take up projects with public and private participation as like Valasaravakkam, Tiruchendur and Rameshwaram. As for as public conveniences are concerned, all dry -type latrines have been converted in to water borne flush latrines. Wherever public latrines are required, the cost may be met from the own funds/ allotted funds.

16.4. On streetlights and solid waste management, there is scope for privatization as dealt with in the chapter on Better Fiscal Management. As regards roads, the upgradation and new formations may be taken up subject to availability of resources or borrowing, if found sustainable.



## 17. Investments: (Quantitative)

17.1. The level of investment suggested above in para 2 takes into account the quantitative aspect only. At the same time, it is necessary to apportion to various sectors to upgrade the level of services and delivery. While nearly 50% of the total investments go to water supply, the rest of the core services like storm water drains and roads take 35%. The balance 15% ~~may~~ could go to optional and remunerative enterprises. As already mentioned, cost recovery has become a necessity and any investment in core civic services may have to yield a return which may atleast be breakeven in respect of core civic services. The deposit, which is collected for water service connection, needs to be deposited in a separate account in the form of F.D. and that the interest proceeds may be utilized for O & M and other needs.

17.2. Since the thrust is mainly on water supply, the return is expected to be around 5%. In respect of other remunerative enterprises the return may be envisaged at 12%, to ensure that the pay back period is 10 years or less. This may yield another 5% income, which may go to term deposit. Based on the above assumptions, phasing of investments has been worked out so as to yield a return as aforesaid. The phasing of investment for different sectors for the award period of Second State Finance Commission is available in the annexure V-3. The over all assumption on the return on investment is made in such a way that there needs to be a sizeable yield from such scheme so as to have the minimum reserve at the close of each financial year. This together with cash reserve to be set apart while framing the budget should enable Town Panchayats to build up reserves and deposits cumulatively year by year.

## 18. O & M in the award period:

18.1. Based on the sustainable investment of Rs.803 crores for capital works, we are projecting in the following table tentative O&M for the period 2002-2007. The O&M is admittedly subject to the level of investment as unfolding every year and other factors.

O&M	(Rs. in lakhs)					
Table -14	2002-03	2003-04	2004-05	2005-06	2006-07	Total
General Administration taxes	3256.55	3647.33	4085.01	4575.21	5124.24	20688.34
Public Works & Roads	1936.30	2168.66	2428.90	2720.37	3046.81	12301.04
Public Health & Conservancy	2101.46	2353.64	2636.07	2952.40	3306.69	13350.26
Street Lighting	3319.61	3717.96	4164.12	4663.81	5223.47	21088.97
Water	3408.56	4031.63	4723.53	5491.06	6341.61	23996.39
Miscellaneous items	2446.28	2739.84	3068.62	3436.85	3849.27	15540.86
Addl. O&M for new Investment	937.25	1812.43	2788.31	3873.80	5079.18	14490.97
<b>Total</b>	<b>17406.01</b>	<b>20471.49</b>	<b>23894.56</b>	<b>27713.5</b>	<b>31971.27</b>	<b>121456.83</b>

The above is no doubt upper limit fixed based on past performance. However there is scope for reduction in expenditure by segregating the new and old assets and fixing responsibilities on the Engineering Wing. If such an approach is adopted, the expenditure could be as per the figures available in the Annexure - V-4 (a).

18.2. The Tenth Central Finance Commission grants were given for capital works. As a policy departure, the Eleventh Central Finance Commission grants are entirely earmarked for maintenance. For Town Panchayats this grant will be Rs.12.20 crores per annum during the period from 2002-2005.

18.3. We are conscious of the fact that whatever amount we are recommending as devolution in the Chapter "Devolution mechanism" may not be sufficient to cover the entire O & M needs of Town Panchayats. At the same time we do not want to dilute the weight of our recommendations by merely suggesting the above outlay for O & M. Hence we recommend that the intersectoral outlay for O & M as above may be strictly monitored and implemented so that there is no tendency to book excessive expenditure on one sector at the expense of others, for example excessive expenditure on street lighting or public health at the cost of other sectors.

18.4. The overall O & M as projected above for the award period of Second State Finance Commission takes into account the existing assets and the new assets to be created. It is based on certain assumptions. But this need not be considered as a *carte blanche* for spending. Each council may take the norms as envisaged as the upper limit and to prune down judiciously the expenditure to the resources in sight.



18.5. It is considered necessary to issue guidelines for O & M for which a committee consisting of i) Director of Town Panchayats, ii) SE in the office of Director of Town Panchayats (to be newly created) iii) Chairman of a Town Panchayat may be formed. The O&M cost norms adopted by the Task Force and given in the Annexure-V-4 can be the starting point for fixing norms by the Committee. Based on field realities, resources constraints etc. the above Committee can suggest O & M norms for each basic service rendered by Town Panchayats. The norms so suggested by the Committee will be initially valid for two years i.e. 2002-03 and 2003-04. For subsequent years the norms can be updated by the above Committee. The guidelines of this Committee will be the basis for each Town Panchayat to suitably fix its O & M budget, based on the assets and factors specific to it. The Assistant Directors of Town Panchayats who are responsible for approving the Budget estimates before presenting them to the council shall take into account the conditions of old assets and the need for providing operation and maintenance expenses. Priority will obviously be given to assets, which are 5 years old and older than that. In respect of new assets, the need for O & M if any, may be pegged at the minimum level. The spending behaviour of each Town Panchayat should be watched in the first two quarters. The Town Panchayats, which have incurred expenditure within the limits and at the same time provided better service without complaints may be given the entire devolution due for the third and fourth quarters for O&M. Those who fail to fall in line without adequate reasons may be disciplined. The Director of Local Fund Audit also during his audit will look into adequacy of O&M expenditure and ensure that there is no excessive expenditure on O&M.

18.6. Analysis reveals that there are about 82 Town Panchayats, which are not able to meet their revenue expenditure and cannot provide satisfactory services to the public. Of them, 40 are in Grade-II and Grade-I and the rest in Selection Grade / Special Grades. The operating ratio of the above mentioned Town Panchayats is more than 1, i.e. revenue receipts vs. revenue expenditure. The following sample would prove this point.

**Table-15** (Rs. in lakhs)

Name of the Zone	Name of the Town Panchayats	Year	Total Revenue Income	Total Revenue expenditure
Dharmapuri	Nagojanahalli	1998-1999	17.30	18.94
		1999-2000	18.80	18.98
Cuddalore	Srimushnam	1998-1999	20.65	31.79
		1999-2000	21.84	29.98
Kanyakumari	Puthalam	1998-1999	18.05	21.54
		1999-2000	20.72	22.87
Salem	Pattanam	1998-1999	14.70	23.13
		1999-2000	16.22	19.43

18.7. The above rural - oriented Town Panchayats numbering 40 may not be able to meet any service gaps from out of the resource. Hence they have been suggested for reclassification in the connected chapter.

19. Hence Second State Finance Commission recommends that a guideline committee for O & M consisting of the following members may be formed to fix the norms for various core sectors for the years 2002-04 to monitor the expenditure and budget framing within the scarce available resources and at the same time for ensuring due provision for each sector and to avoid pampering any one sector at the expense of the others.

- i) Director of Town Panchayats
- ii) SE of the office of Director of Town Panchayats (Vide para 21.5 below)
- iii) One elected Chairman of a Town Panchayat

The norms may be updated once in two years. Further, the Commission recommends that a monitoring mechanism at the level of Assistant Directors of Town Panchayats may be evolved to look into the level of investments and the O&M needed for rendering qualitative service / delivery of services.



20. It also recommends that the observance of O&M cost norms in the first two quarters may be watched and it may be linked to the release of third and fourth quarters. In other words, the Town Panchayats, which conform to the norms may be given the devolution entitled to third and fourth quarter. Where the Town Panchayats incur expenditure far in excess of norms may be dealt with suitably; devolution in the last two quarters need to be reduced to the same extent they exceed the norms. Likewise where there is undue shortfall in O & M expenditure, devolution need to be cut to the extent of under spending.

## 21. Issues Relating to Human Resources

21.1. Next we discuss Human Resource Management in Town Panchayats, which have to shoulder increased responsibility after their elevation as Urban Local Bodies in 1994. This has awakened the people to seek better service levels on par with other Urban Local Bodies. Consequent to the enhanced status of Town Panchayats, the Government have issued orders fixing the norms for creation of posts and absorption of NMRs in the regular vacancies. The organization pattern of Town Panchayats as on 31.03.2000 is as below.

**Table-16**  
**Staffing Pattern in Town Panchayats - Function wise**

Grade Pay	Sanctioned (1)	Permanent (2)	Consolidated Pay (3)	NMRs (4)	Total in position (5)=2+3+4
Provincialised	3164	3014	16	51	3081
Non-Provincialised	11010	7811	2975	330	11116
Water supply	1182	662	538	550	1750
Sanitation	20	7	38	11	56
Street lighting	108	60	17	65	142
Parks	46	39	3	8	50
	115	98	2	56	156
Other Staff	67	58	14	23	95
<b>Total</b>	<b>15712</b>	<b>11749</b>	<b>3603</b>	<b>1094</b>	<b>16446</b>

21.2. Those who are on consolidated pay and NMRs will move over to regular scale of pay during the award period of our Commission. This element has been taken into account while projecting the future salary requirements. But there is need for strengthening the engineering wing in Town Panchayats. After the Town Panchayats have been accorded urban status, a separate engineering wing has been constituted with one post of J.E. for seven Town Panchayats, one post of AEE for each region has been created as an adhoc measure. This worked out to 90 J.E.s and 16 AEE as on 1.4.1998. Now with the flow of funds to Town Panchayats from various sources, works amounting to about Rs.200 crores per annum are being taken up for the past three years. Field level discussions reveal that one J.E. cannot attend to more than four Town Panchayats and that AEE cannot check-measure more than 25 Town Panchayats.

21.3. Further during the award period of this Commission, the annual capital investment is estimated at Rs.150 crores and more every year. This along with proper monitoring of O&M justifies creation of the post of SE in DTP's Office.

21.4. Another anomaly is that there is no field level technical scrutiny at the time of work by someone like Work Inspector or Technical Assistant. The technical NMRs are practically work-charged employees paid from the contract amount. This does not augur well for quality in execution of works. They should be technically and administratively controlled by the J.E. / AEE. It is therefore, necessary to have at least one Technical Assistant / W.I. at each Town Panchayats. The above increase may be accommodated within the staff norms set for Town Panchayats.



21.5. In respect of other categories of staff, no further increase is needed in view of the computerization of accounts and information. But there needs to be a separate accounts clerk for proper accounting. For this function also, new hands need not be inducted. Redeployment needs to be attempted first, vide para 5.5 below. Only in exceptional cases, where redeployment is not possible, additional personnel need to be recruited. **Keeping in mind the increased availability of resources for Town Panchayats, and the need to improve the quality of services to public by having adequate staff, State Finance Commission makes the following recommendations.**

- i. **One Technical Assistant or Work Assistant for each Town Panchayat**
- ii. **One AE for Four Town Panchayats each**
- iii. **One AEE for Twenty Five Town Panchayats each**
- iv. **One SE in the office of the Director of Town Panchayats**

## **22. Provincialised and Non-Provincialised categories**

Provincialised personnel are those who are recruited by Government through TNPSC and continue to be governed by Government rules and regulations. Since 1988, RC and below categories are non-provincialised categories. In fact when this issue came up for discussion in the Town Panchayats seminar, the concerned working group recommended de-provincializing the category of Bill Collector to enable the council to have control over the tax-collection. Declaring Bill Collectors alone as non-provincialised will lead to a feeling of discrimination. Assistants / Junior Assistants although recruited by TNPSC may be classified as Non-Provincialised and placed at the disposal of the concerned Town Panchayats. **Before doing this the implications need be taken into account, and the powers vested under section 65 & 87 of Tamil Nadu Urban Local Bodies Rules 2000 may be invoked to transfer the non provincialised employees from one Town Panchayat to another for administrative reasons whenever situation warrants. Subject to the above proviso, our State Finance Commission recommends that all posts other than Executive officers may be declared as non-provincialised.**

## **23. Redeployment of Staff:**

This Commission has recommended reclassification of Town Panchayats based on certain criteria. If the package is accepted and implemented, many EOs in Grade I and Grade II Town Panchayats and the staff component in Town Panchayats have to be redeployed. Such of those who are rendered surplus may be absorbed in retirement / promotion vacancies. The rest of the EOs / Assistants / J.A.s / Bill Collectors may be initially deployed with Town Panchayats in which they are merged. In respect of those who could not be accommodated, they may be accommodated in the nearby Selection Grade / Special Grade Town Panchayats as additional staff to look into the computer operations, settlement of audit objections and collection of tax and non-tax arrears. **Hence the Commission recommends that in the event of the reclassification being accepted in to or substantially, the staff rendered surplus may be redeployed in retirement / promotion vacancies. Those who could not be accommodated anywhere may be posted in Selection Grade / Special Grade Town Panchayats as additional staff to look after computer operations, settlement of audit objections and collection of arrears of taxes and non-taxes.**

24. The over all staff strength in Town Panchayats may be fixed at 1.75 to 1.90 per thousand population. However, there appears to be some excess staff in selection grade Town Panchayats, which is due to fresh appointment following the norms for staff prescribed by Government in the years 1996 to 1998. This excess staff may be gradually brought down by stopping fresh recruitments on retirements, by re deploying in needy and eligible Town Panchayats and by other measures. In fact, the relatively better financial position in Town Panchayats is mainly due to their compact staff component and this advantage should not be lost by any further recruitment.



## MUNICIPALITIES

25. The sector-wise capital investment in Municipalities from 1995-96 is furnished in the table below:

**Table-17 Sector-wise Capital Expenditure:**

Capital Expenditure item	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
	Actual					Budget
	Expenditure (Rs. in lakhs)					
Water Supply	649.26	534.77	912.73	1019.55	1742.95	1852.40
Roads and Buildings	1278.31	1687.62	3164.53	5422.65	7477.46	8919.15
Storm Water Drains	434.85	476.33	1109.86	1476.46	1343.80	1602.89
Street Lighting	171.83	379.09	641.61	471.34	901.62	1075.46
Solid Waste Management	200.66	295.57	481.46	377.53	555.03	662.05
Education	81.69	184.97	101.96	255.40	331.03	394.85
General	529.65	747.79	1169.17	899.47	335.69	400.41
Others	369.52	542.16	1197.34	1815.82	2096.48	2500.69
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>3715.77</b>	<b>4848.30</b>	<b>8778.65</b>	<b>11738.21</b>	<b>14784.07</b>	<b>17407.90</b>
<b>CAPITAL ACCOUNT STATUS</b>	<b>-2363.50</b>	<b>-2159.70</b>	<b>-4242.90</b>	<b>-6468.90</b>	<b>-7725.70</b>	<b>-7787.40</b>
<b>GROWTH IN CAPITAL EXPENDITURE</b>		30.50	81.10	33.70	25.90	42.80
<b>REVENUE SURPLUS / DEFICIT</b>	<b>1800.80</b>	<b>3343.20</b>	<b>8521.10</b>	<b>2966.30</b>	<b>3283.50</b>	<b>(-)211.10</b>

25.1. The overall status in the capital account shows a net deficit implying that the revenue surpluses have been utilized for capital works. The capital account position is poor even after taking into account the revenue surplus for 1998-99 and 1999-2000. This has been taken into account in assessing the capital investments required. The quantum jump in capital outlay in and from 1997-98 shows that devolution has spurred it.

### 26. Capital Needs:

An investment of about Rs.2679 crores is required to achieve the set norms vide annexure-V-5 in the period 2002-07. However, the performance of Municipalities, the capital expenditure position and sustainability of Municipalities indicate a level of Rs.650 crores as the optimum:-

**Table:18**

Sector	( Rs. in Crores)
Water Supply	210.00
Sanitation	56.00
Roads	150.00
Storm Water Drains	72.00
Street Lighting	39.00
Solid Waste Management	26.00
Remunerative Enterprises	upto 32.30
Optional & Discretionary services	upto 32.30
Investments in fixed deposits	32.40
<b>Total</b>	<b>650.00</b>

The rationale for the above investment pattern is explained in V-5(a). The Commission suggests that the yield from remunerative and other enterprises should not only take care of debt servicing but yield something more revenue for possible depositing in a separate account to ensure and build up minimum cash reserve year by year. The investment pattern suggested may be kept as model and suitable Government orders issued for adoption by Municipalities.



## 27. MEASURES NEEDED TO IMPROVE THE SERVICES:

### 27.1. Water Supply:

Among the core civic services, more attention needs to be given to water supply. In this sector, 24 Municipalities have alone crossed the norm of 90 lpcd while the other Municipalities are yet to achieve the norm. It is sad that 48 Municipalities have not even reached 55 lpcd, a norm set for Village Panchayats.

The most preferred mode of water supply is through house service connections but due to low levels of supply and poor network coverage, water supply through house service connection is limited to an extent of 37% only. In fact, people in tail end areas are not getting adequate and timely supply of water. It is absolutely necessary that water supply is evenly distributed to all areas with sufficient pressure. It is therefore recommended that Municipalities have to reserve 25% of their water supply expenditure towards O&M, to ensure uniform and regular water supply to all areas, including new colonies in the outskirts. The recommended investment of Rs.210 crores for water supply may therefore be apportioned as follows:

	Rs.in crores
Augmentation	57.75
Distribution	135.03
Storage	3.15
Treatment	14.07

### 27.2. Sewerage and Sanitation:

In respect of sewerage and sanitation, currently, 12 Municipalities only have centralized UGD facilities, covering 27% of the property assessments and UGD network covering 26% of the roads. The households not connected with UGD or other sanitation facilities and the floating population depends on public convenience, of which 30% is pay and use category. Hence, individual Municipalities may take up under ground drainage projects with public and private participation as in the case of Alandur.

### 27.3. Solid Waste Management:

Solid Waste Management activities are governed by the principles of maximum social advantage. It is a core civic service rendered by Urban Local Bodies to create living environment. Efficiency of street cleaning depends on housing density and the road length to be cleaned by a worker and the number of conservancy staff deployed. It is observed that on an average 1321 meters of road length needs to be cleaned by one conservancy worker. Collection performance depends on the availability of vehicles and the number of trips made per day. The number of trips performed by municipal vehicles is in the range of 2 to 3 per vehicle per day and the average collection performance is about 75%. Under solid waste management there is scope for privatization. **Hence, the Commission recommends that Special Grade and Selection Grade Municipalities may go in for privatization of identified segments of solid waste management so that conservancy staff would be reduced to the barest minimum. The privatization should lead to lower cost and better service. The surplus staff should be redeployed wherever needed.**

## 28. Operation and Maintenance

28.1. The Department-wise O&M expenditure (excluding water supply) from 1995-96 is as shown in the table below:

Table-19

Revenue Expenditure item	Rs. in Lakhs)					
	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
	Actuals					Budget
General Admn. and Taxes	1450.68	2526.31	2548.33	3729.39	3650.02	4031.32
Public Works and Roads	1564.36	1568.09	2288.11	2914.18	3211.52	3547.02
Sanitation & Drainage	229.91	232.61	364.70	453.45	465.25	513.85
Street lighting	907.15	1333.18	1598.25	1638.42	2162.06	2387.92
Public Health & Conservancy	1355.94	1333.44	1486.86	1613.35	1977.61	2184.21
Town Planning	17.77	29.67	60.11	31.81	52.15	57.59
Education	150.67	69.19	114.29	159.76	223.88	247.27
Water Supply	1892.16	2428.60	2518.19	2950.68	3690.60	4041.95
Miscellaneous items	832.44	681.87	10.32.48	702.88	800.76	884.42
<b>Total O&amp;M</b>	<b>8401.88</b>	<b>10202.96</b>	<b>12011.32</b>	<b>14193.92</b>	<b>16233.85</b>	<b>17895.55</b>
<b>Growth Rate</b>		<b>21.44</b>	<b>17.72</b>	<b>18.17</b>	<b>14.37</b>	<b>10.24</b>

More than 35% of the total revenue expenditure constitutes O&M. The total O&M expenditure for the past years shows an average annual growth rate of 16%. General administration, public works and roads, street lighting and public health constitute major items of expenditure.

#### O&M in the Award Period:

28.2. The phasing of normative and additional O&M for the sustainable investments for the period 2002-07 would be as follows:

Table - 20

O&amp;M

(Rs. in lakhs)

Sector	2002-03	2003-04	2004-05	2005-06	2006-07	Total
General Administration & Taxes	5551.23	6383.91	7341.50	8442.72	9709.13	37428.49
Public works and Roads	4890.66	5624.25	6467.89	7438.08	8553.79	32974.67
Sanitation and Drainage	768.46	883.72	1016.28	1168.72	1344.03	5181.21
Street lighting	3288.22	3781.46	4348.67	5000.97	5751.12	22170.44
Public Health and Conservancy	3007.87	3459.05	3977.90	4574.59	5260.78	20280.19
Town Planning	66.13	69.44	72.91	76.55	80.38	365.41
Education	264.96	278.21	292.12	306.72	322.06	1464.07
Water supply	4817.05	5253.34	5734.87	6266.76	6854.65	28926.67
Miscellaneous	1221.28	1404.47	1615.14	1857.41	2136.03	8234.33
Additional O&M	687.00	1414.00	2097.00	2857.00	3700.00	10755.00
<b>Total</b>	<b>24562.86</b>	<b>28551.85</b>	<b>32964.28</b>	<b>37989.52</b>	<b>43711.97</b>	<b>167780.48</b>

The above projection is no doubt upper limit fixed based on past performance. Hence there is scope for reduction in expenditure by segregating the new and old assets and fixing responsibilities on the Engineering Wing. If such an approach is adopted, the expenditure could be contained as per the figures available in the Annexure V -6(a).

28.3. The Tenth Central Finance Commission grants were given for capital works. As a policy departure, the Eleventh Central Finance Commission grants are entirely earmarked for maintenance.

28.4. The O&M as projected above for the award period of Second State Finance Commission takes into account the existing assets and the new assets to be created. It is based on various assumptions. But this need not be considered as a provision for spending. Each Council shall adopt the estimates as envisaged as the upper limit and to prune down the expenditure. The norms fixed by the Task Force Committee for O&M are given in the Annexure V-6. This can be the starting point for evolving norms once in 2 years for which a guideline committee may be constituted. The guideline committee may consist of Commissioner of Municipal Administration / Superintending Engineer and a Chairman of a



Municipality. The first fixation may be done in 2002 and thereafter reviewed every two years. This committee should also take into account that sectoral allocations are not exceeded and to ensure that no sector is pampered at the expense of the others.

29. Hence the Commission recommends that a Guideline Committee for O&M consisting of the following members may be formed to fix the norms for various core sectors based on the field realities, resource constraints etc., and to monitor the O&M expenditure and budget framing within the scarce resources available and at the same time ensuring justice for each sector and to avoid pampering of one sector at the expense of others.

1. Commissioner of Municipal Administration.
2. Superintending Engineer in the Office of the Commissioner of Municipal Administration.
3. One elected Chairman of a Municipality.

30. This Commission also recommends that a monitoring mechanism at the level of Regional Director of Municipal Administration may be evolved to look into the level of investments and the O&M needed for rendering qualitative service / delivery of service.

31. It recommends that every year the observance of O&M cost norms in the first two quarters may be watched and it may be linked to the release of third and fourth quarters. In other words, the Municipalities, which conform to the norms, may be given the devolution entitled to third and fourth quarter. Where the Municipalities incur expenditure far in excess of norms may be dealt with suitably; devolution in the last two quarters need to be reduced to the same extent they exceed the norms. Likewise where there is undue shortfall in O & M expenditure, devolution need to be cut to the extent of under spending.

## 32. ISSUES RELATING TO HUMAN RESOURCES:

### 32.1. Staff Position and Salary Expenditure:

The staff position and salary expenditure need to be contained to ensure adequate capital outlay, due O&M provisions and consequently better civic services. The staff position and salary expenditure are reviewed as under.

### 32.2. Staff Position:

The manpower in municipalities is deployed in over 20 departments. The staff position in municipalities is furnished in the table below:

**Table -21 Staffing Pattern in Municipalities – Department-wise**

Departments	Sanctioned	Permanent	Consolidated Pay	NMRs	Total in Position
	(1)	(2)	(3)	(4)	(5)=2+3+4
(Staff in numbers)					
General Admn	1248	1091	38	26	1155
Accounts	628	596	14	1	611
Revenue Section	1601	1552	33	71	1656
Engineering	809	682	32	424	1138
Street Lighting	610	522	60	102	684
Water Supply	1817	1362	121	986	2469
Public Health	21914	18551	2439	151	21141
Town Planning	510	466	18	6	490
Parks & Gardens	238	180	12	10	202
Other Staff	1751	1452	116	54	1622
<b>Total</b>	<b>31126</b>	<b>26454</b>	<b>2883</b>	<b>1831</b>	<b>31168</b>



32.3. The present staff/1000 population ratio is on an average 3.87 with individual ratios going upto 6.85. Without controlling the staff strength, improvement in financial position is not possible.

**33. The Commission recommends that in respect of the municipalities wherein surplus staff have been identified, with reference to staff / 1000 population ratio, those municipalities have to decisively reduce the strength on the following lines:**

- i) The surplus staff identified may be redeployed to other municipalities where they are required actually.
- ii) The retirement vacancies may be surrendered till a stage to reach the staff norm recommended by the Commission.

34.1. A sample study of certain Municipalities wherein more than two factors like heavy establishment expenditure, debt, poor taxation, operating ratio etc. leave them in a weaker financial position is made by the Commission and a statement prepared in this regard is placed as Annexure V-7. For example, Srivilliputhur Municipality is having the following adverse factors:

- (i) Establishment expenditure at 92% of total income
- (ii) Staff / 1000 population ratio – more than 2.5
- (iii) Per capita income lesser than the average for that particular grade.
- (iv) Lesser Property taxation percentage etc.

34.2. Likewise 26 Municipalities are having operating ratio of more than 1 vide Annexure V-8. The Municipalities listed in the annexure are having a percentage of establishment expenditure at 70 and above 70 in total income. If those and other Municipalities strictly adhere to the various norms prescribed by the Commission in this Chapter and other chapters, the financial position of the Municipalities would improve to a better position in a phased manner within the award period of Second State Finance Commission.

34.3 The Predicament of Municipalities is in sharp contract to Municipal Corporations where property stock base is high and in Town Panchayats though Property Stock is modest, the overhead expenses is low. But in Municipality, the level of income from property stock is low while simultaneously the overhead expenditure is high. This is their own making and not imposed on them by any outside forces. This has been brought out in Debt Management and other Chapters.

### **35. Making Cities Livable**

35.1. World Bank Report 2000 explains how an appropriate blend of policies and institutions can improve urban living conditions at various levels of economic development which include reducing poverty and inequity, creating a healthy urban environment, minimizing crime and violence, establishing a civil protection system and making services more accessible. It devotes a chapter on making cities livable. Problems of inadequate infrastructure have economic as well as human cost. It is reported that in Jakarta (Indonesia) a poor urban resident pays 10 times more than a rich resident does for a litre of clean water and suffers 2 to 4 times more from water-borne diseases. In providing essential services to the public, private partnership is now making significant come back in industrial countries. Such public and private sector partnership in providing services needs to address citizen's right, security, participation, transparency and accountability. Fully utilizing the private sector may require redesigning national Constitution, as was done in Brazil and South Africa. Smaller cities may find it useful to decentralize provision of water by offering competitive system to private firms. In Paraguay, the water market was opened to private entrepreneurs allowing them to legally drill wells and lay pipes in public streets. This system is successful in low-income areas with heterogeneous demand pattern.

35.2. Regarding sewerage, it is reported that full cost recovery particularly from user fees remains virtually impossible with sewerage services. Under the 'polluter pays' principle, all households should



contribute to the cost of collection and treatment but in practice it is difficult to collect such fees. If high fees are imposed, people seek informal solutions and cheap and improper method of disposal. Brazilian cities have used shallow small bore sewer schemes in which sewers run through all the households in a block and waste water is discharged from a single point into the main trunk line, an effective alternative to connecting each household to the trunk. This design has lowered costs to the affordable levels.

35.3. It is reported that the major problems of urban transportation relate to traffic congestion, pollution from emission and the limited mobility of the poor. In some cities like Surabaya, space for walking and cycling with alternative plantings and pedestrian zones etc, have revamped the transportation system.

35.4. Social protection is taken as one of the responsibilities of NGOs and community based organizations in Bolivia, Chile and Senegal. These organizations create "micro credit programmes" involving NGOs, local government and the poor women would be able to generate their own income through self-employment.

35.5. The improvement in essential urban services in various third world countries as cited by the World Bank in its report show how remarkable achievements are made with the integrated effort of private sector, community based organizations and NGOs in major cities making those cities livable. The findings and suggestions of World Bank are equally applicable to corporations and municipalities in Tamil Nadu.

### MUNICIPAL CORPORATIONS

36.1. The sector-wise investment in capital works during the last five years is given below:-

**Table :22 Sector-wise Capital Expenditure**

(Rs. in Lakhs)

Capital Expenditure item	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
	Actuals					Budget
	Expenditure (Rs. in lakhs)					
Water Supply	679.28	685.74	894.01	1461.54	1176.33	2033.30
Roads and Buildings	7125.55	5831.68	8669.19	11033.60	16781.98	18266.00
Storm Water Drains	1074.55	1201.26	2193.24	3238.91	2341.69	3018.50
Street Lighting	1798.28	1192.16	1534.63	1342.96	1330.00	1020.00
Solid Waste Management	702.11	568.99	698.95	508.77	1781.42	2924.00
Education	166.12	136.73	148.44	167.59	298.40	705.50
General	616.82	3037.12	4645.40	5022.66	1107.00	963.24
Others	611.00	389.03	656.25	2042.64	2847.76	4684.34
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>12773.71</b>	<b>13042.71</b>	<b>19440.11</b>	<b>24818.67</b>	<b>27664.58</b>	<b>33614.88</b>

36.2. The average growth in capital investment is of the order of 22.6%. Step up in capital expenditure since 1997-98 shows that a part of devolution has been spent towards capital investment.

### 37. Capital Needs:

37.1. The quantum of gaps in services for each category is presented in Annexure - V-9. An investment of about Rs.2255 crores (excluding Rs.219.62 crores by CMWSSB) is required to achieve the set norms in the period 2002-07 (vide Annexure-V-10). But, the performance of the Corporations in the last five years and sustainability indicate a level of Rs.975 crores as optimum. The sector-wise allocation suggested for the proposed investment is given below:



**CORPORATIONS**  
**Table No.23 Suggested Investment**

(Rs. in Crores)

Sector	Chennai	Coimbatore	Madurai	Salem	Tiruchi-rappalli	Tirunelveli	Total	%
Water Supply	0.00	12.80	16.00	24.91	37.77	17.29	108.77	11.16
Sewerage	46.69	28.06	13.56	10.06	6.86	2.53	107.76	11.05
Roads	220.64	30.63	20.33	9.33	6.59	8.73	296.25	30.38
Storm Water Drains	98.00	44.21	4.10	11.97	9.57	9.38	177.23	18.18
Street Lighting	9.34	5.98	1.16	2.06	1.11	1.23	20.88	2.14
Solid Waste Management	45.33	14.32	4.85	1.67	2.10	0.84	69.11	7.09
Sub Total	420.00	136.00	60.00	60.00	64.00	40.00	780.00	80.00
Remunerative Enterprises (maximum)	52.50	17.00	7.50	7.50	8.00	5.00	97.50	10.00
Optional and Discretionary Services (Maximum)	26.25	8.50	3.75	3.75	4.00	2.50	48.75	5.00
Investments in fixed deposits	26.25	8.50	3.75	3.75	4.00	2.50	48.75	5.00
<b>Total</b>	<b>525.00</b>	<b>170.00</b>	<b>75.00</b>	<b>75.00</b>	<b>80.00</b>	<b>50.00</b>	<b>975.00</b>	<b>100.00</b>

37.2. The financial position of Madurai Corporation is so unenviable that no investment can be taken up: however such a Corporation cannot be omitted while reckoning capital needs. In order to take up and sustain the recommended investment of Rs.75 crores for Madurai Corporation, the Madurai Corporation and GoTN will need to undertake the actions listed in Annexure -V-11 and to promote growth of property stock as envisaged in para 37.3 below

37.3. Madurai is popularly known as temple city. The Heritage Act stipulates restrictions on the height of building around Arul Migu Meenakshi Sundareswarar temple (G.O.Ms.No.22, Municipal Administration and Water Supply Dept, dated 30.1.1997) This imposes a curb on the growth of property stock particularly commercial properties, which are found near the temple. **This Commission recommends that Government may form a committee consisting of Commissioner of Municipal Administration, Collector, Director of Town and Country Planning, Commissioner, Madurai Corporation and HR&CE Commissioner. A representative of INTACH could be standing invitee. The Committee may take into account Madras High Court judgement on Tiruvannamalai and adapt it to Madurai situation, balancing the Heritage Act and the need for property growth. Based on the Committee's report, Government may issue guidelines for the development of properties to augment property tax income of the city.**

37.4. The allocations are made based on the felt needs by giving priority to roads which would include flyovers, subways, culverts, bridges, pavements to maintain free flow of vehicular traffic and pedestrian movements in all the corporations.

37.5. The average per capita water supply (2000 population basis) indicates that the per capita supply levels range from 150 lpcd in Coimbatore to 71 lpcd in Tirunelveli and the average of all Corporations works out to 106 lpcd . Only Coimbatore, Salem and Tiruchirappalli Corporations meet the first State Finance Commission norm of 110 lpcd whereas Chennai, Madurai and Tirunelveli have only 99,90 and 71 lpcd in that order. So we recommend Rs.108.77 crores for this sector for the five Corporations.

37.6. The average road length covered with drains in Corporations is only 39%. Of this 69% are pucca drains. In individual Corporations, coverage varies from 118 per cent in Coimbatore to as low as 28 per cent in Madurai. As the existing level of services is poor except in case of Coimbatore Corporation the investment required in this sector is huge. About 5564 kms (new pucca drains 2632 kms + new closed drains 2932 kms) and about 271 kms of existing kutchra drain needs to be upgraded at a total cost of Rs.747 crores. Based on the above factors, we have recommended Rs.177.23 crores for this sector i.e., nearly 18.18% of total recommended investment. A sum of Rs.195.00 crores is now allocated for the category of "others".



### 38. Investments (Quantitative)

38.1. The level of investment recommended above takes into account the quantitative aspect only. At the same time, it is necessary to apportion to various sectors to upgrade the level of services and delivery. While nearly 48.56% of the total investments go to roads and storm water drains, the rest of the core services like water supply, sewerage, street lighting, solid waste management take about 31.44%. The balance 20% could go to Remunerative Enterprises (10%) optional and discretionary services (5%) and investments in fixed deposits (5%).

38.2 The thrust is mainly on roads. Chennai Municipal Corporation has made a plea to take over Anna Salai (Mount Road) and EVR Salai (Poonamallee High Road) connecting with NH Road at Guindy and Arumbakkam respectively from State Highways Department with adequate Government grants for maintenance. The Commission is of the view that the State highways Department may continue to maintain these two major roads in the city, as it possesses required infrastructure and expertise to maintain them at specified standards. In respect of other remunerative enterprises only those with 11% to 12% return should be taken up. The investment option on remunerative enterprises like auditorium, community halls etc., may be given the last priority in view of poor utility value, low utilization and low returns. The phasing of investment for different sectors for the award period of Second State Finance Commission is available in the Annexure -V-12.

### 38.3 Councillor / Mayor Fund

The Commission has been informed that a discretionary fund has been ordered to be created at the disposal of Mayor/Municipal Chairman at 5% of the total receipts of the last audited accounts or Rs.50 lakhs which ever is less for taking up works of their choice. Besides, in Chennai Councillor fund has also been created and in the current year each Councillor has been given Rs.5/- lakhs each for undertaking works of his choice. Even though on the face of it, it may appear to be good, yet it goes against the collective decision making powers of the Municipal Councils. Moreover, during seminars and other forums elected Chairpersons and Councillors of Municipalities/Town Panchayats have pleaded for such a fund for them also. Hence the Commission feels that this can be taken to and merged with the development budget to ensure that the provision is utilized for improving the civic services, as mentioned in para 4 of this chapter.

**Table 24: Operation & Maintenance Expenditure:**

O&M Expenditure item	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
Expenditure	(Rs. in Lakhs)					
General Administration and Taxes	1262.74	2019.98	2224.15	3217.99	3571.90	3447.28
Public works and Roads	3383.50	3316.19	5661.30	7296.68	7425.82	7653.43
Sanitation and Drainage	753.66	684.55	1584.58	1320.89	1754.98	1467.33
Street Lighting	1415.50	1820.36	1909.23	2583.32	2651.53	2672.68
Public Health and Conservancy	1513.17	1524.99	1870.21	2377.60	2574.72	2763.93
Town Planning	11.11	9.30	15.23	19.96	45.25	62.60
Education	356.27	436.84	485.04	667.33	967.83	1104.22
Miscellaneous items	527.16	598.27	616.60	496.85	949.44	973.39
Total O&M	9223.11	10410.48	14366.34	17980.62	19941.47	20144.86

39.1. The Operation and Maintenance expenditure of all sectors (excluding water supply account) accounts for over 42.5 percent of total expenditure incurred by all Corporations. The total expenditure on O&M has registered an average annual increase of about 22 percent from Rs.92 crores in 1995-96 to Rs.199 Crores in 1999-2000. Public works and roads, general administration, public health and conservancy and street lighting departments have been the major cost centres with regard to O&M expenditure.



**O&M in the award period:**

Based on the recommended investment of Rs.975 crores for capital works, we are suggesting the following phasing of O&M for the period 2002-07 including water supply account:-

**Table : 25**

(Rs. in lakhs)

	2002-03	2003-04	2004-2005	2005-06	2006-07	Total
General Administration and Taxes	5432.41	6247.28	7184.37	8262.02	9501.33	36627.41
Public Works and Roads	11293.74	12987.81	14935.98	17176.37	19752.83	76146.73
Sanitation & Drainage	2669.11	3069.47	3529.89	4059.38	4668.28	17996.13
Street Lighting	4032.65	4637.54	5333.17	6133.15	7053.12	27189.63
Public Health and Conservancy	3915.83	4503.20	5178.68	5955.48	6848.81	26402.00
Town Planning	68.82	79.14	91.01	104.67	120.37	464.01
Education	1120.38	1176.40	1235.22	1296.98	1361.83	6190.81
Water	3526.01	3901.70	4320.08	4786.19	5305.62	21839.60
Miscellaneous Item	1443.98	1660.58	1909.66	2196.11	2525.53	9735.86
Addl. O&M for new investment	946.11	1618.64	2369.35	3205.20	4133.68	12272.98
<b>Total</b>	<b>34449.04</b>	<b>39881.76</b>	<b>46087.41</b>	<b>53175.55</b>	<b>61271.40</b>	<b>234865.16</b>

39.3. The O&M is admittedly subject to the level and pattern of investment as contemplated every year in table- 4 of this chapter. Further, the annual budgets of the Corporations should accommodate the recommended level of O&M for each Corporation. While preparing the budget, the Commissioners of Corporations should see whether the O&M provided for core civic sectors is at the optimum level to meet the demands of existing and new assets. Therefore, a monitoring mechanism needs to be evolved administratively to look in to the O&M provision and the actual spending for each major component. This is dealt with below:

39.4. Further, the above O&M forecast is no doubt upper limit fixed based on past performance. However, there is considerable scope for reduction in expenditure by segregating the new and old assets by privatization, and fixing responsibilities on the Engineering Wing. If such an approach is adopted, the expenditure could be contained as per the figures available in the Annexure -V-13.

39.5. **We also recommend that the intersectoral outlay of O&M as above may be strictly monitored and implemented so that there is no tendency for undue diversion of outlay among the core civic sectors.**

39.6. The Eleventh Central Finance Commission grants are entirely earmarked for maintenance. For Municipal Corporations, this grant will be Rs.9.17 Crores per annum during the period 2002-05.

39.7. The Commission suggests preparation of guidelines for O&M for which a Committee consisting of i) CMA ii) SE in the O/o CMA and iii) Mayor of a Corporation may be formed. The O & M cost norms adopted by the Task Force can be the starting point for fixing norms by the above Committee. Based on field realities, resources, constraints etc. the above Committee can suggest O&M norms for each basic service rendered by Corporations. The norms so suggested by the Committee will be initially valid for two years i.e. 2002-03 and 2003-04. For subsequent years the norms can be updated by the above Committee. The guidelines of this Committee will be the basis for each Corporation to fix its O & M budget, based on the factors specific to it. The Commissioners of Corporations who prepare the Budget estimates before presenting them to the council shall take into account the conditions of old assets and the need for providing operation and maintenance expenses. Assets, which are five years old, and more need to get first priority. In respect of new assets, the need for O & M if any, may be pegged at the minimum level. The Commission also recommends that each council may take the norms envisaged above as the upper limit and to prune down the expenditure well within their resources. The spending behaviour of each Corporation should be watched in the first two quarters. The Corporations, which have incurred expenditure within the limits and at the same time provided better service without complaints may be given the devolution due for the third and fourth quarters for O&M. Those who fail to fall in line without adequate reasons may be disciplined. The Director of Local Fund Audit also during his audit will



look into adequacy of O&M expenditure and ensure that there is no excessive expenditure for O & M. In respect of Chennai Corporation a similar committee consisting of (a) Corporation Commissioner (b) Superintending Engineer/City Engineer and (c) a member from standing finance committee may be formed. The other factors mentioned in para 4.4. may hold good and that close monitoring may be done as aforesaid.

40. Hence this Commission recommends that a guideline committee for O&M consisting of the following members may be formed to fix the norms for various core sectors to monitor the expenditure and budget framing within the available resources and at the same time ensuring justice for each sector and to avoid excessive spending in one sector at the expense of the others.

- i) Commissioner of Municipal Administration.
- ii) SE of the office of Commissioner of Municipal Administration
- iii) One elected Mayor of a Corporation.

41. This Commission recommends that a monitoring mechanism at the level of Joint Director of Municipal Administration may be evolved to look into the level of investments and the O&M needed for rendering qualitative service / delivery of services. In respect of Chennai Corporation the Commission recommends that a guideline committee for O&M consisting of the following members may be formed to fix the norms for various core sectors to monitor the expenditure and budget framing within the available resources.

- i) Commissioner of Chennai Corporation
- ii) Chief Engineer.
- iii) One elected representative from the standing finance Committee.

42. It also recommends that the observance of O&M cost norms in the first two quarters may be watched and it may be linked to the release of third and fourth quarters. In other words, the ULBs, which conform to the norms may be given the devolution entitled to third and fourth quarter. Where the Corporations incur expenditure far in excess of norms may be dealt with suitably; devolution in the last two quarters need to be reduced to the same extent they exceed the norms. Likewise where there is undue shortfall in O & M expenditure, devolution need to be cut to the extent of under spending.

43. Issues related to Human Resources:

The manpower in Municipal Corporations is categorized into 22 departments. The salaries for the employees of education department among these departments are however, made by the State Government. The organization pattern of Corporations as on 31.3.2000 is as indicated below:-

**Table 26 Staffing pattern in Corporations**

Department	Sanctioned	Permanent	Consolidated Pay	NMRs	Total in position (5=2+3+4)	Vacant w.r.t. Col. (2) & (3)	Vacant w.r.t.Col. (5)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
General Administration	920	1015	-	-	1015	- 95	-95
Storm Water & Drainage	101	61	-	-	61	40	40
Water Supply	1700	1505	280	-	1785	- 85	-85
Roads	3233	2777	93	284	3154	363	79
Street Lights	1173	992	80	42	1114	101	59
Solid Waste Conservancy	21618	20103	1929	1278	23310	- 414	-1692
Sewerage and Sanitation	4427	3895	142	12	4049	390	378
Public Health	3537	2851	-	-	2851	686	686
Town Planning	44	44	-	-	44	0	-
Others	13153	11492	1	21	11514	1660	1639
<b>Total</b>	<b>49906</b>	<b>44735</b>	<b>2525</b>	<b>1637</b>	<b>48897</b>	<b>2646</b>	<b>1009</b>



43.2. To ensure that residents and tax-payers get atleast 51% share in revenue expenditure, it is necessary to contain cost on salary and pension. The desired norm for Corporation staff per 1000 population is about 3.5 for Chennai Corporation and 3 for other five Corporations. As per these norms, the required total number of staff for all Corporations works out to 28535. However, the number of staff now in position is 48897, which works out to 5.11 per 1000 population. This is about 71% more than the required staff strength as per norms. Of the excess staff, Chennai, Madurai, Salem and Tiruchirappalli Corporations contribute most. The establishment expenditure works out 56.1% of total income of Madurai Corporation during 1999-2000, which is over and above the desired norm of 45% of the total income. The surplus or redundant staff position may be controlled by abolishing the posts on retirement of the existing staff or by transferring some of the working staff to suitable posts in other departments as and when vacancies arise. The ban on filling up of posts is needed in those departments where computerization and / or privatization are feasible. Work load and sanctioned posts for various departments needs to be continuously reviewed to achieve right sizing the staff strength.

#### 44. General issues in civic administration

In the following paragraphs under this head we propose to dwell upon some general issues common to all local bodies, which need to be addressed immediately to improve the quality of life of the people.

#### 45. Roads:

45.1. About 50% of the expenditure in rural works relates to roads. There is a widespread feeling that National Highways and State Highways roads are laid to superior specifications and are of a high quality, whereas roads laid by PRIs are of a poor quality. Some of the reasons for this dichotomy are as follows:-

- i) Unit cost for State Highways roads is more than the unit cost for Panchayat Union roads.
- ii) Superior technology in the form of pavers and hot mix plants are used in State Highways roads, whereas only road rollers are used in Panchayat roads.
- iii) Proper gradient and camber are not provided in roads of PRIs.

45.2. This Commission learns that there are 12,145 Kms of unclassified roads throughout the State. These roads will have to be classified properly, entrusted to appropriate authority and those belonging to local bodies must be categorized accordingly and maintained. Recently the CRD has informed the Commission that about 10000 kms of unclassified roads have been entrusted to Panchayat Raj Institutions for proper up-keep. The remaining 2000 and odd kms may be identified and entrusted to respective local bodies.

45.3. There are pre-qualifications bids in National Highways and State Highways roads, whereas in respect of Panchayat roads no such pre-qualifications bids exist. There seems to be no technical qualification prescribed in ULBs/PRIs for registering a person as a contractor. Now that there are many Engineering colleges in the State, this Commission strongly suggests that in future, the registered contractor will have to employ a B. E./DCE qualified person for executing the work taken by him/her. This will be included in the Tender schedule. In order to improve the quality of roads in Panchayats, various measures are suggested which may be found in the Annexure- V-14

45.4. The Commission is also informed that the Forest Department is not helpful while seeking the roads under their control by local bodies by linking the area intersected by Forest as revealed by the elected representatives in Pannaipuram and Gudalur Town Panchayats. The Chief Conservator Forest, when confronted on this issue informed that necessary assistance was provided. However, the Commission suggests that there should be proper coordinating mechanism at Government level to sort out the issues. In fact the Secretary to Government, Environment and Forest Department and HODs may meet once in six months to sort out the issues.



#### 46. Issues in road cutting

Road cutting after road laying happens with regular monotony like the arrival of seasons in the Indian landscape for several years now. It is most distressing to note that a newly laid road is almost immediately dug open by one agency or other for laying water pipelines, sewage pipelines, telephone cables, electric cables and now Internet cables. The already narrow roads due to encroachments and parking of the vehicles on the sides is further narrowed due to indiscriminate road cutting and traveling on these narrow lanes becomes a challenging task for road-users. This sort of inconvenience for the public can be reduced if not eliminated if only there is a coordinated approach on the part of various service providers in digging up roads. Even though the local body levies road-cutting charges against the agency concerned, it is seldom paid. In order to overcome the problem of indiscriminate road cutting, agencies like Government / quasi-Government / private parties should have a comprehensive plan. These comprehensive road cutting plans will have to be got approved by the District level Co-ordination Committee headed by District Collector and consisting of Municipal Commissioner, DE (Highways), DE (TNEB), DE (Telephones), and EE (TWAD). The Urban Local Bodies should initiate talks for road digging before every re-laying so that haphazard digging will be avoided. In Chennai city this co-ordination committee can be headed by Chief Secretary and other members can be Commissioner, Chennai Corporation, CE(Highways), Chairman(TNEB), CGM(Telephones), Managing Director(TWAD) and Managing Director(CMWSSB).

#### 47. Traffic

Although traffic is not technically one of the subjects to be performed by the Local Bodies in as much as overall quality of life in urban cities particularly Corporations depends upon free flow of traffic we make the following observations.

A short article on driving through Indian roads kept in the annexure gives a realistic picture of the chaotic almost nightmarish traffic conditions on Indian roads (Annexure V-15.) To remedy the situation, we recommend that all the Municipal Corporations in the first instance may set up traffic signals in important road junctions. Particularly in Chennai city automatic computerized traffic signals as in Mumbai and Delhi may be set up without further loss of time. Road widths have to be maintained by Urban Local Bodies by keeping roads and pavements free from encroachments.

#### 48. Water supply

48.1. At present water has been practically treated as State subject while this needs to be a concurrent subject of both the State and local bodies. Local bodies, in spite of their limited knowledge of geology or geo-physical techniques, need to be consulted about the possibility of tapping local body sources to the extent possible. In other words involvement of the local bodies could to a considerable extent help in identifying local sources and thereby reduce the need for combined and long distance schemes, involving heavy investments. Where of course local sources are totally inadequate, combined schemes may have to be implemented.

48.2. We also make the following suggestions to ensure improvement in the delivery of service in water supply.

- i) Maintenance, particularly preventive maintenance, needs to be accorded higher priority than hitherto. Leakage and wastage need to be brought down from the present level of 40% to the level within 10%.
- ii) There is need to impart training to local body in proper maintenance, possibility of privatizing, maintenance needs to be explored.
- iii) Meters should be installed at various points so that leakage and wastage can be detected and controlled.
- iv) Local bodies need to have the options to choose executing agencies based upon the cost and experience. Some 20 or 30 years ago it is true that TWAD alone had expertise in the matter. But today bigger contractors because of the sheer experience gained from TWAD



projects can themselves be executing agencies. But this needs proper short listing based upon the track record and technical manpower they have. In any case, the Alandur sewerage project provides a good model wherein the Municipality has been given the option to choose the executing agency. The same can be extended to water supply schemes also with TWAD as one of the bidders. Other things being equal TWAD will certainly get preference, as it is a Government agency.

More details about the scope for improving water supply are kept in the Annexure V-16.

48.3. The abiding interest of this Commission in drinking water supply may be seen from: O & M provisions and capital outlay for water supply in earlier sections in this chapter; para on rainwater harvesting; paras on Metro water in this chapter and also in the chapter on Issues germane to Terms of Reference; costing and pricing of water supply in the Chapter on Better Fiscal Management; equation between local bodies and Tamil Nadu Water Supply & Drainage Board in the chapter on Issues germane to Terms of Reference; critique on water supply annexed to this chapter; and debt relief for the water supply loans taken in the past and in future interest subsidy for water supply loans in the chapter on Debt Management. It is our hope that due implementation of the entire package of recommendations and measures would considerably help sustained water supply at minimum cost to the public.

#### 49. Chennai Metropolitan Water Supply & Sewerage Board

49.1. In order to provide water supply to the growing population of Chennai city, it was felt desirable to create a separate Board and accordingly CMWSSB was formed in the year 1978. However, the expectations have not been fulfilled and even in normal years, a permanent solution for the drinking water problem of the city has not been found by CMWSSB. As against 950 mld of water supply per day, which is the requirement for the city, CMWSSB is currently supplying only 250 mld per day. An attempt to bring the Cauvery water to Chennai city through the Veeranam project was shelved and currently Krishna water is being supplied to the city from Kandaleru reservoir. Some crores have been spent for strengthening the distribution system within the city by CMWSSB. The following table illustrates the water supply given to the residents of Chennai as compared to residents of other cities.

**Table-27.**  
Water supplied(LPCD) in Metropolitan Cities

METROPOLITAN CITY	QUANTITY SUPPLIED(LPCD)
Bangalore	100
Vishakapatnam	95
Kolkata	202
Mumbai	178
Delhi	209
Chennai	100

Source: Second Water Utilities Data Book, AD, 1997 and Financing Urban Infrastructure in India, National Institute of Urban Affairs, 1997

In addition the following table gives the water supplied in a normal monsoon year(1998) as compared to a drought year(2000).

(in MLD)

MONTH	1998	1999	2000
March	394.19	444.00	213.71
April	363.93	449.83	201.78
May	345.12	454.21	207.28
June	335.13	457.68	202.07
July	340.20	400.47	192.53
August	345.55	451.95	193.19

49.2. How the available quantity is distributed is as important as how much is distributed. For instance, it is noticed that residents living near various head works are getting copious water supply, whereas residents in tail end areas are not getting water supply due to low pressure in the pipes or are not getting



anything at all. When Government are envisaging piped water supply in villages, maldistribution in the Metro area does not redound well to a 23-year old organization, which must have ensured some kind of distributive justice, so that whatever be the available quantity, it is equally apportioned among all the residents in the city. In such a context, the first priority of Metro water should be extending water supply and ensuring the same to tail end areas which are served by Metro water. Instead the CMWSSB is extending its network to newly acquired areas like Ekkattuthangal in the suburbs at the expense of others within the Corporation limits. One would have expected Metro water to duly ensure distributive justice as after all under the Krishna water project, it claims to have spent a sizeable sum for strengthening the distribution mains and installing additional pumping stations in the city. If CMWSSB has to acquire legitimacy and moral authority for collecting water charges as questioned by consumers, it must ensure that, after distribution to weaker sections like slums, whatever water is available is supplied to public through pipelines and lorries in the ratio of 95:5. That is, what is available is to be equitably distributed through pipelines with uniform pressure all over the city making water available for equal duration to all those with pipe connections. Even by Metro water's own admission, 35% of the city population do not receive the piped supply. As per the official records 21 lakhs persons out of the total population of 60 lakhs are supplied 32 million litres of water supply through tanker lorries. This works out to a meager 15 litres per capita per day.

49.3. The hapless Chennaiite has been forced to spend huge amount, time and energy on drinking water: he incurs capital cost in constructing sumps, in sinking and deepening wells and bore wells; he incurs running cost in buying water from tankers and mineral water suppliers. Today water is a roaring business in Chennai with so many dabbling in the arena. Metro water gives macro-position by reeling out investment figures. That is basically input oriented approach. What is important is output : proof of pudding is in eating. Public satisfaction is of utmost importance. Hence from consumer point of view, a detailed study needs to be made immediately. **The Commission therefore recommends a study by qualified consultant based on consumer survey and take decisive measures in the next one year. This survey should also determine what is the market share of private water suppliers vis-à-vis, CMWSSB and outline the steps to be taken by CMWSSB to keep its market share in tact without further erosion.**

49.4. It is also understood that the organization is beset with overstaffing problems and they can comfortably manage with about 3,000 employees. In order to have co-ordination between CMWSSB and Chennai Corporation, there is already a Joint Co-ordination Committee headed by the Mayor at headquarters, whereas at the field level some more co-ordination is called for. For this, our SFC suggests that a ward co-ordination committee may be formed, consisting of AE of Chennai Corporation, AE of CMWSSB and the concerned Ward Councilor of the Corporation. We are happy to learn that CMWSSB has bagged the prestigious National River Conservation Project and is going to shortly desilt all the major waterways running through the city at a cost of Rs.577 crores. It is also heartening to note that CMWSSB has privatized the sewage pumping stations in few places and privatization in the organization is about 20% of volume and 30% of value of cost. The thrust given for rain water harvesting by CMWSSB by having a separate cell for Rain Water Harvesting, for training the masons in RWH, and insisting of RWH mechanism to be installed in buildings before water supply can be given is also a good measure. If after providing assured water supply, water tax and water charges can be augmented during the next revision, and staff can be reduced to a level of about 3,000 and with the thrust on privatization and improvement of distribution system to ensure distributive equity we are sure CMWSSB will emerge as a strong organization in the years to come.



## 50. Rainwater harvesting

### **"CARE FOR GROUND WATER BEFORE IT BECOMES RARE"**

50.1. In order to reduce the current consumption charges of PRIs, this Commission explored other alternatives such as solar operated pump sets for water supply and rainwater harvesting. From the year 1971-1999, the total investment in water supply made by TWAD Board towards capital and O&M put together comes to Rs.4515.03 crores. In the coming years, this investment is 10% only to increase as Government's objective is to provide piped water supply to rural areas and this massive investment is unsustainable. The SFC opines that Rain Water Harvesting can definitely reduce the financial burden of the local bodies and improve quality of water supply in rural areas. Water is one of the most important needs for sustenance of life in the earth. Depletion of ground water level and deterioration of ground water quality are the major problems in implementing water supply schemes. Pollution and over-exploitation have shrunk the availability of clean and potable water to a trickle. Urbanization has resulted in over exploitation of ground water, reduction in open soil surface and water infiltration rate and a resultant deterioration in water quality.

50.2. More than 95% of the surface water and 60% of the ground water have been put into use. But the demand for water is continuously on the rise with the growth of population, industry and agriculture. As the available source of usable water is less as compared to the demand, there is urgent need for conserving and utilizing water, particularly in Tamil Nadu, which is located in a rain shadow area.

50.3. In Tamil Nadu, rainfall is confined to northeast monsoon season and is unevenly distributed both in space and time even during this monsoon season. Unlike the Southwest monsoon, which is more regular, northeast monsoon is erratic and associated with cyclones. Only 5 to 10% of the rainfall reaches the ground water table due to natural recharge. The meager annual replenishment alone may not be able to meet the demand of drinking water supply as well as other sectors. Therefore, enhancement of recharge through artificial recharge measures is necessary to reduce the gap between demand and supply.

50.4. Conscious recharging to augment ground water resources has become a necessity and we should therefore develop and popularize some of the cost effective rainwater harvesting methods in urban and rural areas. The main advantages of rainwater harvesting are;

- i) Surface run off during monsoons can be conserved
- ii) Aquifers can be recharged and availability of ground water can be increased
- iii) Quality of ground water can be improved
- iv) Problem of flooding and stagnation of water during the monsoon season can be overcome
- v) Salt-water intrusion can be arrested

50.5. Various methods are available to recharge the water table by increasing the rate of infiltration. The artificial recharge can be achieved by obstructing the flow of water, by storing the water, by spreading the water or by injection through well and bore wells. Convinced about the long-term benefits of rainwater harvesting, our forefathers had erected a chain of tanks one feeding the other before the surplus drains into sea.

50.6. Rainwater harvesting which was considered old fashioned in the modern age of piped water supply seems to be again picking up momentum and the Government departments, NGOs and private institutions are showing keen interest in constructing rainwater-harvesting structures by various methods.

50.7. Nearer home, Corporation officials in Chennai and Municipal officials in Alandur and RWH centre of the CMWSSB have made provision of rainwater harvesting measures as a precondition for issuing planning permission, clearance and giving water connection. The CMWSSB has published a brochure suggesting various rainwater harvesting methods, which are cost effective. Chennai Corporation and TWAD Board have attempted rainwater harvesting in their own school and office buildings and flyovers. As of now, it is observed that ground water levels show appreciable improvement in the areas where rainwater-harvesting structures are commissioned, i.e. an increase of 1.0 to 1.5 metres has been observed.



50.8. The three types of Rainwater harvesting methods are;

- i) Individual houses roof water harvesting.
- ii) Zoning selected area roof water harvesting.
- iii) Open area rainwater harvesting.

'Individual house roof water harvesting' is applicable for individual houses. The zoning method could be employed in heavily built urban areas having no open spaces except roads and streets. The open area rainwater harvesting could be adopted to all open areas especially in rural areas and urban outskirts where the general terrain and drainage pattern is intercepted for storing rainwater runoff and thereby recharging underground.

50.9. To go into various aspects of Rain Water Harvesting, the State Finance Commission constituted a Committee on Rain Water Harvesting, which has submitted its recommendations, kept in the appendix -8. Based on the report of the RWH committee, **State Finance Commission recommends that;**

- i) Government may set apart Re.1 crore as incentive fund for being distributed to the local bodies who have provided R.W.H. structure in 90% of lands/buildings owned by these local bodies, as per modalities to be worked out by Government.
- ii) The Chennai Metropolitan Water Supply & Sewerage Board has made the R.W.H. structures mandatory for all the buildings (irrespective of size and area) when approaching Chennai Metropolitan Water Supply & Sewerage Board for new water and sewer connections. This may be emulated by other Urban Local Bodies.
- iii) Tax incentives should be made available to the public for having constructed the R.W.H. structure in their houses (rebate on the first and second half yearly assessment).
- iv) Public Works Department, Tamil Nadu Housing Board, Tamil Nadu Slum Clearance Board and Tamil Nadu Co-op. Housing Federation should ensure the provision of R.W.H. structures in the projects executed by them.
- v) The technical universities like Tamil Nadu Anna University, TNAU, IIT, etc. should be funded by Government and separate department should be created for these universities for doing research in RWH. The technical Universities must incorporate RWH as part of the syllabus for civil engineers, hydrological engineers, diploma holders(civil) etc. A separate training cell should be created in these research institutes and universities, who can in turn give training to masons and help the trained masons to put up more number of RWH structures.
- vi) Wherever lakes, Ponds and Ooranies which are under the control of Public Works Department and revenue department and PRIs and where the interests of ayacutdors are not affected, such lakes, ponds and Ooranies may be handed over to CMWSSB in the case of Chennai Metro and to TWAD in the case of other areas for utilizing such Lakes, ponds and Ooranies for harvesting rain water. Just as PWD is responsible for filling up rainwater for irrigation purposes, TWAD must be made responsible for filling up rainwater for drinking water purposes in Ooranies, Kanmais, etc.

## 51. Solid Waste Management

The Supreme court of India after going through the report of the Committee constituted for reforming the solid waste management has observed that over 10% of the non-biodegradable waste produced is either re-usable or re-cyclable. While a part of this waste is collected by rag pickers yet a

sizeable portion goes to landfill. In a poor country like India, such a huge quantity of recyclable material should not be allowed to go waste. Collection of recyclable waste needs to be encouraged. Besides encouraging rag pickers to collect such waste from door to door, steps may be taken for promoting the recycling industry through several incentives such as allotment of land, power and water, on priority, tax holiday for a few years, preferential purchase of recycled products by government and semi-government bodies etc. This will promote the recycling industry, provide employment opportunities in the informal and formal sectors, and help in the utilization of waste and simultaneously save the cost of collection, transportation and disposal of such waste.

At the same time, reasonable return to the Local bodies, which collect and deliver garbage at the doorstep of such recycling industry should also be ensured. **The Commission recommends that the impact of modernization of Solid Waste Management in Chennai Municipal Corporation to achieve improvement in management systems, increased efficiency, enhanced level of services of collection, removal and disposal of waste at minimum unit cost per ton of waste may be analysed by making a study by a qualified Consultant.** Various crucial aspects of solid waste management and the need to study the same may be seen in annexure VI-17. They could serve as terms of reference to the consultant. Subject to the findings and recommendations of the above study, financial support to Urban Local Bodies for solid waste management is dealt with in para 52 below.

## 52. Financial support of Government of India and State Governments to the Urban Local Bodies:

52.1. The level of solid waste management service in the urban areas is rather low. The investments that have been made so far are in the areas of procurement of some vehicles and equipment for collection, storage and transportation of waste. Hardly any attention has been given to the treatment and disposal of waste, which is very vital and threatens the health and environment of the cities. Large investments will be required in the initial three years to upgrade the system and to set up the treatment, processing and disposal facilities which local bodies may not be able to afford from their limited resources even after improving their finances to some extent on the lines indicated in various chapters. It is, therefore, strongly recommended that in the first three years all Class I cities for the modernization of their solid waste management systems be attempted by setting up treatment, processing and disposal facilities as under:

### 52.2. A - Support to Cities under 5 Lakhs population:

- (1) Setting up of compost plants and/or other treatment facilities
- (2) Upgrading existing sites and preparing sanitary landfill sites for disposal of waste.
- (3) Procuring vehicles and equipment needed to improve their solid waste management practices.

The estimated cost of the above three items may be shared equally by the Government of India, the concerned State Governments and the local bodies (33% each). Estimated cost per one lakh population can be taken as under:

1.Vehicles and equipment	Rs.60 Lakhs
2.Setting-up of compost plants	Rs.60 Lakhs
3.Preparation of disposal site	Rs.30 Lakhs

<b>Total</b>	<b>Rs.150 Lakhs</b>
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Financial Support at the rate of Rs.50 Lakhs per one lakh population may be given by the Central Government as well as by the State Government to the urban local bodies under 5 lakhs population over a period of 3 years in three annual installments of Rs.10 Lakhs, Rs.20 Lakhs and Rs.20 Lakhs.

**52.3. B - Support to cities above 5 Lakhs population:**

Cities above 5 lakhs population may be given financial assistance only for setting up the compost plant or waste treatment/processing plant and for preparing the disposal site. These large local bodies should find their own funds for the procurement of vehicles and equipments. The requirement of funds for the treatment and disposal facility could be as under:-

1. For compost or treatment plants	Rs.60 Lakhs per Lakh population
2. For land fill site development	Rs.30 Lakhs per Lakh population
<b>Total</b>	<b>Rs.90 Lakhs</b>

This amount may be contributed equally by the Central Government, State Government and Local Bodies. Here the grant component may be Rs. 30 lakhs per one lakh population by the Central Government and an equal amount by the State Government. This amount may be given in 3 instalments of Rs.6 lakhs, Rs.12 lakhs and Rs.12 lakhs over a period of 3 years per one lakh population. The local bodies may be given these grants subject to demonstrated improvement in Solid Waste Management efficiency and fiscal prudence and on the condition that they would first put up their matching contribution in creating new facilities and put their share as well as the grants of the Government of India and State Governments in a dedicated account to be opened for this purpose. The grant could be used for the procurement of land for compost plant or landfill site where the land is to be acquired from private parties or has to be purchased through negotiated settlements.

52.4. This Commission understands that the Supreme Court has sent the report of the Committee appointed by it, to the States for filing their affidavit. This is likely to take some time. Meanwhile, to set the ball rolling, **this Commission recommends that Chennai Corporation Metropolitan in character need to take up immediately SWM as per Supreme Court judgement and we set apart Rs.50 lakhs per annum to Chennai from Revenue / Incentive fund during our award period for Solid Waste Management. The Commission recommends that funds from Eleventh Central Finance Commission for Urban Local Bodies be earmarked to the extent envisaged by Supreme Court : this will be deemed as Centre's contribution. For the other Corporations above 5 lakhs population, this Commission recommends Rs. 10 lakhs per annum, during our award period, from the Incentive fund. For Corporations and Municipalities with populations exceeding one lakh, this Commission recommends Rs. 5 lakhs each per annum. Funds from Eleventh Central Finance Commission's grants will be set apart for these Urban Local Bodies also.**

52.5. As mentioned elsewhere in our report, both Urban Local Bodies and TNPCB must act as co-partners in unison to combat the evils of pollution in all forms, particularly air pollution in major cities due to the burgeoning vehicle pollution and noise pollution due to use of air horn in vehicles, cone loud speaker and water pollution by untreated discharge of sewage by various commercial and industrial establishments into water ways of the city should be attended actively by these two agencies and make the citizen's life little better. TNPCB can also share its expertise with ULBs to tackle the menace posed by hospital waste, tanneries, abattoirs, and perishable organic wastage in market etc. by installing incinerators etc.

**53. Street lights**

53.1. Tamil Nadu has witnessed a veritable light revolution during the last few years. In the name of development, ordinary tungsten bulbs have been upgraded as tube lights and subsequently these tube lights have been replaced with sodium vapour lamps. The decision for upgradation has been going on with the help of funds from various schemes. In several street poles, both ordinary bulb and tube lights are fitted; the need to avoid duplication has been mentioned elsewhere in our report. This duplication needs to be avoided.



53.2. Similarly in roads and roads where there are no habitations, tube lights may be replaced with ordinary bulbs. By taking such steps, the current consumption charges of the Village Panchayats will be considerably reduced, and the streetlights will be fitted only where they are required and O&M expenditure thereon will also be reduced. This Commission examined the possibility of installing solar powered streetlights to reduce current consumption charges and concluded that it is not viable, as it is costlier than conventional light.

#### 54. Introduction of Report Cards:

54.1. In simple terms, the report card is an assessment of public services from the perspective of citizens or users of civic services. Users can provide useful feedback on the quality, efficiency and adequacy of the services and the problems they face in their interactions with the service providers. Though they may not be able to comment on the technical features and standards of the services or to evaluate the overall performance of a provider, they are qualified to say whether the service meets their needs and whether the agency is reliable or corrupt. When users rate an agency as different service dimensions, it provides a basis for judging its performance as a service provider. Since citizens are customers of several different services, it is possible to compare ratings of this kind of across services. The feel good factor of the people is essential in evaluating the performance. A "report card" on the urban public services is an innovative way to gather systematic feedback from citizens on the performance of a city's service providers. In 1993 in Bangalore, local civic groups used a report card on services to nudge their monopolistic service providers into responding more effectively to their customers. A small group of people concerned about deteriorating public services enlisted a market research agency to survey citizens on the city's services. The findings were used to create a report card that rated the performance of all the major public agencies. The report card was sent to the heads of all agencies, and its findings were widely disseminated through the media.

54.2. The various performance indicators for monitoring the performance of Urban Local Bodies, the assignment of scores and weightages and based on the scores, the classification of Urban Local Bodies into quadrants and the type of interventions required are explained in Annexure - V-18 (a) & 18 (b).

54.3. The Public Affairs Centre, Bangalore which came out with the first Citizens' Report Card with ranks assigned to public utility undertakings in Bangalore by the consumers has since prepared report cards of services in six large cities in India, including Chennai and the inter-city comparison of these six cities done by Public Affairs Centre, Bangalore, is kept in the Annexure - V-19. It is expected that such initiatives by consumer groups would enable monopolistic service providers to give better quality of service to the people. Based on such rankings found in the report card, which needs to be designed for each type of local bodies suitably, incentive funds may be given to the Local Bodies in the following manner.

- |                           |  |
|---------------------------|--|
| 1) Municipal Corporations | - Rs. 50 lakhs each                                  |
|                           | - Rs.10 lakhs each for 3 best Spl. Gr.Municipalities |
| 2) Municipalities         | - Rs.5 lakhs each for 5 S.G. & Gr I. Municipalities  |
|                           | - Rs.2 lakhs each for 10 Gr.II Municipalities        |
| 3) Town Panchayats        | - Rs. 30 lakhs                                       |
| 4) Panchayat Unions       | - Rs. 10 lakhs                                       |
| 5) Village Panchayats     | - Rs. 5 lakhs  |

#### 55. Housing Colonies promoted by Tamil Nadu Housing Board

55.1. This Commission learnt that the schemes developed by Housing Board come under the jurisdiction of all classes of local bodies. Infrastructure such as roads, drains, street lights, sewerage systems, avenue trees, parks, etc., are provided for in the schemes and these systems are maintained by Tamil Nadu Housing Board for about six months to one year after completion of the schemes. If the concerned local bodies do not immediately take over the completed scheme from Tamil Nadu Housing Board it would result in extra expenditure for Tamil Nadu Housing Board, without any returns. We learn that the following Tamil Nadu Housing Board schemes have not been taken over by Local Bodies so far: a) Velachery, b) Avadi, c) Perumalpattur, d) Ambattur, e) Kakkalur and f) Manali.



55.2. When this issue was taken up with Commissioner of Municipal Administration / Director of Town Panchayats / Director of Rural Development, they have confirmed the delay in taking over the assets for which both Tamil Nadu Housing Board and Local Bodies are perhaps responsible. To remedy the situation we suggest that a joint inspection of concerned Local Bodies with Tamil Nadu Housing Board may be done before take over of completed schemes. When the facility requires upgradation, the Tamil Nadu Housing Board may prepare estimates and spend the required sum and arrange for infrastructure to the satisfaction of Local Body. We also suggest that all the lands set apart for public purpose in the scheme may be handed over to the concerned Local Body instead of selectively handing over some assets.

**55.3. Hence this Commission recommends that:**

- a) a coordination committee may be constituted inducting both the Tamil Nadu Housing Board officials and officials from Heads of Departments viz., Commissioner of Municipal Administration / Director of Town Panchayats / Commissioner of Rural Development/Commissioner, Chennai Corporation for reviewing the already completed schemes and measures needed for time-bound takeover.
- b) In respect of schemes in finishing stages, a joint strategy may be evolved for timely takeover.

**56. Public participation in civic affairs:**

56.1. We have already indicated elsewhere in our report the crucial role-played by Gramasabha in PRIs and the proposed Urbansabha in ULBs. We feel if these two Sabhas are rejuvenated and put to effective use, there will be a feeling of participation in the affairs of the local bodies by the citizens. Today it is not the question of paucity of funds, alone which leads to a feeling of alienation in the minds of the citizens. But it is a feeling that only those with clout are heard and the average taxpayers are marginalized. Most of the conditions, which is prevalent in the ULBs in India today, were prevalent in western Europe in the 1850s.

56.2. However, in that period in western Europe, the rich and the influential who could not insulate themselves from the malaise of urban life brought pressure on the ruling class to invest heavily and upgrade living conditions. Unfortunately for the common man in this country today, thanks to the technological progress, the rich and the influential can combat air pollution by air conditioners in vehicles and residences, portable generator set to combat power cuts, buy mineral water, if public water supply fails, or invest in cell phones, if the regular telephone lines are dead and have private security systems and the like.

56.3. In the section on Metro water elsewhere in our report, we have given details as to how there is a lack of distributive justice and quality in providing water supply. People living in elite neighbourhoods seldom experience power cuts and get their roads laid frequently while roads in other areas are filled with potholes. All the above factors leads to alienation and cynicism of the people, as in their eyes decision in public systems are perceived to be taken on adhoc basis without any transparency with no distributive justice and quality. The Indian psyche is basically feudalistic; hence conscious and concerted efforts are needed to ensure equity. Most maladies can be reduced to some extent if citizens' participation is ensured as in Brazil, where 50 cities are having participatory budgeting systems.

**57. Role of local bodies in Infrastructure and other Investments**

Increasingly in recent times in Tamil Nadu, one of the pro-reforms States, huge investment has been taking place by various industrial houses. This will not only provide employment opportunities to the people but also improve the quality of life in the areas, where such industries are located and their immediate environs. The Ford car factory in Maraimalai nagar, Hyundai Car factory in Sriperumpudur, Mitsubishi car factory in Thiruvallur and Nanguneri hi-tech industrial park are a few such instances, where townships are coming up boosting the local economy. While some of the Local Bodies are eager to have these investments in their areas, some other local bodies are not so co-operative. This commission learnt that entrepreneurs who are planning to set up industries in the State have to obtain local body clearance, which includes site approval, plan approval, etc. Based on the above, they need to get other clearance



such as environment clearance, registration under factories act, Industrial Regulation Act, health, fire service Act, etc. Although the local bodies are expected to accord local body clearance within 30 days from the date of receipt of application, it is learnt that several local bodies raise objections at the fag end of the time limit and thereby the approval process gets delayed. **Hence, the Commission recommends that the Head of the Departments concerned must strictly enforce the 30 days period for giving clearance, so as to push through the pace of development.** In addition, a lot of public private partnership in infrastructural development is likely to take place in the future in various places in Tamil Nadu for all of which the co-operation of the local body chiefs is crucial. **Hence, Second State Finance Commission recommends that whenever an investment exceeds Rs.5 crores for Corporation, Rs.1.00 crore for Municipalities and Rs.50 lakhs for Town Panchayats and Village Panchayats take place such projects should be monitored personally by the District Collector, Commissioners of the concerned Corporations, Commissioner of Municipal Administration, Director of Town Panchayats and Commissioner of Rural Development to ensure that the local bodies do not act as hindrance but actively co-operate in such projects.**

#### **58. State Finance Commission Devolution Utilization**

The First State Finance Commission utilization for the period 1997-98 to 2000-01 is given in the Annexure - V- 20 (a to d) in respect of Urban Local Bodies/Panchayat Raj Institutions. The issues arising out of devolution has been discussed in the Chapter on Devolution Mechanism.

#### **59. Conclusion**

Even though the structural reforms initiated in the beginning of 1990s are yet to percolate to villages, at least the Urban Local Bodies have to keep pace with the reforms especially relating to market economy, development economy and welfare economy. The people have more stakes in local bodies as the basic amenities are part of welfare economy touching the weaker sections in the society. At the same time, the creation of infrastructure is development economy and the access to funding the projects is based on market economy. While initiating measures to meet the services, care may be taken to see that the backward pockets in each district get their due share as focused in the Justice Rathinavel Pandian Committee Report, on Socio-Economic and Industrial Development of Southern Districts.

“பிணியின்மை செல்வம் விளைவின்பம் ஏமம்  
அணியென்ப நாட்டிற்கிவ் வைந்து”

(குறள்:738)



## CHAPTER VI BETTER FISCAL MANAGEMENT

While making our recommendations, we have been asked by the Government vide our Terms of Reference Para 5(ii) to have regard to "the requirement of the Local Bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the need for generating surplus for capital investment; and ToR Para 5 (v) expects us to study the "scope for better fiscal management consistent with efficiency and economy in major components of recurring and non-recurring items of expenditure".

2. National economic reforms were initiated around June-July '91, due to the severe balance of payments crisis in the year 1990-1991. The focus was largely on containing fiscal deficit and the overall management of Central Government finances, including tax reforms. Privatisation, globalisation and liberalization were chanted as infallible mantras in the early 1990's. Similar reforms have been initiated in regard to state budget and the state economy also. Here the focus was public sector reforms, infrastructure development, facilitating investment and containing subsidies.

2.1. Similarly the areas of reforms relating to the Local Bodies, which have been briefly referred to in Chapter II, in our opinion could be: -

- i. Reforms of all taxes (property tax etc.)
- ii. Rationalization and levy of proper user charges in relation to costs.
- iii. Control of deficit; suitable wage policy and pension policy to make the expenditure management a sustainable proposition
- iv. Implementing various cost effective measures like privatization, contracting out, leasing out, hiring to the extent possible
- v. Debt management and imposing statutory ceiling on debts.
- vi. Increasing the degree of self reliance by suitable measures like matching grants and enabling Local Bodies to tap their full revenue potential; reducing their dependency syndrome.
- vii. Administrative reforms - transparency, right to information and citizens' charter.
- viii. Speeding up clearances for investments by central, state and local Governments, particularly infrastructure.
- ix. Reducing the element of discretion in decision making at various levels and making the process as much, structured and formula-based, as possible.
- x. Accounting reforms (indicating accruals liabilities and bad debts)
- xi. Credit rating to be introduced and progressively expanded to all Local Bodies except Village Panchayats.

2.2. Accordingly, more important of the above are dealt with in this chapter while other issues are covered in relevant chapters.

### 3. Augmenting income

3.1. Based on various studies conducted by the Commission, it has identified certain areas and has tried to quantify possible increases. They are:

Property Tax hike:

Oct. '98 revision yielded only 40-50% increase in revenue. In the next revision Urban Local Bodies need to aim at a minimum of 70-75% increase in revenue. Underassessment and non-assessment cases shall be brought to the net.

House Tax:

About 50% Village Panchayats have done revision ranging upto 50%. The next revision shall aim at the same percentage as suggested for property tax.

Profession Tax:	October 1998 revision resulted in lesser revenue increase than what had been expected. The next revision shall aim at a minimum of 50-60% increase in revenue.
Non-Tax Reforms :	User charges should at the first instance be fixed to meet the maintenance cost and thereafter cover the balance cost.

#### 4. Containing expenditure

4.1. Annual increase needs to be within 10% in respect of salary and pension.

4.2. Pay revision for local body employees, if any, to be attempted in the wake of Government decision for its employees shall not exceed 35% increase. This is to be done by appointing a committee, which will simultaneously study pay revisions and administrative reforms in local bodies. The idea is to delink local body pay, DA and pension levels from those of State emoluments in view of differing resource bases of the State and the local bodies. In a significant development, Maharashtra Government, for instance, has delinked its D.A. system from the Central D.A. pattern. In other words, the Centre, the States and the local bodies need not necessarily have same levels of salaries, etc. but each tier needs to have separate levels and patterns based on respective paying capacities and sustainability.

O&M: Annual increase shall be about 10% or less for Urban Local Bodies. More important elements of cost are dealt with in para 9 below.

#### 5. Accounting reforms

5.1. With the advent of accrual accounting system in Municipalities and Municipal Corporations and the extension to Town Panchayats, which has been dealt with elsewhere in our report, tax/non-tax receipts should be accounted for, in the respective accounts, so as to prevent their diversion and misuse. This assumes significance in the wake of poor compliance in debt servicing.

5.2. In fact receipts from loan-based assets should be in a separate bank account to avoid diversions to other areas. There is also a need to classify the salary component of consolidated pay personnel and regular staff in conservancy operation in the respective account under salaries, so as to monitor in future, whether the ceiling prescribed by the Act / or by G.O. is adhered to or not and also to bring the erring Urban Local Bodies to see the reason.

#### 6. Zero base budgeting

6.1. After Independence, India had chosen the path of economic development through Government formulated Plans. In that scenario, the society came to look upon Government being the sole employment provider. Although this worked till 1970's, the inherent weakness in the approach began to be felt in the 1980's. With the growth of banking sector and the market economy, employment opportunities have also widened and diversified ; at the same time it was being increasingly realized that there has to be paradigm shift from the Government being employment provider to Government as employment-facilitator. To ensure sustainability of the Governmental system, with such adjuncts as local bodies, policy shift is necessary. For this, Zero Base budgeting is indeed suitable option.

6.2. Zero base budget compels the identification of well-entrenched, obsolete, wasteful and ineffective expenditure and shifts resources to currently high priority areas. Resource effectiveness and productivity are thus enhanced. This was experimented in a few State Government Departments (Agriculture, Highways and Collegiate Education) in the early 1970's and again a renewed thrust was given in the late 1980's with a new nomenclature - ZEBAG.



In essence, Zero base budget consists of the following steps: -

- i. At present, an item entering a Government budget is as secure as an employee entering Government service. At present, previous year's items are automatically carried forward without an analysis of its current usefulness and then new items are included to the extent possible.
- ii. Under Zero Base Budget, however, no item has an automatic, assured place in the budget. Every item has to be justified afresh even if it was included in last year's budget. That is to say, we start from a "zero base" or clean slate of items to be included in the budget every year.
- iii. For every policy goal, several alternative strategies / programmes ("decision packages") are evolved and the best is chosen and included in the budget.
- iv. Policy goals are prioritized and resources are moved from low to high priority areas
- v. In order to gauge each department's internal priorities, every year each Department is asked to give three budget proposals;
  - (a) One based on the same resource level as last year but with a different internal redistribution if considered necessary.
  - (b) One based on the assumption that 10 percent more resources would be available than last year.
  - (c) One based on the assumption that 10 percent less resources would be available than last year.
- vi. Evaluation reports on currently funded items should accompany budget proposals.

6.3. Thus, by taking a fresh, open-minded hard look at the policies, programmes and the pattern of internal allocation of each organization every year, Zero Base Budget seeks to align what is spent with what is most desirable, and eliminate obsolescent, wasteful expenditure.

6.4. As far as Local Bodies are concerned, the rightsizing of the establishment needs immediate attention in the context of growing salary burden and pension commitments as well as ensuring reasonable levels for O & M expenditure for the assets created. In fact the fifth central pay commission was of the view that there was urgent need to opt for Zero Base Budget in both central and state Government and suggested reforms. The Pension committee appointed by Second State Finance Commission, which went into the issue of pension burden has also identified that there is need for fixing norms for staff vis-à-vis population for the Local Bodies so as to peg the growing salary and pension burden. In the neighbouring states of Andhra Pradesh and Kerala the staff ratio is three per thousand population, Maharashtra has in the range of 2.5 to 3 per thousand and Gujarat has 2 per thousand.

6.5. As far as Tamil Nadu is concerned, the ratio is more than 4 per thousand in Municipalities and for Municipal Corporations. In order to reduce establishment costs, following norms are recommended for the award period of Second State Finance Commission.

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

6.6. To achieve this, replacement of personnel hereafter by way of filling up shall be restricted to 50% of the retirement vacancies. After ensuring need - based replacement, the remaining posts shall be surrendered. This needs to be annual exercise.



6.7. Zero Base Budget provides the needed systematic tool to segregate prioritized and unsustainable activities. In the above context, Zero Base Budget may serve as rational method of allocating our scarce resources to prioritized areas. Over a period of time Zero Base Budget would improve the fiscal position.

6.8. Hence State Finance Commission makes the following recommendations in addition to fixing staff ratios above:-

In the first instance Zero Base Budget may be introduced in all Municipal Corporations and Special Grade Municipalities.

Zero Base Budget may also be introduced in line agencies directly and intimately connected with Local Bodies viz. Tamil Nadu Water supply and Drainage Board, Chennai Metropolitan Water Supply & Sewerage Board, Chennai Metropolitan Development Authority, Tamil Nadu Slum Clearance Board, Directorate of Town & Country Planning & Tamil Nadu Pollution Control Board.

## 7. Privatisation of core civic services:

7.1. Privatization is one of the policy packages of economic reforms initiated at the national level since 1991 along with globalization and liberalization. It has been the experience of all the people worldwide that wherever there are monopolistic service providers, the quality of service is irregular and shoddy. Privatisation has many advantages, some of which are:

- a. Cost reduction - use of private contractors for Municipal services has resulted in cost reduction of 15 to 50 percent.
- b. Increased coverage - private sector is able to service a much larger population than the public sector due to its flexible work schedule. It is also possible to extend services beyond Municipal limits.
- c. Cost recoveries in local bodies are invariably low. When private parties are inducted to provide service, the cost recoveries are much better.
- d. Capital infusion - the private sector with greater access to the capital and financial markets is likely to infuse the much-needed capital investments for urban services. This will also facilitate induction of latest technology.
- e. User Response - most users of Municipal services are dissatisfied with the present level of the services and the 'uncaring' attitude of Municipal officials. Private sector is more responsive to consumer complaints and grievances and increased efficiency - with cost reduction and increased revenues, there is greater efficiency in the use of capital funds. The operation and maintenance of services also improve with private participation.

7.2 Recognizing the obvious advantage of privatization in addition to incorporating this in Tamil Nadu Urban Local Bodies Act, the Government of Tamil Nadu in a pioneering manner have introduced privatization as a gradual process. Some of the successful examples of privatization are:-

- i. Construction of the bridge over the Amaravathi River at Karur built by private sector, on a B.O.T basis.
- ii. Partial privatization of Solid Waste Management in Chennai Corporation.
- iii. Bye pass Road project for Coimbatore city on BOT basis by L&T.
- iv. Alandur underground sewerage project (under implementation).
- v. Valasarawalkam Town Panchayat underground sewerage project. (expected to take off soon).

The project details of the last two schemes are given in the (Annexure VI-1(a) and 1 (b)).

7.3. The Government vide G.O.MS.No.69/Municipal Administration & Water Supply Department, dated 4.4.98 (Annexure VI-2) formulated certain guidelines for the services rendered by the Local Bodies. However, the State Finance Commission has identified a major factor, which has bearing on this: unless the existing labour laws of the country are reviewed and suitably modified, privatization cannot take off in



a great measure. The general perception is that labour laws are at present rigid and need to be made flexible; a broader and liberal approach would generate employment and result in increased productivity. In the case of Chennai Corporation, exemption from the proviso of Labour Act has been given in G.O.Ms.No.99 Labour & Employment dated 8.7.99 as a special case and Solid Waste Management in selected zones in Chennai City has been privatized. Hence, instead of treating this as special case, contract labour laws need to be suitably modified.

7.4. In the connection, the Union Finance Minister has, in his Budget speech for 2001-02, commented upon the rigidities in the existing legislation regarding contract labour, which inhibit growth in employment in many service activities. To overcome the difficulties and at the same time, to ensure the protection of labour, he has stated, that it is proposed to bring an amendment to facilitate outsourcing of activities without any restrictions as well as to offer contract appointments. It would not differentiate between core and non-core activities and provide protection to labour engaged in outsourced activities in terms of their health, safety, welfare and social security etc., Second State Finance Commission suggests that the proposed amendment above may be used for extending privatization to various services in local bodies.

7.5. Similarly, the State Finance Commission noted that the Metrowater has privatized certain sections of its sewerage operations and water supply. Further, the Commission learnt during its field visit that streetlight maintenance for a few zones has been privatized in Coimbatore Municipal Corporation. In certain Local Bodies such as Chennai, Coimbatore, Madurai etc., parks and playgrounds maintenance, and provision of road medians have been handed over to the private sector for maintenance. The Government have also incorporated provision for privatization in Tamil Nadu Urban Local Bodies Act, 1998 and Madras Municipal Corporation Act, 1919. The partial privatization of Solid Waste Management in selected zones of Chennai Municipal Corporation entails an additional expenditure of about Rs.2 Crores per month, which is far above the average expenditure incurred in the remaining zones.

However, it is seen that privatization has not resulted in rationalization and reduction of staff and the existing staff continue to be engaged, on the pretext that their services are needed elsewhere. This obviously results in double cost for the taxpayers. It is paradoxical that the veterinary surgeons appointed in cattle depots in Chennai Corporation are not deployed elsewhere even after the abolition of the conservancy services by the bullock carts in 1997-98. Privatization should necessarily lead to greater efficiency, lower cost, higher quality and better service. It is learnt that in some Urban Local Bodies, while the existing fleet of mechanized vehicles purchased for conservancy operations are underutilized and many are beyond repair and entail prohibitive maintenance cost, these Urban Local Bodies have hired private vehicles for conservancy operations. This also amounts to double cost and avoidable waste.

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

- I. This Commission reiterates the provisions relating to privatization in Tamil Nadu Urban Local Bodies Act/ Rules and also policy spelt out in the G.O. on privatization of core civic services for ensuring cost reduction but avoiding double cost for the taxpayers.
- II. In the first phase, Solid Waste Management particularly transport of garbage and segregation and recycling of wastes may be privatized in Municipal Corporations / Municipalities and thereafter to bigger Town Panchayats. While attempting this, the staff shall be redeployed so that the expenditure on the operations is brought down.
- III. The lessons of privatization of solid waste management may be studied and thereafter it may be extended to maintenance of streetlights and water supply. By 2005, about 35% to 40% of the civic services need to be privatized.
- IV. Government may make use of the proposed amendment to contract labour laws by the Centre, to ensure that these facilitate privatization and do not hinder the process.
- V. In addition to the provisions of Tamil Nadu Urban Local Bodies Act on privatization BoT Act of Gujarat may be adopted wherever feasible.



## 8. FISCAL RESPONSIBILITY

8.1. In the context of liberalized economic policy pursued from the year 1991, the need for enforcing fiscal responsibility and budget management has become imperative. With the growing revenue / fiscal deficit year by year, the enactment of necessary legislation for fiscal responsibility assumes greater importance. In countries like USA and New Zealand, such efforts have been taken to pave the way for surplus in their budgets overcoming the deficits observed for more than two decades.

8.2. In our country also, a draft Bill on Fiscal Responsibility and Budget Management has been introduced in Parliament aiming at reduction of revenue / fiscal deficit of the Central Government in the next five years. This involves enforcing discipline on borrowing and transparency in fiscal operations. This is likely to be followed by the States in the next phase.

8.3. Commissioner of Municipal Administration, who visited Brazil, indicated that such Fiscal Responsibility Act is available in respect of local bodies also in that country.

### Applicability to local bodies:

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

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

More details are made available in Annexure VI-3

## 9. Cost - effective measures and vigil over expenditure

9.1. We learnt that from year 1998-99 onwards centralized purchase of public health materials like bleaching powder, phenol and other chemicals in respect of Urban Local Bodies has been attempted resulting in economical expenditure. The O & M expenditure for the last three years is given below.

TABLE 1. O & M EXPENDITURE

(Rupees in crores)

	1997-98	1998-99	1999-2000
Town Panchayats	92.32	116.14	134.51
Municipalities	120.11	141.94	162.32
Municipal Corporations	161.47	192.61	222.90
Panchayat Raj Institutions	201.58	271.16	329.51

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

9.3. In respect of streetlight, water supply matters, Government orders have been issued for purchase of ISI and ISO 9001 marked products. Providing streetlights from out of grant for basic amenities for MP / MLA LADP has become the order of the day without reckoning the running / recurring cost. In fact, the maximum O & M is spent on streetlights and water supply.



9.4. During the Commission's interaction with Panchayat Presidents, they expressed concern about growing expenditure on electricity in Village. It is analysed next. The table below gives expenditure on maintenance other than current consumption charges.

**TABLE 2**

Year	Expenditure (Rs. in Lakhs)
1995-96	961.71
1996-97	1187.21
1997-98	2426.03
1998-99	3435.99
1999-2000	4309.84

Following table gives the break up of lights in the Village Panchayats:

**TABLE 3**

Type of Lights	Nos.
Ordinary Lights	85934
Tube Lights	1002937
Mercury Lights	5945
Sodium Vapour Lights	69659
<b>Total</b>	<b>11,64,475</b>

9.5. The Director of Rural Development has fixed maintenance cost of Rs.250/- per light on an average. This was fixed in 1997. As seen from the above table, the average maintenance cost based on figures of 1999-2000 comes to Rs.370/- as against norm of Rs.250/-.

9.6. The field study also reveals that expenditure on maintenance of street lights are over and above the norms already fixed. In several cases, the expenditure has gone up even five to ten times of normative cost. Thus, it could be seen that cost fixed by Director of Rural Development does not reflect the actual expenditure for purchase of street light materials. The high cost may also be due to profligacy. It is seen from First State Finance Commission report that the then existing expenditure per light was then arrived at Rs.304/- and it had recommended the maintenance cost of Rs.479/- on average per light. The Task Force Committee appointed by this Commission has recommended that cost escalation of 18% of average O&M expenditure norm as given in First State Finance Commission may be applied. Thus, according to Task Force Committee Recommendation the maintenance cost comes to Rs.565/-

9.7. It is learnt through interaction with officials of Electricity Board that the normal expenditure that may have to be incurred for replacement of street light materials for tube light and sodium vapour light will be roughly as follows:

**TABLE 4**

Tube Lights	Rs.	Sodium vapour	Rs.
Replacement of bulb	150	Replacement of bulb	515
Choke for 2 times (Aluminium)	120	Fixing Charges	20
Starter	10		
Fixing charges	20		
<b>TOTAL</b>	<b>300</b>	<b>TOTAL</b>	<b>535.00</b>

9.8. Hence, State Finance Commission recommends the normative cost of Rs.30/- per light on an average with purchase of aluminium choke only. Simultaneously, the State Finance Commission recommends that a Committee may be formed consisting of Chief Engineer from Tamil Nadu Electricity Board and Additional Director in the office of the Director of Rural Development. This committee will meet before the year 2002-2003 and fix norms, which will be in vogue for two years after which it will be revised every two years.

9.9. However, despite the purchase of such quality materials, the frequency of their replacement is quite higher and this is attributed to the low voltage problem. The crux of the issue is that three phase power supply has been stopped for rural transformers from evening 6.00 p.m. to 10.00 p.m. in the night and that two-phase supply is enforced. During this period the

power supply in earth connection is high . Accordingly, it has been suggested that the central cable needs to have earth connection in many places so as to reduce the low-voltage problem.

#### Water supply:

9.10. Government issued orders fixing ceiling amount on purchase of spare parts inclusive of labour charge to hand pump and power pump as detailed below:

1. Hand pump Rs.300 / per annum
2. Power pump Rs.7000/- per annum

9.11. The Government order further added that when the expenditure exceeded the ceiling fixed, the counter-signature of Assistant Engineer (PPM) and Assistant Executive Engineer has to be obtained. The expenditure incurred for water supply maintenance over the years is furnished in the table-5.

**TABLE 5** (Rupees in lakhs)

	1995-96	1996-97	1997-98	1998-99	1999-00
Hand pump	301.56	226.50	892.59	1562.44	1618.46
Power Pump	1120.53	907.16	2050.55	3127.58	3742.37

9.12. First State Finance Commission did not suggest the cost per hand pump in its report. The Task Force also followed the First State Finance Commission recommendation and has estimated the cost for maintenance work to Rs.16.7 lakhs per MLD. If this is taken it comes to Re.0.60. per litre.

9.13. However, it is learnt through reliable sources that normal expenditure for maintenance of hand pump would be as follows:

1.Spare parts	:	Rs.300/-
2.Labour for lifting of HP	:	Rs.200/-
3.Lumpsum	:	Rs.100/-
		Rs.600/-

Hence, the maintenance cost per hand pump may be fixed at Rs.600/- p.a.

#### Power Pump:

9.14.1. It is learnt through reliable sources, the following would be the reasonable maintenance cost.

Submersible power pump	:	Rs.11,000/-
Jet Pump	:	Rs. 3,500/-
Average	:	Rs. 7,250/-

A rate of Rs.7500/- per annum would be reasonable.

9.14.2. The rates suggested in paras 9.13 and 9.14 are reasonable levels, which may be got reconfirmed by the Government before April 2002 and formally fixed. Once reasonable rates are fixed, they need to be enforced firmly.

9.15. Hence the Commission recommends for fixing the O & M cost for hand pumps and power pumps as noted below:

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



9.16. After communicating unit costs to Village Panchayats, if the expenditure is in far excess of the same, the executive of local body has to be penalized either by criminal proceedings or by surcharge proceedings apart from removal from office. In the light of the above analysis, the Second State Finance Commission recommends that norms for expenditure for core civic services may be fixed / raised for Village Panchayats and that the erring executives have to be penalized by criminal prosecution / surcharge proceedings.

#### **Water supply cost and pricing**

9.17. The present fixation of water rates by Tamil Nadu Water Supply & Drainage Board for the combined water supply scheme is based on the source point, transmission and overheads. But after studying varying rates and the need for cross-subsidy, uniform rate for urban at Rs.3.50 per thousand litres, and rate of Rs.2.25 per thousand litres for rural areas have been introduced from April 1998. For local body administered water supply scheme, there is no scientific way of evaluating the cost of water vis-à-vis, its maintenance and distribution.

9.18. Even though in the present Tamil Nadu Water Supply & Drainage Board, the concerned Heads of Departments have been inducted into the Board, the actual working is done by Tamil Nadu Water Supply & Drainage Board officials to suit their interests and from the point of view of Tamil Nadu Water Supply & Drainage Board. The Commission was also informed of the adhoc fixation of rate for Siruvani Water Supply Scheme for Coimbatore. Such a fixation for each scheme or for each local body may not also be practicable. Instead of the above mechanisms, a cost-cum-water rate committee may independently work out the cost factor for every two years, so as to avoid recurring losses. The committee may seek the views of elected representatives, and reputed Non-Governmental Organizations through newspapers and internet to make the process more transparent. The major elements of cost need to be examined by the Committee on Zero-base approach. Based on the findings, the committee may suggest measures for revising the rates. **Hence, the Second State Finance Commission recommends that a cost-cum-water tariff fixation committee may be constituted with the following members:-**

- i) Special Secretary, Finance,
- ii) Commissioner of Municipal Administration,
- iii) Director of Town Panchayats,
- iv) Director of Rural Development,
- v) Managing Director, Tamil Nadu Water Supply & Drainage Board.

The Committee may fix water charges to Urban Local Bodies adopting the following slabs.

Rs.0.50 per 1000 lts.  
Rs.1.00 per 1000 lts.  
Rs.1.50 per 1000 lts.

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

9.19. A similar approach is necessary in respect of water rates fixed by Metrowater. Following committee may be formed for this purpose:-

- i. Special Secretary, Finance
- ii. Commissioner of Municipal Administration
- iii. Commissioner of Chennai Corporation
- iv. Managing Director, Chennai Metro Water Supply & Drainage Board

The procedure outlined in para 9.18 will apply here also.



Presently the Chennai Metropolitan Water Supply & Sewerage Board has appointed IDFC to undertake the job of Tariff fixing water supply. While this exercise may be continued till March 2002, from the award period of Tamil Nadu Second State Finance Commission, i.e. from 1.4.2002, the mechanism suggested to para 9.18 may have to be put into operation as it is a device suggested for all Urban Local Bodies.

#### 9.20. Consultative Mechanism for Fixing Electricity Charges

The number of lights in rural areas has increased from Rs. 8.69 lakhs in 1995 to 11.6 lakhs (Source - First State Finance Commission) in 2000. This light revolution is not without its impact on panchayat finances. Maintenance cost has been dealt with in paras 9.4 to 9.8 above. Consumption charges also need to be kept under vigil. Extension of further street lights needs to be a more guarded and cautious affair hereafter to make the whole thing sustainable; wattage can be reduced on replacements. If the low voltage problem maintained in para 9.9 above is tackled in all earnestness, the need for having 'dual lighting' mechanism viz. both a tube light and a bulb at the same point can be avoided.

Presently, the rates are:

Village Panchayats	-	Rs.1.60
Town panchayats	-	Rs.1.60
Corporations and Municipalities	-	Rs.1.75

Before the next revision is effected, a formal mechanism may be evolved whereby Secretary, Rural Development and Secretary, Municipal Administration & Water Supply may indicate what they consider as affordable levels : Tamil Nadu Electricity Board and Government may examine those duly and then notify revised rates.

#### Schedule of Rates:

9.21. In respect of roads and buildings, presently the schedule of rates is fixed by Public Works Department applicable to the State as a whole and does not take into account local conditions. **To remedy this, Second State Finance Commission recommends that schedule of rates may be fixed districtwise annually by a committee of respective S.E.(PWD), S.E.(Highways) and S.E.(TWAD) taking into account lead and availability of raw materials locally.**

9.22. The State Finance Commission also recommends that Government Orders on specific norms for O & M and districtwise schedule of rates may be monitored by the Offices of Regional Directors of Municipal Administration, Assistant Directors of Town Panchayats and Assistant Directors of Rural Development on a monthly basis by prescribing a periodical.

#### Vehicles:

9.23. There have been persistent complaints that certain Urban Local Bodies are resorting to hiring of vehicles owing to the poor maintenance of their own vehicles. The Government have delegated the powers to sanction purchase of vehicles to the respective HoDs. But there has been delay, which results in wasteful expenditure. To cut the Gordian knot, the HoDs may fix the number of vehicles that can be put into operation in Urban Local Bodies for core civic services, viz., water supply and sewerage. As far as conservancy operations are concerned no new vehicles may be purchased as there is a likelihood of the service being privatized. This has been dealt with in para 7.4 above.

The Government of Tamil Nadu in G.O.1131/ Home Department dated 13.7.89 have fixed ceiling limits on the expenditure on repairs and replacements for all types of Government vehicles. The ceiling limits need updating as on 01.04.2002 and subsequent updating once in three years.

The Government of Tamil Nadu in G.O.(D) No.569 Municipal Administration and Water Supply Department dated 9.10.2000 have appointed a Committee to prescribe norms for maintenance, repairing and condemnation of non-passenger vehicles belonging to Urban Local Bodies. This Committee may be



headed by the Commissioner of Municipal Administration bringing the five Corporations also under its ambit. A similar committee needs to be formed for Town Panchayats under the Chairmanship of Director of Town Panchayats.

**Hence the Second State Finance Commission recommends that HoDs may prescribe the life of a vehicle / norms for condemnation, ceiling on maintenance / repair and purchase so as to curb wasteful expenditure.**

#### 10. Maintenance of Assets:

10.1. Thousands of assets are being created by the local bodies. There is need for proper and periodical maintenance of all assets and possible re-doing of same works needs to be prevented.

In the chapter on Issue germane to Terms of Reference creation of Data Base has been suggested. Under the Data Base all assets will have a number with capital cost for fixing O & M. In respect of roads, periodicity of re-laying or re-structuring may be done based on the life-period suggested in the manual and in chronological order.

**10.2. Hence the Second State Finance Commission recommends that the unique system of numbering of assets may be introduced and detailed assets register may be maintained in the Panchayat Raj Institutions as in the case of Urban Local Bodies where it is included under Section 79 of Tamil Nadu Urban Local Bodies Act 1998 (now kept in abeyance).**

#### 11. Productivity norms

11.1. In view of the computerization / privatization of local body functions, there is imperative need for productivity norms. Even though the Government have fixed norms for conservancy operations by way of kilometer length for conservancy staff, there are other sections, which need to be brought under productivity concept. In fact, the norms for bill collectors are outdated. With the dispensing with the issue of demand notice, and in its place issue of Pass Book, computerization and above all fixing responsibility on the owner / occupier of the building, there is a case for increasing the norms. An analysis of Task Force Committee report reveals that the assessments per collection staff are:

Town panchayats -	2262 / per staff
Municipalities	1830 "
Municipal Corporations -	2191 "

11.2. While the productivity norms are above 2000 per collection staff in Town Panchayats and Municipal Corporations, it is below 2000 in Municipalities. **Accordingly, the Second State Finance Commission recommends that**

- i) **productivity norms may be prescribed for all categories of staff to achieve rightsizing of establishment keeping in view the overall staff norms as recommended in para 6.4 above and**
- ii) **as a first step, illustratively the assessments per collection staff may be prescribed at 2400.**

#### 12. Constitution of local body Tribunal

12.1. The following table reveals that much of the revenue rightfully due to the Local Bodies is locked up due to litigation in various courts.

**Table: 6 Property Tax - covered by Court Cases as on 31.3.2000**

	Number of cases	Amount (Rupees in lakhs)
Town Panchayats	16638	446
Municipalities	11027	2209
Municipal Corporations	7709	1609

12.2. The reading of Section 100 and 101 of the Tamil Nadu Urban Local Bodies Act 1998 reveals that the persons who are aggrieved by the orders of the Taxation Appeals Committee and the Taxation Appellate Tribunal will have to approach the Principal District Judge. This section also does not bar him from approaching the higher judiciary if aggrieved by the orders of the Principal District Judge.

12.3. There is need to realize the arrears at the earliest. Keeping in view the urgency to collect arrears, **the State Finance Commission recommends the following:**

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

### **13. MEASURES TO COLLECT THE ARREARS OF TAXES AND NON-TAXES**

13.1. As the local bodies are closest to the people there is a lack of will on their part to collect the tax on time resulting in accumulation and arrears of taxes. Similarly under non-tax head, user charges have not been collected regularly. Besides the rentals and lease amounts have not been collected for years together. To remedy this situation, **the State Finance Commission makes the following recommendations.**

- i. Defaulters' list may be published through mass media such as local newspapers, cable T.V., cinema slide etc., highlighting the names of the biggest defaulters in property tax, similar to the provision in the Income Tax Act, 1961 and Tamil Nadu General Sales Tax Act, 1959
- ii. Legal proceedings and criminal prosecution may be pursued to their logical conclusion and revenue realized.
- iii. a In case of collection of cycle stand fees they may be given to TEXCO to prevent unscrupulous elements from fleecing the public and pocketing the difference.
- iii. b In case of pay and use latrines reputed NGOs, Trusts like Sulabh International may be granted the lease for similar reasons.
- iv. The sealed tender - cum - auction method may be implemented for leasing out properties of Local Bodies and advance rent can be collected before leasing out the premises. (Pagadi System).

14. Retrieval of encroached lands and utilizing them for better use.

Poramboke lands within the Local Bodies apparently fall under three categories: -

1. Revenue vested Poramboke
2. Department vested Poramboke
3. Local body vested Poramboke

14.1. Land is inelastic resource and very precious in a State like Tamil Nadu with high population density. Taking advantage of the lack of database on these three categories of Porambokes, unscrupulous elements have encroached upon the Poramboke lands for their private gain. With the advent of computers at Taluk Office, Panchayat Union Office, and Municipalities it would be possible to maintain a database containing details of these Poramboke lands including Panchayat vested Poramboke lands and periodically updating these. The Commission learnt that Dindugal Municipality with the help of police and revenue officials has recently evicted a major encroachment from the middle of the town worth several crores of rupees and is now setting up a commercial complex there. It is understood that in Madurai Corporation also in recent months, eviction has been carried out and the city looks better. These two could well be emulated by all local bodies. Lands belonging to local bodies need to be closely guarded and put to best possible use, preventing the scope for encroachment.



14.2. In respect of levying tax on huts in Revenue vested Poramboke lands, as the Government have recently liberalized the issue of "Pattas" if the encroachment is there for over ten years, the Local Bodies need to levy property tax on those huts who have been granted "pattas".

#### 15. Remunerative enterprises

15.1. It is common knowledge that while approaching lending institutions for availing loans for construction of shopping complex or bus stand improvement, the local bodies invariably present a rosy picture of expected cash flows. But in reality, the situation is diametrically opposite. The so-called remunerative enterprises are remunerative only for the individuals who take them on lease and not for the local body. This has been prevailing in most of the local bodies.

For instance, the market at Vellore Municipality (Kakithapattarai) was misused. It was stated by the Municipal authorities that there was no bidder at all for market lease. However, it was said that illegal commercial transactions were going on. When the Government took out the land for "Uzhavar Sandhai", there was good response. Had this been better used, the local body would have earned a sizeable income.

15.2. To remedy the above situation, the SFC recommends to adopt Sealed Tender-cum-Auction process to squarely deal with nexus of vested interests and syndicate formation. **The maximum quote in sealed tender which will be opened in the presence of bidders will be the base price for the auction.**

#### 15.3. Average Realization In New Projects

15.3.1. There is need to prescribe a 'payback' period for the remunerative enterprises. While sanctioning / releasing / recommending the loan, the HOD shall insist on a certificate that the project will have a payback period to be mentioned specifically which shall not exceed 10 years as the loan repayment is generally scheduled for 15 years. Those who fail to accomplish may be subjected to reduction in allotment of devolution/grants.

15.3.2. The Madras High Court order and the Government instructions on leasing may be scrupulously followed. In the above context the Second State Finance Commission recommends that while the leasing/Tender-cum-auction may be strictly followed by prescribing the 'upset value', new projects should be subjected to fetch the minimum amount, which would ultimately, relieve the local body from burden within the pay back period.

#### 16. Timely Tender Disposal

In a several number of Municipalities, the disposal of tender is not prompt. Even under special programmes, where large allocations have been made, the councils are yet to dispose of tenders in several Municipalities. A general representation is that the power to dispose tenders be taken away from the purview of the councils and entrusted to the executive. But, solution to this lies in proper and strict implementation of Tamil Nadu transparency in Tender Act / Rules. The Second State Finance Commission suggests that Government may take a serious view if there is continued recalcitrance on the part of the local bodies in disposing a tender or income related issue.

17. There are seven Committees mentioned in the Tamil Nadu Panchayat rules 1999 (vide G.O. Ms. No. 168 RD Department dated 4.8.99) as notified on August 16<sup>th</sup> 1999. Hence we suggest that proper monitoring be done as many of the collectors are not aware of the above, particularly the appointments committee, as revealed during our district sittings.



## 18. Maintenance of provident fund accounts

18.1. The First Second State Finance Commission has recommended that the Provident Fund contribution recovered from employees but not credited to Provident Fund accounts should be deducted from SFC devolution and credited to the respective accounts and the Government have also accepted the recommendations. This has been dealt with in the Status Report on First SFC recommendations. But in practice, even now the Provident Fund contributions are not credited to the concerned account resulting in non-payment of dues to the retired employees. The Pensioners Association pleaded that the Provident Fund maintenance system by local bodies should be streamlined. In fact, they pleaded for centralized accounting as in vogue for State Government employees at Accountant General's office. Field reports also confirm the position.

18.2. In order to streamline the system the State Finance Commission recommends that the depositing of the Provident Fund contribution to the respective account should be verified by the Financial Adviser & Chief Accounts officer from the concerned Office of the Head of Department once in six months, and disciplinary action may be initiated against the persons responsible for the lapse.

18.3. With the computerization of accounts, the State Finance Commission recommends that the Provident Fund accounts can be updated by the month of April every year. The interest working by Director of Local Fund Audit needs to be done by May – June of every year and the annual account slips of local body employees of the previous financial year may be distributed in July – August of every year.

## 19. Wealth from waste

19.1. For a long time, there has been an impression that garbage generated by the local bodies has no economical value. However, in recent times, new techniques such as vermiculture by which compost and fertilizers are manufactured are gaining ground. The concept of three "R"s (Re-use, Recycle, Resource) can help in utilisation of waste and simultaneously save the cost of collection, transportation and disposal of waste. In Chennai city, Exnora with the help of active residential associations has set up vermi-composting yards.

19.2. Alandur Municipality will soon implement a new scheme of "Solid Waste Processing & Disposal Facility" through a private under BOT agreement. Under this scheme, the company will manufacture organic manure in a land of 15 acres on lease for 15 years. The Municipality is expected get an income of Rs.8.64 lakhs per annum. But the price needs to be revised once in five years to meet the cost escalation and to encourage competitive bidding.

19.3. In addition to vermiculture, it is possible to produce electricity by converting garbage into pellets. It is learnt that Chennai Metropolitan Development Authority is examining a proposal in collaboration with private sector to use 100 MT of organic garbage collected at Koyambedu market to generate electricity. Similarly, Chennai Corporation has also tied up with private sector to produce electricity from garbage. The Commission learnt during its field visit that a similar possibility exists for Mettupalayam Municipality and Ottanchatram Town Panchayat, where wealth can be generated from waste.

## 20. To sum up

By employing all these measures such as realizing revenue potential to a fuller extent, zero base budgeting, privatization, avoiding wasteful expenditure, controlling all major elements of cost, generating wealth from waste, etc., the local bodies can certainly generate surplus income and move towards greater degree of self-reliance.

“முயற்சி திருவினையாக்கும் முயற்றின்மை  
இன்மை புகுத்தி விடும்”

(குறள்:616)



## CHAPTER - VII

### DEBT MANAGEMENT

#### Introduction

Para 2(b) of the T.O.R. requires our Commission to recommend, "the measures needed to improve the financial position of the local bodies taking into account interalia, their level of debt and their ability to service the debt". Again vide para 4 of the T.O.R, our Commission, "in making its recommendations, shall have regard, to the resources of the State Government, the demand thereon, in particular the expenditure of the State on debt servicing including the debt servicing on behalf of the local bodies". Accordingly, even when the Commission commenced its work we realized from the interaction of Mayors and Chairmen of Urban Local Bodies with us that debt was a major concern with the Urban Local Bodies. Consequent to the Government's policy decision to deduct overdues of the local bodies from SFC devolution, this matter is weighing down heavily on the minds of the Urban Local Bodies.

#### 2. Debt Position Of Urban Local Bodies:

2.1 The following table gives an idea about the debt position of the Corporations:-

<b>MUNICIPAL CORPORATIONS</b>						
<b>Table:1 Agency wise Outstanding Loans as on 31.3.2000</b>						
Corporations	GoTN	MUDF	TNUDF	LIC	Others	Total
(Rs. lakhs)						
Chennai	10663	5282	828	0	9430	26203
Coimbatore	7252	939	245	0	21	8457
Madurai	1693	866	2798	268	8015	13640
Salem	2239	329	409	528	2108	5613
Tiruchirappalli	3500	160	269	0	0	3929
Tirunelveli	1847	62	0	0	0	1909
Total	27194	7638	4549	796	19574	59751
% Share in Total	45.51	12.78	7.61	1.34	32.76	100.00

2.2 Out of the total outstanding of Rs. 597.51 crores, the water supply loans (GoTN & LIC) account for about 46%. The figures on outstanding debt reveal that on an average, each Corporation has about Rs.100 crores as outstanding debt.

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2.3 The loans outstanding as on 31.3.2000 are as under:

<b>Table-2: Agency wise Outstanding Loans as on 31.3.2000</b>					
GoTN	LIC	MUDF	TNUDF	Others	Total
(Rs. lakhs)					
15980	9369	4980	2189	4113	36631
43.62%	25.58%	13.59%	5.98%	11.23%	100.00%

Out of the total loans at Rs.366 crores, it may be noted that water supply loans (GoTN and LIC) account for about 69% of the total outstanding loans of the Municipalities. The annuity overdue in respect of all municipalities as on 31.3.2000 amounts to Rs.57.93 crore on principal and Rs.71.42 crore on interest.

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**Table-3: Agency wise outstanding loans as on 31.3.2000.**

GoTN	LIC	IUDF	IDSMT	Others	Total
(Rs. lakhs)					
1498	3148	1075	1511	1801	9033
16%	35%	12%	17%	20%	100%

2.4 The agency-wise outstanding debt for the four grades of Town Panchayats are presented in the above table. It may be noted that here also water supply loans (GoTN & LIC) together account for 51% of the total outstanding loans of the Town Panchayats.

### 3. DEBT CONSOLIDATION:

3.1 Vide G.O.Ms.No.120, MA&WS, dt.10.2.1998, (Annexure-1) GoTN decided to reschedule the outstanding loans as on 1.4.1998 drawn by various local bodies since 1945 at a uniform rate of interest at 13.5% and repayable in 20 years in half yearly instalments in March and September every year, failing which the due will be recovered from the SFC devolution in April and October, respectively. Due to this decision, the debt servicing of and recovery from all the local bodies have gone up sharply from 1998-99 as seen from the following table:-

**Table: 4**

Category of ULB	1995/96	1996/97	1997/98	1998/99	1999/00
	Pre Consolidation			Post Consolidation	
	(Rs. in Lakhs)				
Chennai	276.6	266.80	424.20	732.60	564.30
Coimbatore	199.60	143.80	261.50	636.80	2198.50
Madurai	25.10	12.60	153.90	567.00	2525.00
Salem	2.1	1.7	198.1	246.30	407.60
Tiruchirappalli	32.7	165.3	181.60	136.90	825.00
Tirunelveli	47.7	79.7	394.80	389.10	421.50
Municipal Corporations	583.80	669.90	1614.10	2708.70	6941.90
Municipalities	1081	1020	1850	2879	6357
Town Panchayats	248.37	206.03	535.40	654.05	820.23
Total of all ULBs	1913.17	1895.93	3999.50	6241.75	14119.13

As can be seen from the above table, the recovery of debt for Corporations, which was in the order of about Rs.16 crores in 1997-98 has shot up to Rs.27 crores in 1998-99 and Rs.69 crores in 1999-2000. Similarly in Municipalities, the recovery of debt has shot up from Rs.18 crores in 1997-98 to Rs.28 crores in 1998-99 and to Rs.63 crores in 1999-2000. In case of Town Panchayats, the corresponding figures are Rs.5 crores in 1997-98, Rs.6 crores in 1998-99 and Rs.8 crores in 1999-2000. The burden has thus fallen on Corporations and Municipalities.

3.2. In the case of financially weaker Municipalities, in order to ensure that they take concerted measures for increasing their own revenue, the Government have ordered the CMA to prepare a format to monitor the earnest steps taken by these local bodies for augmenting their own revenue.

3.3 The government have also advised the CMA to prepare a package of measures for augmenting their own revenue and also reducing their expenditure by better fiscal management for those Municipalities for which CMA recommends debt relief. Accordingly, the CMA is preparing a package of measures for better fiscal management of those local bodies.

### 4. DEBT RELIEF GIVEN BY THE GOVERNMENT:

4.1. In continuation of debt consolidation, the Government constituted a committee consisting of Secretary, MA&WS as Chairman and CMA and a representative from the Finance Department as Members for recommending to the Government, write off of debts on an annual basis to weaker local bodies. Based on the recommendations of the committee, the Government have given substantial debt



relief measures vide G.O.Ms.No.87, dt.27.6.2000 (Annexure-2) to two Municipal Corporations and 40 Municipalities, which are as follows: -

- a) No relief is suggested for the following Municipalities, which are to continue to repay the debt along with 13.5% interest.  
1) Ambur, 2) Hosur, 3) Mannarkudi, 4) Panruti, 5) Paramakudi, 6) Sattur,  
7) Sirkali, 8) Thirumangalam, 9) Usilampatti, 10) Vaniyambadi, 11) Virudhunagar.
- b) The following Municipalities have been given interest concession, whereby interest has been reduced from 13.5% to 10.74% from 1.4.2000 onwards:-  
1) Arakkonam, 2) Chidambaram, 3) Arcot, 4) Chinnamanur.
- c) The following Corporations and Municipalities have been given principal Moratorium for 5 years from 1.4.2000 to 31.3.2004 and interest moratorium from 1.4.2000 to 31.3.2001.

**Corporations:-**

- 1) Madurai and
- 2) Salem

**Municipalities:-**

- 1) Palani, 2) Aruppukottai, 3) Maduranthakam,
- 4) Ranipet, 5) Thiruppur, 6) Dindigul, 7) Edappadi,
- 8) Nagapattinam, 9) Tambaram, 10) Gudiyattam,
- 11) Thiruvottiyur, 12) Cumbum, 13) Mettur, 14) Rasipuram,
- 15) Wallajapet, 16) Thiruvannamalai, 17) Kumbakonam,
- 18) Pudukottai, 19) Thanjavur.

4.2. The CMA who had taken a detailed review of the financial position of 19 Municipalities and two Corporations in the month of September 2000 has recommended for further extension of the moratorium given to the 19 Municipalities and 2 Corporations from the payment of interest portion, which is expiring on 1.4.2001 to be extended till 31.3.2004, as he expects that they will be in a position to augment their own revenue due to property tax revision expected in 1.10.2003. After examining the same, Government approved CMA's proposal in G.O.Ms.No.50 Municipal Administration and Water Supply Dept, dated 9.3.2001 (Annexure -3).

## 5. RE-SCHEDULING DEBT

Although recommending debt relief package by our Commission has not been explicitly spelt out in TOR, a careful reading of the paras of TOR mentioned at the beginning of this chapter along with paras 5 (ii) and 5(v) of TOR would show that the Commission needs to propose a suitable relief package linked with proper fiscal management of Urban Local Bodies. In their interaction with the SSFC, representatives of Urban sector like CMA have pleaded that consolidating all the loans and interest as on 1.4.1998 and levying 13.5% interest thereon is tantamount to levying interest on interest. They have requested that all the earlier interest consolidated as on 1.4.1998 may be written off and that the Urban Local Bodies may be permitted to repay the loan outstanding as on 1.4.1998 @ 13.5% interest. In the Municipal Seminar held on 23.6.2000 a view emerged that certain weak Municipalities which are prohibited from borrowing further because of their poor debt service performance are unable to improve their service in any sector and that these municipalities have to be identified and a separate allocation from devolution in addition to the equalization grant has to be given to them. Moreover, it was also recommended that a ceiling of 25% may be fixed for deduction of outstanding loans from SSFC devolution

## 6. DEBT SERVICING OF STATE GOVERNMENT:

With due regard to Para 4 of our TOR, the Commission has tried to analyse debt servicing by the state with particular reference to debt servicing on behalf of local bodies. Accordingly, the following table indicates the increasing trend of debt servicing by the State Government.



**Table: 5 Statement showing Debt Servicing by the Govt. of Tamil Nadu**  
(Rs. in Crores)

	1997-98		1998-99		1999-2000	
	Principal	Interest	Principal	Interest	Principal	Interest
Internal Debt of the State Government.	33.60	401.67	76.65	473.10	66.41	563.64
Market Loans						
Loans from other financial institutions	27.36	47.86	32.89	74.83	65.36	132.59
Loans and Advances from the Central Government.	346.82	1040.73	409.21	1189.21	471.11	1359.36
<b>Total</b>	<b>407.78</b>	<b>1490.26</b>	<b>518.75</b>	<b>1737.14</b>	<b>602.88</b>	<b>2055.59</b>

The interest burden for the overall outstanding loan is heavy showing an increasing trend of growth over the years. Out of the repayment of Rs.65 crores to the financial institutions in 1999-2000, Rs.11.68 crores relate to LIC. The increasing debt servicing commitment on the part of the Government has been taken note of in making recommendations on debt relief to local bodies as discussed in the following paras.

**7. Debt Relief Package By SSFC:**

Based on the current debt position of the ULBs outlined in the previous paragraphs, **the SFC after a detailed deliberations both internally and with various stakeholders has decided to segregate water supply loan only from other loans and accord separate treatment for water supply and drainage loans implemented by TWAD as on 31.3.2000. There will be no relief for loans taken for remunerative enterprises.** The rationale for this decision is that since most of the loans outstanding were taken by the Urban Local Bodies for service projects especially water supply schemes at huge cost and as financially weaker Municipalities were not able to pay the annuities due to various commitments, a substantial relief is necessary. Almost all the schemes, executed by TWAD Board, which is a monopoly agency, were not executed within the time schedule and estimated cost originally scheduled. The efficiency in delivery of service was less than the desired or designed level. For all these, the local bodies had to pay for. For instance, the loans advanced for Tirupathur municipality and Sengottai Municipality for water supply project and for Salem Corporation for drainage project did not take off within the prescribed period resulting in payment of interest for the loans advanced for the first five years and thereafter principal by the local bodies for no fault of their own. This sort of delay on the part of line agencies like TWAD had in the past added burden to Local Bodies. A brief analysis of the above projects is given in Annexure-4. Due to the recovery of SFC devolution for the non-payment of annuities, the devolution package is not really helping the local bodies. In other words, Urban Local Bodies deserve suitable relief for a predicament for which they were not responsible.

**8. RELIEF ON PRINCIPAL:**

What is seen as a departure from the existing policy, the government for the first time in the year 1999-2000 through a scheme christened "Golden Jubilee Water Supply Scheme" allotted Rs.82 crores to Urban Local Bodies as capital grant for water supply in 1999-2000. Till then, capital grants for water supply were restricted to PRIs only.

The following table indicates the total investment in water supply;

**Table: 6 Golden Jubilee Water Supply Scheme (1999-2000)**  
(Rs. in Crores)

Sl.No.	Class of ULBs	Total Investments	Total Capital Grants
1.	Municipalities ( 12 in Nos)	101	45
2.	Town Panchayats (31 Nos)	88	37
	Grant Total	189	82



For 2000-2001, the allocation of capital grant is estimated at Rs.80 crore and the total cost at Rs.250 crore. In other words, Government have tacitly conceded the point that water supply schemes cannot be entirely funded out of loans and that there is a case for subsidy or grant component. At the same time, our Commission feels that the relief to the Urban Local Bodies needs to be related to the resource-base of each class of Urban Local Bodies. The Town Panchayats are basically semi-urban in their features. Obviously Corporations have a stronger base than Municipalities. A suitable index for measuring the resource-potential of Urban Local Bodies is tax per property. Comparative analysis of this index is as under:-

Tax per Property for the year 2000 (in Rupees.)	
Corporations	1669
Municipalities	889
Town Panchayats	194

Given the inherent revenue potential as reflected above, a differential treatment seems justified. Accordingly, the State Finance Commission recommends debt relief on principal outstanding as on 31.3.2002 on water supply loans as under:

Corporations	: 20%
Municipalities	: 25%
Town Panchayats	: 30%

The reckoning period for the assessment of financial position of Urban Local Bodies as per TOR is 31.3.2000. Hence, the water supply and sewerage loans outstanding as on 31.3.2000 for the Urban Local Bodies have been taken and tabulated in the beginning of the chapter. As mentioned in para-4 above, CMA and Government are continuously monitoring the debt situation and providing suitable relief. Hence the position prevailing as on 31.3.2002 may be reckoned.

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

#### 9. Interest Relief:

In addition, as far as the interest burden is concerned, a weighted average interest for water supply loans taken between 1945 and 1998 comes to 10.74% only and accordingly the SFC recommends that the interest rate may be pruned down from 13.5% to 10.74% for the Urban Local Bodies subject to the earnest efforts taken to increase their own revenue and to reduce their expenditure by better fiscal management which is explained next.

#### 10. Eligibility Criteria:

10.1 Government's tight financial position has been reflected in the table in para-6 above. Hence, the above reliefs cannot be automatic give-away to all Urban Local Bodies. The reliefs on principal (para-8) and interest (para-9) may be extended to the Urban Local Bodies which have demonstrated their resolve to augment their income and to contain their expenditure on following basis based on data for the year 1999-2000 as in the tables furnished below:

**CORPORATIONS**  
**Table-7 Annual Per Capita Income and Expenditure**

Corporation	Per Capita Income	Per Capita Expenditure
	Rupees – Year 2000	
Coimbatore	1358	1074
Madurai	694	844
Salem	551	378
Tiruchirapalli	768	730
Tirunelveli	544	518
Average	783	709

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**Table -8 Annual Per capita Income and Expenditure – 1999-2000**

Category	Per Capita Income	Per Capita Expenditure
	Rupees	
Grade II	388	393
Grade I	475	450
Selection Grade	601	580
Special Grade	760	654
<b>Average</b>	<b>525</b>	<b>498</b>

### TOWN PANCHAYATS

**Table -9 Annual Per capita Income and Expenditure – 1999-2000**

Category	Per Capita Income	Per Capita Expenditure
	Rupees	
Grade II	258	195
Grade I	279	208
Selection Grade	346	256
Special Grade	770	439
<b>Average</b>	<b>329</b>	<b>239</b>

- a. In respect of Municipalities and Town Panchayats, only those Urban Local Bodies, which have their own per capita income above the average for that grade within that class of Urban Local Bodies, will be eligible for relief. For instance, if a Municipality is in grade I category, for comparison, the average per capital income for grade I needs to be taken.
- b. The second criterion is that on expenditure front also, only those Municipalities and Town Panchayats, which have their per capita expenditure below the average for that grade within that class of Urban Local Bodies, will be eligible for relief.
- c. For Municipal Corporations, (excluding Chennai) class average may be taken for both the above criteria.
- d. In other words both criteria need to be satisfied for giving relief to Urban Local Bodies. For those Urban Local Bodies which satisfy any one criterion and not eligible for debt relief, moratorium will be given upto 2003 to see if they improve their financial position in the next revision of property tax and steady reduction of their expenditure by then.
- e. The Urban Local Bodies, which do not satisfy even one criterion, are not eligible for moratorium also.

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

10.2 The above package may not give relief to some of the highly indebted Urban Local Bodies. Hence, the Commission recommends that a committee consisting of Commissioner of Municipal Administration, Special/Additional Secretary, Finance Department, Special / Additional Secretary, Municipal Administration & Water Supply Department as Members and Chief Executive Officer, Tamil Nadu Urban Infrastructure Financial Services Ltd. as a special invitee may be constituted by the Government to monitor the performance of municipalities covered under debt relief package recommended by SSFC and for other high debt municipalities. The review by the Committee may be in two ways as detailed below:-

- i) For the Municipalities, which are eligible under the criteria(per capita income/expenditure) the review will be half-yearly to see that they do not slip back in financial parameters.
- ii) The Commission recommends a level of Rs.750/- per capita debt for the second class of Urban Local Bodies. For these high-debt Urban Local Bodies, first there needs to be BIFR type of analysis by the above Committee,
  - a) to identify the causes of individual municipalities having fallen into high debt.
  - b) to segregate the water supply and remunerative loans and to process the case only if the indebtedness is due to water supply loans.



- c) to segregate the reasons for poor financial position of these ULBs.
- d) and steps to be taken by them for improving the same.

Detailed methodology may be seen in the Annexure – 5. A case study on one of the highly indebted municipalities viz. Tiruppur municipality is placed in Annexure-6.

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

- 10.3 The above approach is in accordance with the recommendation of Eleventh Central Finance Commission in its report based on their supplementary terms of reference in which the Central Finance Commission recommended incentive for the performing states based on the augmentation of resources by the states and expenditure control by them during the award period of ELFC, as in the table below:

**Table -10: Summary of the measures and their weights**

Measures	Weights	
Revenue Receipts		
1. Growth of tax revenue	30.00	} 50%
2. Non-Tax revenue	20.00	
Revenue Expenditure (Non-Plan)		
1. Salaries and Allowances	30.00	} 50%
2. Interest	10.00	
3. Reduction of subsidies	10.00	
Total	100.00	

Similar approach has been suggested by our Commission to motivate the Urban Local Bodies towards better fiscal management to ensure that their sustainable investment needs for providing improvement in civic services are met. Based on study made by Task Force Committee, the commission feels that the municipal finances can be improved by implementing the following measures.

- (i) The collection performance of current demand of property tax needs to be improved from the existing 75% to 90%. The arrear collection needs to be improved to atleast 75% in order to sustain the investments.
- (ii) The ARV Property assessments need to be revised by 70% to 75% when the next revision is due.
- (iii) Water Charges need to be revised by atleast 25% for every three years.
- (iv) Details of cost effective measures are elaborately given in the chapter on Better Fiscal Management.

10.4 If there are any Municipalities which are in disadvantageous position due to inherent financial weaknesses and cannot increase their own revenue, such Municipalities can be downgraded as Town Panchayats and in any case, the prescription as outlined by the SSFC is applicable for each category of local bodies and not for individual Town Panchayat / Municipality / Corporation. **As the debt servicing ratio has dramatically shot up after the policy decision of the Government to deduct from State Finance Commission devolution, we also recommend a 25% ceiling on deduction from gross State Finance Commission devolution towards repayment of Government loans.**

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

#### 11. LOAN FROM OTHER FINANCIAL INSTITUTIONS:

11.1 Prior to the creation of TUIFSL, MUDF, HUDCO, TUFIDCO were lending to Urban Local Bodies on various projects. After merging lending agencies like MUDF, TUIFSL was formed in Sept.1996. It is basically a lending institution to Urban Local Bodies by obtaining funds from World Bank and by approaching the market. It is lending for core civic services and infrastructure development projects and the rate of interest is 15 to 16.5%. In November 2000, Tamil Nadu Urban Infrastructure and Financial Services Ltd. has successfully raised Rs.110 crores through private placement of five year non-convertible, redeemable bonds carrying a coupon rate of 11.85%, payable semi-annually. This was at



that time intended for funding projects worth Rs.230 crores in some 14 or 15 Municipalities. Subsequently (April 2001), the Commission understands that this is untied loan, which will suitably help fund urban infrastructure development projects. It is learnt that the projects of municipalities are normally cleared after subjecting them to scrutiny and design before embarking upon funding.

TUFIDCO is a Government owned undertaking responsible for centrally sponsored schemes like IDSMT and Mega city and other UD Schemes. DTCP is also a lending institution for Urban Development Projects. In fact, many Urban Local Bodies have availed the loans without taking into account the return expected from such projects. This had been a thrust on them by giving a rosy picture while in reality it was not so. This has led to a situation in which many Urban Local Bodies especially municipalities are not able to repay their debts. In fact, the IUDP loans administered by DTCP carry 13.5% to 14% interest for remunerative enterprises. But the return has not been ensured. This has also been discussed in Better Fiscal Management Chapter.

**11.2 In the above scenario, the Commission recommends that there may be one agency for both State and Centrally Sponsored schemes for improving basic amenities viz. TUFIDCO and the other for World Bank aided projects viz. TUIFSL and that the IUDP schemes handled by Director of Town and Country Planning may be handed over to TUFIDCO. Thus, TUIFSL may continue to be an agency in BOT and World Bank funded projects. To avoid overlapping of functions, lending by TUFIDCO may be concentrated upon remunerative projects and Mega city programmes and TUIFSL may take up the rest viz. water supply and infrastructure loans. It is also emphasized that all loans should be routed through the HOD concerned and should not be passed on to TWAD directly without the knowledge of the HOD or the local body concerned so as to avoid time and cost overrun.**

#### **12. Opening Other Channels of Credit:-**

In 1997 I.D.F.C. (Infrastructure Development Finance Company Ltd.) another Financial Institution for developing urban infrastructure has opened its registered office in Chennai. State Finance Commission learns that IDFC is working on a concept of decentralized infrastructure for local bodies. IDFC has also been involved in New Tiruppur Water Supply program and water pricing for Metro water. States like Maharashtra and Gujarat have taken advantage of the fact that most of the financial institutions have their registered offices in Mumbai. The Prime Lending Rate (PLR) of I.D.F.C is at present in the range of 13% per annum payable quarterly. The take-out fee in excess of PLR is at a maximum spread of 3.5% per annum, which is dependent on individual project risk. The tenor of IDFC loan range is from 5 to 12 with a moratorium of 1-2 years after commissioning. State Finance Commission suggests that local bodies may be encouraged to explore the options of obtaining loans from IDFC also in addition to TUFIDCO / TUIFSL depending on the terms of IDFC.

#### **13. Limitations On Borrowings:**

13.1. As per Article-293 (292 for the union) the Constitution provides executive power to a state to borrow within the territory of India, upon the security of consolidated fund of the state within such limits and within such guarantee limits fixed by the legislature from time to time. Moreover, as per Article 293(3) of the Constitution, a State Government may not without the consent of Government of India raise any loan if there is still outstanding any part of Government of India loans or in respect of which a guarantee has been given by the Government. of India.

13.2. Ways and Means Advances and overdraft facilities are extended by RBI to meet temporary mismatches between receipts and payments of States. The State government is also required to maintain a minimum cash balance of Rs.3.25 crore with RBI. Thus the cash position of the State Government can be reviewed based on the quantum of ways and means advance and the number of times drawn. Guarantees are given by the State Government to statutory corporations, local bodies and other institutions for the due discharge of certain liabilities like loans, repayment of share capital etc.

13.3. As of now, the State Government issues guarantees on the loan liabilities of local bodies also. As per Section 66 of TNULB act, the municipal Council with the prior sanction of Government may borrow by way of debentures on security of taxes, duties etc covered under the Act, by way of loans from public etc. Hence there is a mechanism for regulation of borrowings from local bodies.



The Commission recommends that the Head of the Departments should continue to oversee the financial position of local bodies effectively and to limit the borrowings at certain prudent level especially in Urban Local Bodies. For instance, it is understood that Mumbai Corporation has a debt ceiling, which is 7 times of the ARV of the properties in that Corporation. Likewise a ceiling of four times on own resources could be fixed for borrowing by the Urban Local Bodies in this State. After detailed scrutiny, this norm may be incorporated in TNULBs Act.

#### 14. Criteria For Borrowing Including Credit Rating:-

14.1 Local Bodies have traditionally relied on internal resources(own tax and non-tax revenues), grants from State Government and Central Government for specific schemes. Apart from this, loans from financial institutions like HUDCO, LIC, TUFIDCO, TUIFSL, are also raised by Urban Local Bodies for specific civic service schemes. The emerging scenario indicates that budgetary resources and recourse to institutional finance alone may not be adequate to meet the requirements for urban infrastructure including critical civic services like water supply. There exists the alternate view of getting into debt market by ULBs. Section 66 of the TNULB Act referred to above also enables Urban Local Bodies to raise loan from the public by issue of bonds for incurring specific items of capital expenditure. For this, an independent evaluation of the financial position and its operation of the Urban Local Bodies is required. Credit rating is the first step in the process of getting into debt market by Urban Local Bodies. Credit rating of some States and local bodies like Ahmedabad, Chennai and Coimbatore have been done by ICRA & CRISIL. Salient features of credit rating are given in annexure-7 to this chapter.

14.2 The TNULB Act 1998, Section 68 enables the Urban Local Bodies to maintain a sinking fund for the repayment of money borrowed on debentures issued and these Municipalities are required to pay by quarterly instalments into such sinking fund and such sum as will be sufficient for the payment within the period fixed for the loan of all monies borrowed on debentures issued. Again Section 69 of the TNULB Act accords priority for payments of interest and repayment of loans over any other payment due from the Municipality. Given the past experience of the Urban Local Bodies in contracting debt and their inability to repay the debt it is important that the Urban Local Bodies tread the debt route rather cautiously.

14.3 Credit rating agencies like CRISIL, ICRA have more experience in rating companies registered in the stock exchange and that would go for IPO than rating the local bodies. These agencies also charge huge fees for credit rating and hence it is unlikely that any individual local body would approach them for credit rating, except some affluent ones such as Chennai, Coimbatore Corporations etc. In this scenario, the SFC requested TUIFSL to fix lending limits and indicate their credit worthiness and accordingly they have done the exercise, which is summarized in the following table:

Table-11:Performance Category –Current Status (1995-96 to 1999-2000)

Category	Category-1	Category-2	Category-3
	No. of Municipalities		
Grade-1	15	0	10
Grade-II	26	0	10
Selection Grade	25	0	3
Special Grade	11	0	2
Total	77	0	25

#### Explanation:

Category 1: OR $\leq$ 1.0 and DSR  $\leq$ 25 per cent (self – sustainable)

Category 2: OR $\leq$ 1.0 and DSR >25 per cent (self – sustainable but over debt burdened)

Category 3: OR >1.0 and DSR either of the above (deficit)

The above figures indicate that 25 Municipalities have an average operating ratio over 1 indicating they were deficit in past. The above categorization reveals that category-3 where the operating ratio is greater than 1, its revenue deficit may add burden to the debt servicing. To such of those municipalities where the operating ratio is more than 1, the debt servicing would cross 25%.



14.4 In the above scenario, the SFC recommends that all the debt servicing ratio to annual revenue receipts should not cross 25% in order to ensure that the local bodies have sufficient funds to meet the other requirements like establishment (upto 49%) and O&M expenses (about 25%).

14.5 Due to obvious reasons, the funding for future infrastructure development works in Urban Local Bodies has to rely mostly on external borrowing and also on public finance. If a majority of local bodies are to access public finance in the form of debenture, bonds, etc, some alternative for credit rating them has to be worked out. Since they will not be individually eligible, a collective attempt can be taken by grouping select Municipalities in the region or with reference to the grades of Municipalities under a front organization like TNUFSL or TUFIDCO for common credit rating with a common programme for making the local bodies as a group, eligible for appropriate credit rating so that they can go to market to borrow funds for major projects on market terms.

If one Municipality in a group fails to honour its commitment and defaults, the other partners in the same group will not be eligible for any further borrowing or other facilities. This will ensure a natural pressure factor within the group of Municipalities, so that there is sustained effort by every Municipality in the group not to default on any commitment.

## **15. Chennai Corporation's Municipal Bonds**

15.1 Based on the permission granted by the Government of Tamil Nadu to float public loan (Open Market Borrowings) and the approval of the Reserve Bank of India for execution of capital works including the provision for repayment of public loan, the Chennai Municipal Corporation was floating public loans since 1970's and upto the financial year 1993-94. Subsequently, as per the ban orders issued by the Government in 1994 against open market borrowings, the Chennai Municipal Corporation stopped floating public loans from 1994-95 onwards.

15.2. The Government of India has in February 2001 permitted the Urban Local Bodies to float tax-free bonds to finance the development of urban infrastructure, subject to credit rating. The bonds would carry a tax-free interest of 10.5% and would have a minimum maturity of 5 years. The maximum amount of tax-free bonds as a percentage of the total project cost would be 33% or Rs.50 crores whichever is lower.

15.3. Sustainable investment capacity of Chennai Municipal Corporation is about Rs.525 crores. The assumption made for grants and own funds is at 10% and 20% respectively. This needs to be increased to at least 35%. The balance of 65% has to be necessarily met from borrowings. As such, the approximate size of loan that can be raised by Chennai Municipal Corporation works out to about Rs.340 crores for the period of 5 five years from 2002-03 to 2006-07. Therefore, the Chennai Municipal Corporation may raise tax-free bonds as envisaged by the Government of India and go in for the balance amount by way of bonds for repayment in 15 years with interest at as low a rate as possible through Tamil Nadu Urban Infrastructure and Financial Services Ltd subject to credit rating compulsorily with the ceiling of Rs.65 Crores to Rs.70 crores per annum for both the loans. Based on the experience of Chennai Municipal Corporation other better-off Corporations such as Coimbatore may also float Municipal bonds in the market duly following the prescribed formalities.

## **16. National River Conservation Action Programme :**

In the river action programme sanctioned both by the central Government and State Government recently, the Government have provided substantial assistance by way of grants. Conceptually it is a commendable scheme intended to improve the public health of the people in general. However, smaller Urban Local Bodies like Tiruchendur and Rameshwaram may not be able to pay the debt portion considering the low level income of the local bodies. Similarly Thanjavur and Karur Municipalities and Madurai Municipal Corporation may not be in a position to shoulder the additional debt burden since there is no sustainable level at all as per the financial operating plan. For this, special packages are needed, which may be worked out by the Government.



## 17. Sewerage Projects Taken Up By ULBs Under Private Sector Participation:

Alandur Municipality has taken up the Sewerage project as public participatory project and also through private sector participation in the execution of the scheme. Similarly, Valasarawakkam Town Panchayat is on the threshold of launching the sewerage project on the same lines. This is an innovative approach in the sense that public are brought into the scheme by way of contribution and the Urban Local Bodies have had the option of choosing private executing agency. This type of projects need fillip so as to induce others to emulate.

For this, a portion of the incentive fund may be set apart for motivating the local bodies which have taken up such projects or in the process of taking up. The apportionment of incentive fund to various projects under core civic services may be determined by the Government. The State Finance Commission recommends that the incentive fund for Urban Local Bodies may be set apart for both Urban Local Bodies which have successfully launched the public health project through public participatory approach and through private sector participation. This approach will keep debt of such local bodies within manageable levels.

## 18. Urban Development Fund:

The Commission recommends that an "Urban Development Fund" may be created from out of the Equalization Fund set apart for Urban Local Bodies. This may be operated by Commissioner of Municipal Administration to take care of interest subsidy in respect of viable and needy projects benefiting the core civic needs of people. From out of the corpus, 50% may be apportioned for water supply at lower rate of interest and 50% may be reserved for other projects. For water supply projects, interest subsidies could be thought of, after first getting Tamil Nadu Urban Infrastructure and Financial Services Ltd. rates reduced to the extent possible. The above criteria may be made applicable for those who are burdened by debt as on 31.3.2002. Beyond 2002, when the award period of Second State Finance Commission commences, the interest subsidy may be made available to those who satisfy the criteria laid down by this Commission for improving the finances as spelt out in the chapter on Better Fiscal Management.

## 19. Panchayat Raj Institutions:

19.1. Consequent on the creation of Rural Infrastructure Development Fund- V, NABARD had sanctioned loans under RIDF fund towards improvement of roads and drainages in Panchayat Unions to Government of Tamil Nadu to the tune of Rs.110.49 crore. Based on loan sanctioned by NABARD, Government have sanctioned the following amount for improvement of rural roads and drainage structures during the year 1999-2000 and 2000-2001 as detailed below to the Panchayat Unions as grant and loan in the ratio of 75:25 respectively.

	Grants	Loans
	Rs. in Crores	Rs. in crores
G.O.Ms 148 RD dt: 12-6-2000	25.27	8.42
G.O.Ms. 294 RD dt: 7-11-2000	16.36	5.45
G.O.Ms. 21 RD dt: 25-1-2001	41.24	13.75
	82.87	27.62

According to terms and condition, the repayment period is 7 years and moratorium period of loan towards repayment is allowed for two years. The principal will commence from the third year onwards by end of quarter in which loan is released.

The mode of repayment is 7 years in equal annual instalments. The interest charged is 11.5% and penal rate of interest will be interest on the over due interest at 11.5% and mode of recovery of interest also will commence at the end of the quarter.

As regards loan sanctioned by HUDCO, Government have availed loan of Rs.25.00 crores under Namakku Naame Thittam to meet State share to be given to Local Bodies. As such, there is no debt liability to Panchayats and Panchayat Union.

19.2 Now, the Tamil Nadu Panchayat Act, 1994, under Section 181.C enables the Panchayat Raj Institutions to borrow. This is a recent amendment. Accordingly, the Task Force Committee on Panchayat Raj Institutions has suggested that such of the local bodies, which are having credibility, may be allowed to borrow, but the level of borrowing may be related to their repaying capacity, nature of the project and repayment schedule prescribed. It has also been suggested that such well to do Panchayats could go in for borrowing for projects, which are remunerative, like shopping complex, markets, etc. The Task Force has also suggested that the borrowing should be limited to a short term, viz. for a period of 5 years, since the term of the Panchayat is only 5 years. It has also been indicated that the repaying capacity of local body could be placed at 40% of the accrued revenue receipts, namely, tax and non-tax and assigned revenues. If the period of the loan is to be limited to 5 years, with eligibility on the basis of repaying capacity of 40% of all revenue, the loan may not be substantial to the extent of taking up projects for creation of assets – remunerative enterprises. **The facility for long term borrowing to Panchayats can therefore be extended by examining the individual cases on their merits.** In the case of remunerative projects also, there should be a critical examination of the revenue likely to be generated, commensurate with the annuities payable for the borrowings. The experience on such schemes in urban bodies, which are better placed than the Village Panchayats, has not been encouraging. Probably a few Village Panchayats adjoining Corporations could think of taking loans. The borrowing may also be permitted at the Panchayat Union level for such remunerative purposes since the Panchayat Unions will have better financial viability for better management of assets and for debt servicing.

“அளவறிந்து வாழாதான் வாழ்க்கை உளபோல  
இல்லாகித் தோன்றாக் கெடும்”

(குறள்:479)



## **CHAPTER VIII**

### **ACCOUNTABILITY AND AUDIT**

Para 6 of the Terms of Reference requires our Commission to review the present system for assessing the accountability of the Local Bodies in utilizing the resources raised or received from the State and Central Governments and other agencies. Accordingly, in this chapter, we have attempted to address the concerns raised in Terms of Reference starting with audit.

#### **2. Audit**

##### **2.1.1 Audit in Panchayat Raj Institutions**

Crores of rupees are being pumped into the Panchayat Raj Institutions through various nomenclatures of Central and State sponsored schemes. On an average, annually each Village Panchayat is having funds to the tune of Rs.3/- lakhs and each Panchayat Union is incurring an expenditure of about Rs.3/- crores and after 1996, the third tier, viz. District Panchayat is also incurring an expenditure of Rs.8/- crores of which nearly Rs.7.75 crores are transfer of funds to Panchayats and Panchayat Unions. While this being the case, the auditing and accounting of these Panchayat Raj Institutions continue to be based on manuals and instructions, which were designed decades ago and which do not fully cater to the present day requirements. While the Panchayat Union audit is taken by the Director of Local Fund audit in the case of Village Panchayats, only the scheme audit is taken by Director of Local Fund audit, whereas the Village Panchayat audit is done by the Deputy Block Development Officer. In the case of District Panchayat also, the audit is entirely undertaken by Director of Local Fund audit.

##### **2.1.2 Audit of Urban Local Bodies**

In case of Urban Local Bodies, the Director of Local Fund audit has been conducting audit from the year 1921. The audit covers all the accounts. The Director of Local Fund audit has been conducting, by and large, 100% verification of the transactions relating to the Local Bodies. As per the statutory provisions incorporated in the Acts of Local Bodies, Municipal Corporations are expected to compile and submit their accounts for audit before 1<sup>st</sup> July and in respect of other Local Bodies it should be 15<sup>th</sup> May of every year. The Director of Local Fund audit is expected to complete audit within one year from the date of completion of accounts. But in practice, the audit of accounts has been delayed due to delays both in compilation stage and at audit stage.

2.3 As of now the audits of local bodies have been completed upto 1997-98 except certain local bodies for which records are in vigilance department. In respect of 1998-99 the audit has been partially completed. In respect of 1999-2000 the accounts have been compiled and sent to Director of Local Fund audit by almost all the Local Bodies and the audit is now in progress.

#### **3. Improvements needed and suggested:-**

3.1 There has been a general perception among the public that despite sizeable amount being earmarked for Panchayat Raj Institutions, the entire amount does not reach the intended beneficiaries and part of the funds is not utilized properly. The Eleventh Central Finance Commission has given detailed recommendations pertaining to accounts and audit of the Panchayat Raj Institutions.

3.2 The Eleventh Central Finance Commission envisages that the Comptroller & Auditor General of India be involved in auditing all the Panchayat Raj Institutions, numbering 12,619 Village Panchayats, 385 Panchayat Unions and 28 District Panchayats. In respect of Village Panchayats, the Eleventh Central Finance Commission has come down heavily on the system of auditing in Panchayats by the Deputy Block Development Officers, who in turn, submit their reports to the Assistant Director (Audit) and finally to the Director of Rural Development. It has further recommended that the executive authority and the auditing authority should not be synonymous and they should be independent of each other.



3.3 The Director of Local Fund audit in his presentation made before the Second State Finance Commission submitted that there is abnormal delay regarding the submission of annual accounts by the Panchayat Unions and as many as 83 Panchayat Unions are yet to submit their annual accounts for the year 1998-99. The Director of Local Fund audit hoped that the position was likely to improve due to the policy decision taken by the Government to introduce concurrent audit with effect from July 2000, whereby detailed programmes have been chalked out. The State Finance Commission has learnt from the Director of Local Fund audit that the accounts are being submitted to the audit department to take up the audit and on completion of audit for 1998-99, the audit for 1999-2000 will be taken up and completed by May 2001. It is expected that from June 2001 onwards, the audit will become current without any delay.

3.4. The Village Panchayats are given importance among the three tiers of Panchayat Raj Institutions after the enactment of the 73<sup>rd</sup> Constitutional amendment. In the coming years, the importance of Village Panchayats as the basic unit of Panchayat administration is likely to increase and more funds are likely to devolve on the Village Panchayats. In this scenario, the Director of Local Fund audit has argued that the accounts of the Village Panchayats should also be audited by Director of Local Fund audit as in the case of Panchayat Unions and District Panchayats. Since December 1999 in any case, the scheme funds routed through the Village Panchayats are audited by the Director of Local Fund audit and therefore he has pleaded that, the regular accounts of the Village Panchayats should also be audited by the Director of Local Fund audit. For this purpose, suitable redeployment of staff will be done by Director of Local Fund audit consequent to the introduction of concurrent system of audit in Panchayat Unions and introduction of computerization in Panchayat Unions, which is likely to render some staff as surplus. There is merit in the argument of Director of Local Fund audit that a separate independent auditing agency should audit the entire accounts of the Village Panchayats and this important function should not be left to the executing agency, viz. Deputy Block Development Officers. In order to make this audit by the Director of Local Fund audit meaningful, it is important that the system of accounting in the Village Panchayats should be improved to the standards of the Director of Local Fund Audit. Presently, the systems of audit in Village Panchayats are rudimentary as there is only a part-time Panchayat Assistant, who is not adequately trained in maintaining accounts. But Director of Rural Development, Secretary Rural Development Department, and the concerned working group in the seminar on Panchayat Raj Institutions have opined that present Audit system by Deputy Block Development Officers may continue.

3.5 The Principal Accountant General in his interaction with the Second State Finance Commission initially requested that he may be entrusted with the audit of Corporations, Municipalities and all the tiers of Panchayats. Regarding Town Panchayats, he was of the view that all the 611 Town Panchayats can be audited by the Director of Local Fund Audit with the audit plan being approved by him. Subsequently in his letter (Feb. 2001), he highlighted provisions of section 14 of C&AG Act and requested the commission to suitably recommend audit by him. He also mentioned that the Accountant General has been conducting audit in the major Metropolitan Municipal Corporations in the country under Section 14 of C & AG Act 1971. In his final meeting with this Commission, the Principal Accountant General has urged that C & AG may be permitted to audit all local bodies both Panchayat Raj Institutions and Urban Local Bodies.

3.6. However this Commission taking an over all view with reference to ground realities **recommends that**

- a) **The Director of Local Fund Audit shall be the statutory auditors for Municipal Corporations, Municipalities, Town Panchayats, District Panchayats, and Panchayat Unions.**
- b) **The Village Panchayats audit shall continue to be done by Deputy B.D.O. as at present. However we recommend Test Audit by Director of Local Fund Audit as tabulated in the Annexure VIII - 1.**
- c) **Further we recommend that in place of concurrent audit, Pre-audit may be introduced for work - Bills in Municipalities, Town Panchayats and Panchayat Unions. The staff that are now engaged in concurrent audit may be made use of.**



3.7. a. The Commission is aware that accrual accounting system has been introduced in all Municipalities and Municipal Corporations from 2000-01 after the pilot- scheme for 10 Municipalities and 2 Municipal Corporations has been successfully test-run. In view of this, the Commission recommends that the accrual accounting system may be progressively extended to all Town Panchayats and Panchayat Unions from 2003-04 after due and extensive training to the staff.

b. Further we recommend that, wherever Sec 14 of the Comptroller & Auditor General Act 1971 permits scheme audit exceeding the financial limits, it can continue. However the Government may take up with Comptroller & Auditor General of India and Union Finance Ministry for raising the financial limits as it was fixed about two decades ago.

c. Further we suggest that the Accountant General may go through the audit reports of Director of Local Fund Audit and indicate how they could be professionally improved by way of technical inputs and standards. There can be technical guidance by the Accountant General to Director of Local Fund Audit on a continuing basis.

3.8. There was a general perception that audit objections are not given due importance by the concerned executive authorities and many times, the executive authorities do not even go through the audit reports for ascertaining the nature of audit pointed out by the audit, and accordingly no follow up action is ever taken to rectify the defects pointed out. The statutory provision that the audit reports should be placed before the Council and the replies with the approval of the Councils should be sent to the department within two months from the date of receipt of audit report is being adhered to more in breach than in observance. In the above circumstances, it is considered that the specific time frame has to be incorporated in the relevant Local Bodies Acts so that action can be initiated against the persons responsible for the delay as under Companies Act 1956. **The Commission therefore recommends that the following time frame may be adopted, so as to keep the audit upto date.**

1)	Accounts to be compiled by the Local Bodies for each financial year and produced to audit.	30 <sup>th</sup> April of the immediate succeeding year.
(a)	Village Panchayats and Town Panchayats	-
(b)	Municipalities, Panchayat Unions and District Panchayats	- 15 <sup>th</sup> May
(c)	Corporations	- 31 <sup>st</sup> May
2)	Audited Accounts to be made available by the Local Fund Audit Department to the Local Bodies.	- 15 <sup>th</sup> September
3)	Audited accounts to be placed before The Council concerned and to be adopted by it	- 30 <sup>th</sup> September
4)	Fixing responsibility and initiating Disciplinary action, surcharge proceedings etc.	- 31 <sup>st</sup> December
5)	Completing disciplinary action, effecting recovery etc.	- 31 <sup>st</sup> March

To monitor the above annual calendar of events the following two committees may be set up.

a. Committee of Panchayat Raj Institutions

- i. Finance Secretary
- ii. Secretary to Government, Rural Development Department

b. Committee for Urban Local Bodies

- i. Finance Secretary
- ii. MA & WS Secretary

These committees may meet every quarter and monitor the schedule.



3.9. The Director of Local Fund Audit also brought to the notice of the Commission the abnormal delay in issuing notices to the concerned delinquent authorities to get their replies, issue of RILS proceedings against them. A list containing the number of serious irregularities and RILS issued are available in the Annexure - VIII- 2. Incidentally, these also lead to delay in disbursement of Death-cum-Retirement Gratuity to the retiring employees. Government has however liberalized the release of Death-cum-Retirement Gratuity recently and issued instructions for full release of Death-cum-Retirement Gratuity by getting clearance from the High Power Committee at the district level headed by the Collectors. Hence, this problem may not arise in future. But, such a body does not exist for Urban Local Bodies. **Hence State Finance Commission recommends a similar High power Committee at the district level may be formed:**

- i. **For Municipalities headed by Regional Director of Municipal Administration consisting of Commissioner of respective Municipality and ADLFA.**
- ii. **For Town Panchayats headed by AD Town Panchayats consisting of ADLFA and concerned Executive Officer of Town Panchayat.**
- iii. **A separate high power committee of similar nature will be formed for each Corporation headed by the Commissioner concerned.**

#### 4. Management Audit

4.1. The State Planning Commission had evolved a scheme for audit of the works taken by the local bodies in 1998. As it has been designed from the management angle, it was christened as Management audit. Under this scheme, all works taken up in different schemes will be subjected to scrutiny at random. It covers the schemes under basic amenities, remunerative enterprises and other development works. The Management audit team as suggested by State Planning Commission shall consist of Additional Directors from office of the Director of Rural Development / office of the Commissioner of Municipal Administration / office of the Director of Town Panchayats and an Officer from State Planning Commission. The report of this team may be placed before Development Commissioner for review. The salient features of the scheme are given in the Annexure. (VIII- 3)

4.2. The Commission feels that such approach is essential in the context of numerous scheme works taken up by the local bodies. **It therefore recommends for implementation of management audit, so as to instill a sense of responsibility among the executing agencies.**

#### 5. Statutory status for Director of Local fund Audit

In as much as Local Bodies have been given a Constitutional status and they have been assured devolution by constituting a SFC once in five years, it is imperative that due status is accorded to Director of Local Fund Audit to make audit independent. Our State Finance Commission has learnt that Director of Local Fund Audit's in Kerala and Andhra Pradesh have been given a statutory status by enacting separate acts. **Accordingly, the State Finance Commission recommends that these be studied and similar enactment made in Tamil Nadu. Simultaneously, it is imperative to improve the expertise of auditors qualitatively for which more professional approach is needed. Hence we recommend that 25% of the posts of ADs may be earmarked for direct recruitment so as to induct professional auditors such as Chartered Accountants and cost and works Accountants as is being done in Treasuries and Accounts Department. Besides, we recommend that subordinate service personnel be trained in SAS Test so that they could give adequate support auditing officers as is being done in Accountant General's Office.**

#### 6. Budget framing

6.1. Budgets are to be prepared by October and got approved by the Panchayat / Panchayat Union Council after scrutiny by the Inspector of Panchayats. Budgets can be revised during the course of the year depending upon necessities with the approval of the Council. Any excess or shortfall against the budget allocation will have to be explained and got ratified by the Council with Inspector's approval.



6.2 The receipts have to be estimated based on the current and arrear demand of taxes, and other non-tax items and assigned revenue, realized in the past. As far as the grants are concerned, they cannot be predicted correctly, as the sanction of grants depends upon the allocation of funds by the Government and the procedure to be indicated by the Government from time to time. However, in respect of incentives like house tax matching grant, it can be estimated with reference to the anticipated collection of tax and the rate of incentive proposed by the Government based on the performance of collection.

6.3. In practice, the budget is not prepared based on any scientific principles. In respect of Local Cess and Local Cess Surcharge, the guesstimates are adhoc although the Block Development officers are expected to ascertain the land revenue demand for the Block and prepare estimates. Now, after the introduction of global sharing, there will no doubt be difficulty in estimation in the first year of the award period of devolution. For the subsequent years, there may not be any difficulty in estimating the figure, since the formula is applicable for the entire award period.

6. 4. In respect of central / state sponsored schemes no proper planning and estimate is being done in as the allotment varies from year to year and when they are received from the Government, they are taken to the receipts side and the expenditure incurred according to the plan prepared based on guidelines.

6. 5. The budget of the local bodies consists of three major items, viz. i) own resources and the normal maintenance expenditure, ii) tied grants and expenditure related to them and iii) scheme funds which are not within their prediction and expenditure related to them.

6. 6. A well-defined schematic budget for a period of two years must be attempted every year, to ensure a regular planning at the field level for both maintenance and improvement of existing assets and creation of next assets. Unless some predictions on allocations are available both in terms of finance and in terms of physical targets, there will be adhocism at the field level. **The State Finance Commission recommends for creation of such schematic budget for a period of two years to start with.**

6.7. The budget is not being treated with seriousness by the local bodies. It is therefore necessary to educate the Local Bodies in preparing the budget and also need for adhering to the provisions and for following the rules for any excess or shortfall over the allotment with the concurrence of the council as is being done by the Government Departments from the State Legislature. The Inspecting officers also should have a control on the budgetary allocation and expenditure incurred by the local bodies. The inspecting officers should ensure that the revenue receipts due from the Government and other departments are actually released to the local bodies at the appropriate time and regular intervals, since the non-adjustment is likely to create ways and means difficulty in the day to day expenditure of the local bodies.

6.8. The Director of Rural Development should know the financial status of the Panchayat Raj Institutions. For this there must be an annual budgetary review by DRD, which will serve as a tool for disciplining the errant local bodies.

6.9. In the case of Urban Local Bodies detailed guidelines regarding preparation and presentation of the budget have been enumerated in Section 70 and Section 71 of the Tamil Nadu Urban Local Bodies Act 1998. **The Second State Finance Commission reiterates the provisions in this Urban Local Bodies Act 1998.** The World Development Report 1999-2000, published by the World Bank as also the State Finance Commission's interaction with Commissioner of Municipal Administration, who had an occasion to observe things first hand in Brazil reveals that in as many as 50 cities over there, public spending is determined by participatory budgeting which is essentially an outcome of three way meeting of city hall officials, the council of representatives and the chamber of councils. The State Finance Commission recommends that based on the experience of Brazil each local body can bring out printed budget, copies of which can be distributed free of cost to relevant public body, viz. Grama Sabha / Urbansabha / Ward Committee and after detailed debate, suitable modifications in the budget may be made. In addition copies of printed budgets may be displayed in the notice boards of Village Panchayat / Panchayat Union / Town Panchayat / Municipality / Municipal Corporations. Further all the local bodies,



except Village Panchayats can take advantage of the Internet and host website in the Net giving salient features of their area including their budget. In the case of Village Panchayats, relevant data such as works chosen in the year concerned, budget etc., can be made available through the information kiosk at Panchayat Union.

## **7. Accountability of local bodies**

**7.1** In Parliamentary democracy, the permanent executive is accountable to the elected executive and the elected executive is in turn accountable to the Legislature. At the local body level, Chairman or President as the case may be is responsible to the respective council and the council in turn is accountable to the public at large. In Indian context, all decisions are taken by elected representatives in the council and outside. Any discussion on the theme of accountability of local bodies will therefore be complete only if the role of elected representatives is dealt with. Unlike in the past when there were long spells without elected representatives of local bodies, hereafter, there would be more than a lakh of them. Various provisions in the Tamil Nadu Panchayat Act 1994 ensure the accountability of the elected representatives in Panchayat Raj Institutions. Courts can take cognizance of offence committed by President of Village Panchayats, Chairman of Panchayat Union Councils and the Chairman of District Panchayats vide Section 230 of Tamil Nadu Panchayat Act. In addition, Section 205, 207 and 209 of Tamil Nadu Panchayat Act empower the Government to remove the President of Village Panchayat, Chairman of Panchayat Union Council and Chairman of District Panchayats, respectively. If they willfully omit or refuse to carry out or disobey the provisions of this Act or abuse any power vested in them. In addition, if the President of the Village Panchayat sustains any loss to Panchayat funds or Government funds he is liable for making up the loss under Surcharge & Disallowance Rules. If the President of the Village Panchayat fails to prefer an appeal either to the Court or Director of Rural Development within 30 days of getting the Surcharge notice, then the Assistant Director (Audit) is empowered to execute the petition against the recovery of amount. The Panchayat President is also accountable to the Grama Sabha. The Section 205 of Tamil Nadu Panchayat Act also enables the Inspector of Panchayats to remove the delinquent Village Panchayat President. However, a view has been presented before the Second State Finance Commission that the Collectors must be empowered to remove the President after getting the explanation of the president without going in for a no confidence motion by the Panchayat Council. Several Collectors who interacted with the Second State Finance Commission on the enforcement of Section 205 of the Tamil Nadu Panchayat Act, 1994, have represented that the detailed guidelines issued by the government vide G.O.Ms.No.32, Rural Development Department, dt.11.2.2000 has made the process of removing the delinquent Presidents quite cumbersome and time consuming and pleaded for simplification of the guidelines, so that the delinquent Village Panchayat Presidents can be booked without any delay.

**7.2** In addition, the State Finance Commission reiterates the recommendations of the First State Finance Commission for the creation of a separate Ombudsman for local bodies as in the case of neighbouring State of Kerala. However, a time limit of six months must be prescribed for the Ombudsman to dispose of complaints against functionaries of local bodies, one way or the other. In order to strengthen the accountability of the elected representatives to the public, the Second State Finance Commission makes the following recommendations: -

- i. **Filing of property return as mandatory for elected representatives as contemplated in G.O. Ms.No.858 RD & LA Dept. dated 25.4.73 at the time of assuming office and also annually during the year term of office for which Tamil Nadu Panchayat Act 1994 and Tamil Nadu Urban Local Bodies Act 1998 may be amended suitably (vide Annexure VIII - 4)**
- ii. **The Local Body representatives have to be declared as public servants so as to invoke the provision of Prevention of Corruption Act, 1988 and Benami Act.**
- iii. **Ombudsman type of institution may be set up for Local Body representatives with six months time frame to complete the enquiry and give findings.**
- iv. **Debarring the functionary concerned from election in the event of conviction by court as in the case of 8-A of Representation of People's Act.**
- v. **Issuance of detailed guidelines to prevent Benami Transaction by Local Body representatives.**
- vi. **Issue of surcharge proceedings/Filing of criminal prosecution against the erring elected representatives as pointed in para 9.16. of Better Fiscal Management.**



7.3. Further, in cases where there is proven financial mal-administration and malfeasance it is necessary to have such elected representatives debarred. Hence, this Commission suggests that election laws relating to local bodies should be amended to the effect that the incumbents of dissolved council are debarred from standing for election for a period of six years.

7.4. As a supplement to the above, we are dealing with role of elected councils and the need for evolving code of conduct in the chapter on Issues germane to Terms of Reference.

#### **8. Engaging of private agency for system audit**

8.1. The Eleventh Central Finance Commission has indicated an amount of Rs.4,000 to be paid as remuneration for engaging Para-accounting professionals for maintaining the accounts of the local bodies, viz. Village Panchayats. This paltry amount is not likely to attract suitable qualified professionals to undertake this task. On an average, each Panchayat Union has around 25 Panchayats, if these Panchayats are pooled at the Panchayat Union level, then an attractive remuneration can be given for qualified professionals who may also be entrusted with the responsibility of computerising the accounts, which are likely to be installed in all Panchayat Unions during the award period of this Commission. **Therefore, the Second State Finance Commission recommends that for each Panchayat Union on above pooled basis, a qualified para-accounting professional from the panel approved and maintained by the Director of Local Fund Audit can be appointed by the concerned District Collector, as Inspector of Panchayats. While computerizing the accounts of the Village Panchayats, the present registers maintained may be reviewed and reduced to the extent possible.**

8.2 In the case of Urban Local Bodies in as much as Corporations and Municipalities have already computerised their accounts, **the Second State Finance Commission recommends that the amount earmarked by Eleventh Central Finance Commission for data base may be set apart for Town Panchayats for computerizing these accounts.**

8.3 Recently Government announced that all Panchayat Unions would be computerized in a phased manner. Accordingly, Panchayat Unions will be the focal centres for computerizing their own operations as well as those of Village Panchayats. Transfer of data may be done by way of floppies to districts. Districts will create database on floppies and transfer data through NICNET to Government / Commissioner of Rural Development. Now, computerization has been completed in 78 Panchayat Unions and will be completed in 63 Panchayat Unions before March 2002. **This Commission recommends that the amount sanctioned by ECFC for PRIs may be earmarked for the balance 244 Panchayat Unions.**

#### **9. Committee for local bodies**

In as much as the funds of the State and Central Governments are routed through the local bodies, it is imperative that major and recurring irregularities, as pointed out by the audit be brought before a separate Committee for local bodies, which can be formed by the Legislature. **The audit report incorporating these major irregularities noticed in the local bodies may be compiled and presented before the Committee for local bodies, for which the Director of Local Fund Audit can function as a Secretary or Convenor as Accountant General is to Public Account Committee / Public Undertakings Committee.**

#### **10. Citizens charter in the light of enactment of right to information act**

10.1. In recent years, all departments and undertakings of the Centre / States having interface with the public have brought out Citizen's Charters on the lines of Citizen's Charters brought out in United Kingdom in the 1980's and 1990's. Accordingly, Rural Development and Municipal Administration & Water Supply Departments of the State Government have brought out Citizen's Charters and based on these, Metrowater and Chennai Corporation have brought out their Charters. In addition, Collectors have brought out a compendium of services rendered by various Departments at the District level styled as Citizen's Charter. However, citizen's awareness about these charters is very low.



10.2. Although, the Government have issued orders highlighting the importance of issuing Citizen's Charter and the copies of citizen charter are made available to the public by sale, the objective of designing citizen charter has not been communicated to the public in a proper way. The Citizen's Charter replicates only the policy notes of the Departments and does not specify the time frame within which services will have to be delivered to the public and what are the remedies available to the public, if this timeframe is not adhered to. Similarly, the quality or level of services is also not specifically mentioned to enable the public to demand better services. In Chennai, Chennai Municipal Corporation, Chennai Metropolitan Development Authority, and Chennai Metropolitan Water Supply & Sewerage Board have brought out Citizen's Charter to enlighten the public. These are also made available in web site.

10.3. Recently the Catalyst Trust, Chennai and Public Awareness Centre, Bangalore based on survey relating to three essential services prepared a report on "Citizen Audit and Public Services of Tamil Nadu". This report concludes that public awareness about Citizen's Charters is poor. Hence, there is need to improve the awareness to the maximum level since the Citizen's Charter is a window by which the people know about the Government programmes. Secondly, an individual citizen is directly affected by local government administration policy. It is at this level of the service like road maintenance, street lighting, water supply, transport and communication affects every one. If the work of local bodies is transparent to every one as to what are the items of works being executed, the choice of works, the choice of beneficiaries, and the quality of the services rendered could all improve.

10.4. As a parallel exercise, the Tamil Nadu Government has been a pioneer in enacting the Right to Information Act. This Act enables any bonafide person to have access to any information within thirty working days from the date of receipt of his application. Only if the information sought for is found to be prejudicial to the public interest, the competent authority could refuse to furnish information by recording the reasons in writing. Even then, the applicant, who is aggrieved, has an appeal provision with the higher authorities. In addition, the Finance Commission has recently learnt that Computer generated Information Kiosk has been opened by Chennai Corporation where the public can get lot of useful information including forms which can be electronically downloaded.

10.5. The Director of Rural Development has also stated, in his interaction with the Commission, that one Computer Information Kiosk can be opened in every Panchayat Union to give information on schemes, data, tender details etc. to the public. Based on the above development, **the Second State Finance Commission recommends opening of Computerised Information Kiosk in all the Corporations, Municipalities and Panchayat Unions, in the first instance. Once the computerization is introduced in Town Panchayats, vide para 8.2 above, such kiosks can be opened there also.**

## **11. Community participation**

11.1. For the upliftment of the rural poor, the Government of India and State Government have taken various steps in the form of Five Year Plans besides special schemes aimed at poverty alleviation and ensuring basic minimum needs like health, education, sanitation, housing. But the benefits of these plans have not percolated down to the last strata of the society to the extent it was expected.

11.2. There are several reasons for this situation. The assessment for infrastructure facilities like water supply, drainage, housing, land use allocation is carried out by the State level organizations and not by the local body concerned. The estimated needs are also based on general standards rather than on the actual demand and affordability of the people or the local body. Hence, many of the projects do not materialize.

11.3. Secondly, provision of infrastructure has invariably depended on State grants or allocations rather than on local government finances. The priorities for infrastructure provisions are decided at State level depending on availability of funds and adequate funds are not always available.

11.4. Further the lack of opportunities for people's participation, the gaps in the institutional set up and the implementation strategies are some of the factors for the slow growth and development. The Government machinery has also realized the need for simple decentralized systems of functioning that



can help people to identify local needs and potentials and ensure their fullest participation for creating sustainable livelihoods for the rural poor.

11.5. Accordingly, Namakku Naame Thittam is such a scheme being implemented from 1997-98 to promote community involvement and participatory approach in developmental process. Community needs are articulated by the public, these needs are prioritized and converted as implementable projects where the public themselves actively contribute in cash, kind or through labour to supplement Government funds and execute the works. Apart from expediting the execution and improving the quality of work, it also promotes the concept of community maintenance of public assets. This scheme has been extended to urban areas with effect from 1999-2000.

11.6. The Central Rural Sanitation Programme, which was a centrally sponsored scheme, implemented to improve the sanitary conditions in the rural areas has been restructured by Government of India during 1999-2000 with two components of Total Sanitation Campaign and allocation based programmed. Likewise, DANIDA assisted Water Supply and Sanitation Demand Project (WASDEP) is being implemented in two Districts in Tamil Nadu to provide sustainable water supply and improved sanitary conditions in the project areas through participatory and demand driven approach. The Commission has had occasion to study the evaluation report prepared by the Director of Evaluation and Applied Research on employment assurance scheme. It is heartening to note from this report that this scheme is well implemented and durable community assets have been created. However, the study reports highlights that there is a lack of prioritization of projects and some times projects are getting repeated. **The Commission recommends that a detailed shelf of projects needs to be prepared dovetailing with the Tenth five-year plan and this can be got approved by the Grama Sabha. This is explained in the section on Grama Sabha.**

## **12. Involvement of non-governmental-organisations**

12.1. Some corporate bodies and Non-Governmental-Organisations are involved in community development works with peoples' participation by collecting public contribution. Such Corporate bodies may be identified and their services may be utilized for community development activities by encouraging them with provision of funds under Namakku Naame Thittam. The funds provided for constituency development at the discretion of the MLAs & MPs may also be utilized.

## **12.2. Self-help groups**

Self-employment programmes to reorient rural uplift were launched through IRDP which took over the years many forms by way of TRYSEM (Training of Rural Youth for Self employment) DWCRA (Development of Women and Children in Rural Areas) SITRA (Supply Improved Tool Kids of Rural Artisans) and now SGSY i.e. Swarna Jayanthi Grama Shakam Yojana which is a modified version of the earlier schemes to improve the lot of the poor. This programme covers all aspects, viz. self-employment, forming self-help groups, training, technology and marketing. It is a centrally sponsored scheme with 25% from State funds. There are more than 28,000 Self-help groups with membership of 4.5 lakhs women. The expansion of Self-help groups network could be seen visibly during district sittings and their energies effectively and constructively channeled and used in various forums like Grama Sabhas.

## **13. Utilisation of funds by urban local bodies**

In Urban Local Bodies, the capital grants are released by State & Central Governments for specific purposes. While the State Government capital grants are primarily meant for improving basic amenities, the Central Government grants are for the slum improvement and urban poor schemes. For all those schemes, the local bodies have to contribute their share, so as to avail the entire grants. In fact, guidelines require local bodies to take up schemes over and above the grant portion.

## **14. Grants from TUFIDCO & TNUDF**

Tamil Nadu Urban Finance and Infrastructure Development Corporation provides partial grants for taking up IDSMT, Mega city schemes and Tamil Nadu Urban Development Fund provides partial grants for water supply, sewerage and road projects. The major component of the projects covers by way of loans. All these funds have been fully utilized and the schemes / projects are by and large put into operation.



## 15. Strengthening of grama sabha

15.1. The Uthiramerur inscription of the Chola period and Shukracharya's "Neethi Saaram" indicate that grass root institutions like Village Panchayats and public gatherings were quite vibrant in ancient India. Article 243 of the Constitution of India defines the Grama Sabha as a body consisting of persons registered under electoral rolls relating to a Village comprised within the area of Panchayat at the village level. It is interesting that Grama Sabha as institution is mentioned first in Article 243, followed by constitution of Panchayats. Recognising the importance of Grama Sabha as an effective institution for performing social audit, the Government of Tamil Nadu has ordered that Grama Sabha be convened four times in a year by the Village Panchayat Presidents, failing which, the Collector, as Inspector of Panchayats will cause them to be convened. The State Finance Commission entrusted two studies on Grama Sabha to Director of Evaluation and Applied Research and Gandhigram Rural Institute. The summary of their recommendations regarding Grama Sabha is found in the Appendix - 9.

15.2. From these two reports, the State Finance Commission is optimistic about the future of Grama Sabha. In order to enthuse more number of people to effectively participate in the Grama Sabha, the resolutions passed by the Grama Sabha will have to be implemented by the respective line departments before the convening of the next Grama Sabha. In particular, all works taken up under any of the schemes implemented by the Panchayat Union, District Panchayat, District Rural Development Agency, MP's local area development scheme, MLA's local area development scheme, etc. will have to be necessarily got approved by the Grama Sabha. This one step will enable the people to participate in development of their village and also ensure that only those works, which are really needed by the people, are taken for implementation. In order to show substantial progress in the implementation of works and also to keep up the enthusiasm of the Grama Sabha, it will be sufficient if the Grama Sabha is convened twice a year rather than the present system of convening it in four times in a year. While convening twice a year needs to be mandatory, there is no bar to the Grama Sabhas being convened third time in case of emergencies like natural calamities. The present allocation of Rs.500 for the conduct of Grama Sabha may be increased to Rs.1000/- in order to have a wider coverage.

15.3. Given the scarce resources of our State, the State Finance Commission is very much concerned that these resources fully reach the public. Today there seems to be no systematic and planned allocation of resources to the needy areas. In fact, all the elected representatives including MLAs & MPs, who have deposited before the Commission, have unanimously said that there is no organic linkage between the three tiers of Panchayat Raj Institutions. This results in a situation where the works are duplicated resulting in inefficient allocation of resources. This subject is dealt with in detail in Chapter Issues germane to the terms of reference also. Despite the flow of hundreds of crores of rupees for development in the last 50 years, there is a feeling of neglect among several sections of the public. The State Finance Commission feels, this feeling of neglect can be eradicated, if only the scarce funds, which have been devolved to the local bodies, are used for fulfilling the felt needs of the public by evolving plans and prioritizing them. In other words, instead of top-down approach, the State has to adopt bottom-up approach. For this, it is important that Grama Sabhas in rural and ward committees in urban areas are activated and funds used by all the line departments of the State Government go into the annual plan of the particular Village Panchayat, which in turn, can be dovetailed in the five year perspective plan and have the approval of the Grama Sabhas / Ward committees. These plans can be integrated by the District Planning Committee and finally all the district plans can be integrated by the State Planning Commission. This will to a great extent eliminate the lopsided development of certain sectors and ensure a feeling of participation in the minds of the public to contribute to the overall development of the State.

15.4. The Second State Finance Commission learnt during its visit to Kerala that therein, Village Panchayats having an average population of 40,000 to 50,000 are divided into 15 to 25 wards and Grama Sabha is conducted at the Ward level spreading over one month. It is interesting to learn that based on certain objective criteria and detailed guidelines given by the State Government, the Grama Sabha awards marks (based on widow headed family, people living in huts and below poverty line, etc.) based on which individual beneficiaries are selected. Similarly in the State of Madhya Pradesh also Grama Swaraj has been launched from January 26, 2000. Grama Sabhas over there have been given sweeping powers, including control over government employees such as power to withhold salary, sanction leave, inspect and supervise the work of a Government employee whose area of jurisdiction lies within the limits of Grama Sabha area and power to recommend to the competent authority imposition of penalties in



respect of Government employee for misconduct and negligence of duties. All such measures have ensured that Grama Sabha as a constitutional body becomes strong and vibrant in these States. **The Second State Finance Commission accordingly makes the following recommendations to strengthen the Grama Sabha: -**

- i. **Grama Sabhas may be conducted by rotation twice a year covering all the habitations in Village Panchayats.**
- ii. **Grama Sabhas may approve all the works taken up by Panchayat Unions, District Panchayats, District Rural Development Agency, and works taken up under MLA LADP funds.**
- iii. **It must be made mandatory for the field functionaries of line departments to be in attendance while Grama Sabhas are in session.**
- iv. **Printed copies of budget may be given in Grama Sabhas to all participants.**
- v. **Consistent with the above, other recommendations and suggestions made in the reports of Director of Evaluation and Applied Research and Gandhigram Rural Institute may also be implemented.**

**16. Urban sabha**

Article 243(S) provides for constitution of Zonal Committee consisting of one or more wards within the territorial area of Municipality having a population of 3 lakhs or more. In the same section under (5), nothing in this article shall be deemed to prevent the legislation of a State from making any provision for the constitution of committees in addition to the Zonal committee. Provision similar to Grama Sabha has not been made in the Tamil Nadu Urban Local Bodies Act 1998 (now kept under abeyance). Most of the Non-Governmental-Organisations / Experts who have responded to our questionnaire have favoured the setting up of an Urban Sabha akin to Grama Sabha in Panchayat Raj Institutions. Even if these Urban Sabhas cannot be formed in Corporations and Municipalities immediately, they can be attempted in Town Panchayats, which are semi rural in nature. In the light of the experiences gained in the conduct of Grama Sabha in the last four years, **the Second State Finance Commission strongly recommends a similar Urban Sabha may be constituted in Town Panchayats.** The representatives of various Residential Welfare Associations can be included in the Urban Sabha.

The State Finance Commission recommends that simultaneously Zonal Committees may be set up for all Municipalities having a population of less than three lakhs also. There is need to involve associations of residential colonies, reputed Non-Governmental-Organisations formally in zonal committees at least twice a year viz. once before budget is approved by the council (say in February) and another time after audited accounts and audited reports are made available (say in October). The views and suggestions made on these two occasions need to be placed before and examined by the respective councils in prioritizing works, maintenance or re-laying of roads and other assets based on well-evolved norms like population, chronology, cyclical principle, importance of area due to other factors, if any, etc.

The State Finance Commission learns that a decision has been taken to establish City Managers Association of Tamil Nadu (CMATN) consisting of elected representatives and official of Urban Local Bodies and Non-Governmental-Organisations similar to a body in Gujarat. State Finance Commission recommends that constitution of City Managers Association of Tamil Nadu may be expedited.

**17. Plan – Budget Linkage**

The Annual Plan for local bodies needs to reflect the Five Year Plan, vide para 11.6 above. This will to a certain extent reduce adhocism in choosing works. By breaking down from the Five Year Plan, the annual plan may be accommodated in the budget of the concerned year according to the needs subject to the overall budgetary provisions. This plan-budget linkage needs to be consciously worked out.

**18. To sum up: -**

Participatory budgeting, timely and independent audit, management audit and social audit as explained in this chapter will ensure accountability of the local bodies to the citizens and taxpayers.

**“Teachers of elementary economics of money and banking begin with definition of genuine subtlety. These are then carefully transcribed, painfully memorized and mercifully forgotten”**

**(John Kenneth Galbraith)**



## CHAPTER – IX

### BASIS OF CLASSIFICATION

Para 7 of our Terms of Reference requires the Second State Finance Commission to suggest changes if any on the basis of classification of Local Bodies as rural and urban. This has cast a responsibility on Second State Finance Commission to identify the relevant issues in the light of Constitutional amendments and the recommendation of First State Finance Commission on this.

1.2. It is significant that the Eleventh Central Finance Commission in its report has declared "Panchayats and Municipalities should have adequate administrative infrastructure and should be able to raise financial resources on their own which, together with the devolution from State Government should enable them to **perform their basic civic, regulatory and developmental functions with efficiency and economy**. There are wide variations in the area and population served by different tiers of Panchayats in the States. In some States, the population served by a village level Panchayat is only in hundreds whereas in some others it is in thousands. It appears that in many cases, Panchayats at some tiers have not been conceived as viable units. **Administrative re-organization is necessary to ensure their development as viable institutions of Self-Government.**"

1.3. In other words, the classification of a local body should reflect its resource potential and ability to provide a certain level of civic services. There should be no mismatch between the intrinsic strength of a local body and its classification. Accordingly in this chapter we are discussing the reclassification of Village Panchayats, Panchayat Unions, Town Panchayats and Municipalities and redrawing the boundaries of Madurai Corporation in order to make them viable institutions.

1.4. To a limited extent regrouping proposals were initiated by Government in the recent years by constituting District level committees headed by District Collectors to go into the issue of amalgamating certain Village Panchayats / Town Panchayats adjoining Corporations / Special Grade and Selection Grade Municipalities. So far four Collectors have submitted their reports. The Commission was however informed that no decision was taken on them due to census 2001.

1.5. Even though Sl.No.7 of T.O.R. issued to this Commission expects us to suggest only the basis for reclassification, this Commission embarked on the exercise to identify the local bodies by adopting various criteria to enable the Government to take decisions expeditiously. Since for the first time such reference is made, it is of paramount importance for the Commission to look into the gamut of the issue and suggest reclassification.

#### 2. Reconstitution / Regrouping Of Village Panchayats

2.1. Village Panchayats have been constituted as per Section 3 of Tamil Nadu Panchayats Act 1958 with a minimum population of 500, a figure, which has not been revised since 1958. The former Chief Secretary to Government of Tamil Nadu, Thiru.R.A.Gopalaswamy, I.C.S., in his introductory note on the background of the Tamil Nadu Panchayats Act, 1958, had indicated that though there is a flexible provision that a Village Panchayat may have a population of 500 as a matter of administrative policy, no Village Panchayat is to be delimited with a population less than 1000 unless it is shown to the satisfaction of the Government that such a delimitation is unavoidable. Subsequently, K.Santhanam Committee in the year 1963 itself had concluded that ordinarily a population of 1500 to 2000 is desirable for the satisfactory functioning of Village Panchayats.

2.2. The following table discloses that expenditure is higher than the receipts derived in Village Panchayats. The receipt and expenditure for 1999-2000 are Rs.190.07 Crores and Rs.278.17 Crores respectively. Moreover, average population of Village Panchayats is 2583 as per 1991 census.



**Table IX-1 (Rs. in Crores)**

	1999-2000
Own Tax	54.12
Non-Tax	62.42
Assigned Revenue	73.53
Total	190.07

**Table IX-2**

	1999-2000
Water Supply	88.22
Roads & Streets	48.12
Lighting including EC	69.12
Sanitation & Public Health	5.73
General Administration (Staff allowances & contingencies)	66.98
Total	278.17

The above highlights the need to reduce the number of non-viable panchayats.

2.3. First State Finance Commission worked out the projected rural population for 2002 as 378.28 lakhs and reckoned the population per Village Panchayats as 2997, or say 3000. Accordingly, First SFC recommended a minimum population of 2500 to constitute a Village Panchayat. No specific order was passed on this norm. Subsequently, a Committee headed by Director of Rural Development had recommended adoption of minimum population of 2000 to constitute a Village Panchayat, which was also not accepted by Government. (Annexure IX.1.)

2.4. Based on a detailed analysis, First State Finance Commission concluded that financially weaker Panchayats exist in all categories and that minimum population norms for a Village Panchayats need to be arrived at to contain dependency on Government within 75% or in other words to ensure at least 25% self-sufficiency. To ensure the norm, First State Finance Commission recommended merger of Village Panchayats with low population and low financial viability, with suitable financial incentives.

2.5. In this context, a comparative analysis of population in Village Panchayats in a few select States is furnished below.

**Table IX-3**

Sl.No.	Name of the State	Population of Village Panchayats	No. of Village Panchayats
1.	Assam	8,000	2489
2.	Bihar	6,400	12181
3.	Karnataka	5,500	5640
4.	Kerala	21,600	991
5.	Orissa	5,200	5255
6.	Rajasthan	3,700	9184
7.	West Bengal	14,800	3329

2.6. While Kerala is an extreme example of a State where there is a rural-urban continuum, Karnataka appears to be a comparable example of a State with similar population and area as Tamil Nadu, which can be emulated. Unless the Village Panchayats are financially viable and their dependency on the State Government is gradually reduced, any amount of devolution will not help in improving the quality of services to people.

2.7. Among other things, our Commission requested Department of Evaluation and Applied Research to study reclassification of Village Panchayats. Accordingly, Department of Evaluation and Applied Research had studied 1000 Village Panchayats spread throughout the State. The study reveals that the population of Village Panchayats varies from 500 to 25000 and 10.4% of Village Panchayats have a population less than 1000 and 38.2% are within a population range of 1001 to 2000. Most of the small Village Panchayats do not have adequate houses and property stock or other resources to provide and maintain basic civic amenities.

Table IX.4 Village Panchayats by population (as per 1991 Census)

Size of population	No. of Village Panchayats	Percentage
Upto 1000	1317	10.4
1001 - 3000	7629	60.5
3001 - 5000	2473	19.6
5001 - 7000	821	6.5
7001 - 10000	292	2.3
More than 10000	87	0.7
Total	12619	100.0

Source: Democratic Decentralization – Panchayat Raj System in Tamil Nadu

2.8. Again, the following table reveals that 31.5% of Village Panchayats under different size classifications generate resources that could not meet even 30% of their maintenance expenditure. About 27% of the Village Panchayat could meet only 30 to 50% of the maintenance expenditure out of their own resources. Only 21% of the Village Panchayat are really in a sound position to generate own account resources over 70% and are in a position to meet substantially the maintenance expenditure.

Table IX.5 Financial Viability of Village Panchayats

Own resources as a %age of maintenance	<1000	1000-2500	2501-3000	3001-3500	3501-5000	5001-7000	7001-10000	10001	Total
<10	2	24	6	4	7	3	3	1	50
10 - 20	9	48	16	11	12	8	5	1	110
20 - 30	7	62	15	10	27	22	6	6	155
30 - 40	18	134	37	25	46	33	14	8	315
40 - 50	2	49	16	19	29	21	10	4	151
50 - 60	3	40	10	13	27	19	7	3	122
60 - 70	6	36	9	17	18	15	15	6	122
70 - 80	1	28	6	6	17	8	5	6	77
80 - 90	2	15	4	1	8	7	5	5	47
90 - 100	Nil	8	5	3	6	7	7	Nil	36
>100	1	11	Nil	5	2	8	1	2	30
Total	34	353	98	94	173	134	73	41	1000

Source: DEAR field visit.

The Department of Evaluation and Applied Research has concluded that, given the total number of Village Panchayats in the State at 12619 and estimated rural population in 2000 A.D. around 4 crores, the average population per Village Panchayat works out to 3170. The study highlights that in order to have optimum planning and effective utilization of resources, the number of smaller Village Panchayats existing in the State has to be reduced sizeably.

2.9. The above analysis explicitly brings out that to meet at 60% of maintenance cost population of Village Panchayats needs to be atleast 3000. To develop this on empirical basis, the Commission commissioned two studies to regroup Village Panchayats in order to make them viable, in two Districts viz. Pudukottai and Thiruvallur. As can be seen from the following table containing an analysis of this study, there are still several Village Panchayats with less than 3,000 population. These Village Panchayats have to be retained due to geographical contiguity and other local factors.



**Table IX.6 Analytical study of suggested reclassification**

Sl. No.		Pudukottai District	Thiruvallur District
1.	Population of District	1123520	1222992
2.	Number of existing Panchayats	498	539
3.	No. of Panchayats having less than population of 3000 out of column 2 above.	400	432
4.	No. of proposed Panchayats by taking population of 3000 and by suitable reorganizations	341	382
5.	No. of Panchayats reduced	157	157
6.	Percentage of decrease	32%	29%
7.	No. of Panchayats available less than population of 3000	144	87
8.	Out of proposed Panchayats after amalgamation average population proposed per Panchayat	3,295	3,201
10.	Total revenue receipts of existing Panchayats	Rs.1079.06 lakhs	Rs.1887.07 lakhs
11.	Expenditure on establishment charges	Rs.231.38 lakhs	Rs.199.97 lakhs
12.	Expenditure on maintenance of street lights and water supply	Rs.671.63 lakhs	Rs.869.16 lakhs
13.	Total Expenditure	Rs.903.01 lakhs	Rs.1069.13 lakhs
14.	Expenditure on establishment charges of proposed Panchayats	Rs.203.48 lakhs	Rs.149.15 lakhs
15.	Savings on establishment charges	Rs.27.90 lakhs	Rs.50.82 lakhs

2.10. The details of the study reports presented by the District Collectors Pudukottai and Thiruvallur have been examined in depth. While the abstract of the proposed amalgamation is available in the Annexure, (IX-2 (a) & (b) the 'nitty gritty' is made available in Appendix 6. From their reports and as the above table reveals the number of Village Panchayats in Tiruvallur will be reduced from 539 to 338 resulting in a savings of establishment charges of Rs.50.82 lakhs. In the case of Pudukottai the number of Village Panchayats will be reduced from 498 to 341 resulting in a savings of establishment charge of Rs.27.90 lakhs.

2.11. Accordingly, based on optimum size evolved in Department of Evaluation and Applied Research field study of 1000 Village Panchayats and its intensive application thereof to two districts, **the State Finance Commission recommends that;**

i) Government may accept in principle to reconstitute Village Panchayats based on a minimum population of 3000 as per 1991 census. (As per 2001 census, this could be 3200).

ii) After passing suitable orders on (i) above, Government may simultaneously direct each Collector to undertake the detailed exercise keeping in mind, geographical contiguity, social pattern of settlements and other relevant local factors, similar to the exercises done by Pudukottai and Thiruvallur Collectors. While the model studies in these two districts indicate scope for reducing the number of Panchayats by about 30%, the State level average could aim at 25% reduction. Eventually the State could have about 10,000 Village Panchayats, including those downgraded from Town Panchayats.

### 3. Regrouping Of Panchayat Unions

3.1. The staffing pattern of Panchayat Unions remains the same irrespective of the area and population of Panchayat Union, whether it contains less or more number of Village Panchayats within its jurisdiction, which ultimately acts as a strain on Panchayat Union general funds. To tackle this problem, State Finance Commission commissioned a study to redelineate the boundaries of Panchayat Union by fixing average number of Panchayats as 35 per union with size of population around 1,00,000. Accordingly, Collector Coimbatore was requested to conduct an empirical study on financial position of Panchayat Unions taking into account the own source and assigned revenue for meeting O&M cost without assistance of State Finance Commission devolution. Besides, the Collector was requested to study the financial position of Panchayat Unions by rearranging with average of 35 Panchayats and population of 90,000 to 1,00,000 and to send detailed report.



3.2. The Collector, Coimbatore has sent his report. While his detailed report is available in the appendix -7, an abstract is available in annexure-3). The following table based on Collector Coimbatore's report indicates that there will be total savings of Rs.145.06 lakhs, by reducing the number of Panchayat Unions from 19 to 15.

**Table IX.7 Reclassification of Panchayat Unions**

Existing	Proposed	No. of Panchayat Unions amalgamated by way of regrouping of Panchayats	Savings under Establishment charges by way of amalgamation	Savings under maintenance charges	Total savings
19	15	4	Rs.141.45 lakhs	Rs.3.63 lakhs	Rs.145.08 lakhs

3.3. Out of 385 Panchayat Unions in the State, 30% of the Panchayat Unions will be having more than 35 Panchayats and if similar exercise is done by other Collectors there will be savings of Rs. 20 crores to Rs.25 crores in 20 districts where there are lesser Panchayats than the norm. **Hence Second State Finance Commission recommends that Collectors may be directed by Government to study regrouping of Panchayat Unions, adopt the methodology of Coimbatore District and eventually reduce the number of unions to about 340 to 350 for the State as a whole. While doing this, some unwieldy and big size Panchayat Unions may be restructured and reorganized within the overall limit suggested above.**

3.4. Initially, Panchayat Unions were graded as 'A', 'B', 'C' & 'D' categories based on land revenue. Later, based on the recommendations of the Panchayats Education, Finance Enquiry Committee 1969, Government classified Panchayat Unions into six categories. Subsequent expert committees in 1977 and 1990 also examined the classification of Panchayat Unions and concluded that per capita Land Revenue may continue to be adopted for classification of Panchayat Unions. Considering the fact that the salary and pension commitment of Panchayat Union employees constitute a major chunk of Revenue Receipts of Panchayat Union, it is absolutely essential to attempt rightsizing the establishment of Panchayat Union. The staff strength in a Panchayat Union around 65 is now more or less uniform irrespective of area, population and volume of work. Even after regrouping is done as per para 3.3 above, there could still be some mismatch between the population and the staff strength. **Hence this Commission recommends that a staff norm one per thousand population in a Panchayat Union may be adopted. The excess and surplus may be set off in each district and redeployed suitably.**

3.5. Following table shows distribution of Panchayat Unions based on Land Revenue.

**Table IX-8**

Category	Per capita	No. of Panchayat Unions
I	Above Rs.5	30
II	Between Rs.4 & 5	7
III	Between Rs.3 & 4	25
IV	Between Rs.2 & 3	42
V	Between Rs.1 & 2	129
VI	Below Re.1	152
	Total	385

3.6. Originally, the classification of Panchayat Unions was done in order to distribute the Local Cess Surcharge Grants, Local Roads Grants and also for fixing contribution of Panchayat Union Councils for taking up work under village works programme. Now that the above grants and contribution for taking up works have been dispensed with, the classification of Panchayat Unions has lost part of its significance.

3.7. The First State Finance Commission had recommended 25% weightage in inter-se distribution of devolution among the unions. But the Government have taken only population as a criterion. While distributing the Second State Finance Commission devolution funds, the classification of Panchayat Unions is given weightage. This is discussed in the chapter on devolution.



3.7. Hence, State Finance Commission recommends five-fold classification of Panchayat Unions based on per capita Land Revenue as indicated below.

Table IX-9

Category	Per capita	No. of Panchayat Unions
I	Above Rs.4	37
II	Between Rs.3 & 4	25
III	Between Rs.2 & 3	42
IV	Between Rs.1 & 2	129
V	Below Re. 1	152
	Total	385

#### 4. Town Panchayats

4.1. Tamil Nadu is the first State to have introduced the class of local body called "Town Panchayat" to be a transitional body between rural and urban local bodies. This type of institution was not in existence till a few years ago in many states. In all, in our country there are 2092 Town Panchayats. Out of these, Tamil Nadu has 611, Uttar Pradesh, the most populous State, 447, composite Madhya Pradesh, the biggest State about 280, and Maharashtra, the wealthiest and most urbanized State none at all. In neighbouring Karnataka and Andhra Pradesh Town Panchayats were totally non-existent. Considering these comparative figures 611 Town Panchayats in Tamil Nadu are indeed unwieldy and far too numerous.

4.2.1. Such a surfeit of Town Panchayats has placed them in a disadvantageous position. Neither do they have the wherewithal to raise resources like Municipalities nor could they obtain grants from State / Central Government like Village Panchayats. The historical aberrations have to be set right.

4.2.2. A counter question sometimes posed is whether Town Panchayats at all need exist. In this connection, it is worth mentioning that during the decade 1981-91, it is the Town Panchayats whose population had registered the maximum growth of 15% unlike Municipalities and Municipal Corporations whose average growth rate was of 12.90% as may be seen below: -

- Town Panchayats - 15%
- Municipalities - 12.88%
- Municipal Corporations - 12.93%

In view of the above growth pattern and the peoples' desire to migrate the semi-urban areas to have better service levels, the Town Panchayats cannot be done away with as put forth by some functionaries.

4.2.3. During interaction of the Commission with the functionaries of Town Panchayats, there was broad consensus that there ought to be some reclassification so as to have 400 Town Panchayats to have sustainability.

4.3. The viability of Town Panchayats as spelt out in methodology and approach in Para 1.2 above has been studied with reference to the report of the Task force Committee. The officials of the department of Town Panchayats were also actively involved in this study. Keeping in mind comparative statistics outlined in Paras.4.1. and 4.2. above and after trying out numerous permutations and combinations, this Commission has applied the following criteria for determining viability: -

- i) Where operating ratio viz. the ratio of revenue expenditure to revenue income is more than 1.
- ii) Where per capita income is less than Rs. 200.
- iii) Where population is less than 10,000.
- iv) Rural Character – only Grade II and Grade I Town Panchayats were taken up for study.

4.4. Out of 611 Town Panchayats, nearly 400 Town Panchayats are rural in character, most of which require to be downgraded. But the Commission did not want to upset the apple cart. Accordingly, the viability package as envisaged above has been applied only on Grade II & Grade I Town Panchayats. In

the first instance, the following option emerges: the Town Panchayats mentioned in horizontal column 3 are suggested for merger with nearby Town Panchayats as indicated in column 4.

Table IX-10

Sl. No.	District	Name of the Town Panchayats proposed to be merged	Name of the Town Panchayats in which proposed for merger
1.	2.	3.	4.
	Erode	Unjalur Ammamet Chennasamudram Chithode Vellotamparappu Nallampatti Vadugapatti Kembanaickanpalayam Pallapalayam	Vengambur Nerunjipettai Kodumudi Sooriampalayam Pasur Bethampalayam Arachalur Periakodivery Kanchikoil
	Salem	Yethapur Edanganasalai Veeraganur Vanavasi Thevur	Pethanaickenpalayam Elampillai Thedavur Nangavalli Arasiramani
	Namakkal	Seerapalli Venkarai Kalappanaickanpatty	Namagiripet Pandamangalam Senthamangalam
	Tirunelveli	Naranammalpuram	Sankarnagar
	Madurai	Harvipatti	Either with Thiruparankundram or Thirunagar
	Theni	Kuchanur Pannaipuram Boothipuram Hanumanthanpatti B. Meenakshipuram	Markeyankottai Kombai Palanichettipatti Pudupatti Melachokkanathapuram
	Karur	TNPL Pugalur	Punjaipugalur
	Kanchipuram	Peerkkankaranai	Perunkalathur

4.5. In an in-depth exercise, Town Panchayats, which do not satisfy the operating ratio, per capita income and below 10,000 population have been analysed by the Commission which recommends 178 Town Panchayats for downgradation as Village Panchayats or merger with nearby Town Panchayats. The list may be seen in Annexure IX-4.

4.6.. Based on yet another approach, the Commission recommends that Town Panchayats adjoining Municipalities such as Inam Karur near Karur and Chitlapakkam near Tambaram may be considered for amalgamation with Municipalities concerned so long as there are no intervening Village Panchayats.

4.7.1. Conversely, the Commission examined in a parallel exercise whether Village Panchayats, which are urban in character could be upgraded as Town Panchayats. In this connection, it was learnt that the Department of Census had identified 111 Village Panchayats as census towns. Various implications relating to the above are discussed in the chapter on Resource distribution.

4.7.2. For the purpose of this chapter, the Commission has identified out of the above census towns, some 18 Village Panchayats in Chennai Metro area with all urban characteristics. They have low-level of taxation and relatively high service levels. In order to tap the tax potential, these Village Panchayats may be upgraded as Town Panchayats or merged with nearby by Urban Local Bodies. Such a course would enable the Committee on Metropolitan planning to devise ways for improving the area with the gradual introduction of user charges concept etc.



Table IX-11

SL.NO	NAME OF THE CENSUS TOWN	NEAR BY MUNICIPALITY/ TOWN PANCHAYATS
1.	Athippattu	Kathivakkam Municipality
2.	Padianallur	Naravarikkuppam Town Panchayat
3.	Nerkundram	Maduravoyal "
4.	Karambakkam	Porur "
5.	Ramavaram	Porur "
6.	Manappakkam	Nandabakkam "
7.	Sikkarayapuram	Mankadu "
8.	Pozhichallur	Anakaputhur Town Panchayat
9.	Trisoolam	Meenambakkam "
10.	Kottivakkam	Perungudi "
11.	Neelangerai	Perungudi "
12.	Palawakkam	Perungudi "
13.	Madipakkam	U. Puzhithiwakkam "
14.	Moovarasampattu	U. Puzhithiwakkam "
15.	Jalladianpettai	Pallikaranai "
16.	Vandalur	Perangallathur "
17.	Injambakkam	Separate Town Panchayat
18.	Okkium Thuraipakkam	

4.8. The norms as prescribed in the new Tamil Nadu Urban Local Bodies Act, 1998 are as below:

Grade II Town Panchayats	- Population not less than 20,000 with an annual Income of Rs. 30 lakhs
Grade I Town Panchayats	- Annual income above Rs.30 lakhs but below Rs. 50 lakhs
Selection Grade Town Panchayats	- Above Rs.50 lakhs but below Rs.75 lakhs
Special Grade	- Above Rs.75 lakhs

As Town Panchayats are now deemed as Urban Local Bodies and have to provide civic amenities and services comparable to Grade II and I Municipalities, there is need to revise norms for Town Panchayats.

4.9. Further, in order to have steady calibration in scale of income for classification of Town Panchayats, the **Second State Finance Commission recommends for adoption of the following norms.**

Table IX-12  
TOWN PANCHAYATS

Grade	Annual Income (***)
II	Above Rs.30 lakhs but below Rs.40 lakhs
I	Above Rs.40 lakhs but below Rs.60 lakhs
Selection grade	Above Rs.60 lakhs but below Rs.1 crore
Special grade	Above Rs.1 crore but below 2 crores

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

4.10. It is understood that, in the exercise done in the aftermath of First State Finance Commission Recommendations, the Town Panchayats, which were downgraded have got lesser devolution as Village Panchayats when compared to the devolution they derived when they were functioning as Town Panchayats. This should not recur in respect of 178 Town Panchayats this Commission is recommending for downgradation in para 4.5 above. The devolution after reclassification should be entirely given to these Village Panchayats without distributing to respective Panchayat Unions and District Panchayats. If there is still shortfall, the balance may be made good from equalization fund.

4.11. The Second State Finance Commission is also aware that while downgrading the Town Panchayats as Village Panchayats, staff re-deployment will have to be addressed. The personnel involved can be duly absorbed in retirement / leave vacancies be transferred to other Town Panchayats where there are vacancies. This has been discussed in the Chapter on Civic Needs and Finances.

4.12. The Second State Finance Commission feels that all the reclassifications suggested above in paras 4.4, 4.5 and 4.7 have to be implemented as a comprehensive package in totality and any selectivity in implementation will defeat the very purpose.



Hence, the Second State Finance Commission recommends:

- i Regrouping or merger of 26 Town Panchayats as mentioned in para.4.4 with nearby Town Panchayats
- ii Downgrading of 178 Town Panchayats as mentioned in para.4.5 as Village Panchayats or merging with nearby Town Panchayats wherever possible to make them viable.
- iii Upgrading 18 Village Panchayats called census Towns in Chennai Metropolitan area as mentioned in para.4.7 as independent Town Panchayats or they be merged with nearby Town Panchayats, which are contiguous geographically to bring the entire Metropolitan area under urban character. This upgradation may be done provided the reclassification in recommendations (i) and (ii) are given effect to first.
- iv Resource allocation procedure as indicated in para.4.10 above may be adopted to ensure that on downgradation, 178 Town Panchayats do not lose out in devolution.

## 5. Municipalities:

5.1. Viability issue acquires special significance for Municipalities in view of their chronic debt problem and limited scope in regard to the property mix and growth pattern. In view of the fast changing economic profile of Tamil Nadu State, several Municipalities, which originally held out a lot of promise for development, have remained stagnant, while other Municipalities like Hosur and Tiruppur are on the fast track growth curve. Taking into account these developments new set of norms are required for classifying Municipalities. In the absence of specific mention about the norms for constitution / classification of municipalities in Tamil Nadu District Municipalities Act 1920, the constitution / classification of municipalities had been made in the past based on the orders issued by the Government from time to time. However, the First State Finance Commission (1996) had recommended the following norms for constitution / classification of Municipalities.

### Norms for Constitution:

1. Should be urban in character and should satisfy the census norms of density of Population and that 75% of male working force are engaged in non-agricultural activities;
2. Minimum Population of 30000 and;
3. An average annual income (based on preceding three years) exceeding Rs.50 lakhs excluding non-statutory and development grants, loans and lapsed deposits.

Table IX-13

### Norms for Classification:

Grade	Norms (Average Annual income based on last 3 years)
II	Exceeding Rs.50 lakhs
I	Exceeding Rs.100 lakhs
Selection grade	Exceeding Rs.200 lakhs
Special grade	Exceeding Rs.500 lakhs

5.2. In GO.Ms.No.311/MA&WS (MA4) Department, dated 26.12.97, the Government have issued orders accepting the above norms for classification of Municipalities as recommended by the First State Finance Commission. The Government have also issued orders in GO.Ms.No.85/MA&WS (MA5) Department, dated 22.5.98 notifying the list of municipalities upgraded as per the norms. Further, the Government have empowered the Commissioner of Municipal Administration to reclassify the Municipalities once in three years adopting the above norms. While Government deserve to be commended for adopting the norms for constitution of Municipalities as recommended by First State Finance Commission, which have been duly incorporated in Tamil Nadu Urban Local Body Act 1998 (now kept in abeyance), much more needs to be done regarding Grade-II Municipalities to make them viable.



5.3. In this connection, it is worth mentioning that recently (January 2001) in Haryana State, where there were 81 Municipalities as of April 1998, the State Government downgraded 29 Municipalities as Village Panchayats in one stroke although local body elections had been held.

5.4. The SFC is of the view that the norms prescribed in the new Act should be made applicable not only for future new constitution and reclassification of Municipalities, **but also for reclassifying the existing Municipalities**. It is pertinent to point out that in the Municipal Seminar conducted by this Commission, it was suggested that the criteria of minimum population of 30,000 for the constitution of a Municipality should be strictly followed. The norms prescribed for Constitution of Municipalities, as per the Tamil Nadu Urban Local Bodies Act 1998, and the rules framed there under, are as follows:

Grade II	Population not less than 30,000 and annual income of not less than Rs.50 lakhs
Grade I	Rs. 4 crores and above but below Rs.6 Crores
Selection Grade	Rs. 6 Crores and above but below Rs.10 crores
Special Grade	Rs.10 crores and above

5.5. In order to have uniform gradation, it is necessary that while fixing norms between Special grade Town Panchayats and Grade II Municipalities, there appears to be some overlap. While the annual income for Special grade Town Panchayats is Rs. 75 lakhs and above, the minimum norm for annual income in respect of Grade II Municipalities should have been above the slab.

5.6. **Accordingly, State Finance Commission recommends that eligibility for upgrading from the status of Town Panchayat to Municipality of Grade-II shall be minimum population of 30,000 and minimum average annual income for the last three consecutive years should be of Rs. 2 crores and above.**

5.6.1 Incidentally the legal sustainability of downgrading the Municipalities covered in the Transfer of Territories Act was posed to the Commission by the concerned functionary. In order to remove any ambiguity in the Act provisions, legal opinion was obtained from Government Pleader. The Government Pleader has clearly opined that there is no bar for the Government on this issue. A copy of the Legal Opinion is made available in annexure IX – 6.

5.7. Taking an over-all view including the border-line themes and also the resource potential and population in Town Panchayats areas, **we recommend that the following 11 Municipalities may be downgraded as Town Panchayats for the reasons given in the previous paragraphs.**

**Table IX-14 List of Municipalities recommended for downgradation as Town Panchayats**

Sl. o.	Name of the Municipality	Present Grade	Population (2000 Projected)	Average Annual own income (Rs. in Lakhs)	Reasons	
					Population Less than 30,000	Income less than Rs.80 Lakhs.
1.	Padmanabhapuram	II	22037	72	Yes	Yes
2.	Kootheranallur	II	25012	52	Yes	Yes
3.	Thiruthuraiipoondi	II	26680	73	Yes	Yes
4.	Kulithalai	II	27444	66	Yes	Yes
5.	Colachel	II	27797	35	Yes	Yes
6.	Sengottai	II	29530	66	Yes	Yes
7.	Kuzhithurai	II	21988	101	Yes	-
8.	Usilampatti	II	30208	56	-	Yes
9.	Madhuranthangam	II	30819	53	-	Yes
10.	Nellikuppam	II	48930	75	-	Yes
11.	Puliankudi	II	60943	67	-	Yes

As part of the above package, we recommend for the upgradation of Ambasamuthiram Town Panchayat and **Veerappanchatram Town Panchayats as Municipalities Grade II as they satisfy the norm on population and total income.**

5.8. The Second State Finance Commission further recommends for the amendment of the Tamil Nadu Urban Local Bodies Act and the rules framed there under thereby enabling constitution / upgradation of the Municipalities on the basis of the norms suggested below:

**Table IX-15 MUNICIPALITIES**

GRADE	INCOME
II	Rs.2 crores and above but below Rs.4 crores
I	Above Rs.4 crores but below Rs.6 crores
Selection grade	Above Rs.6 crores but below Rs.10 crores
Special Grade	Above Rs.10 crores but below Rs.50 crores

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

Comparative analysis of the existing and proposed norms for the Urban Local Bodies may be seen in the annexure (IX-5).

## 6. Madurai Corporation

6.1. Madurai Municipal Corporation has sent a proposal to the Government for the merger of the following Municipality / Town Panchayats / Village Panchayats with the Madurai Corporation, as per Madurai Corporation Council's resolution No.147/5.1.2000.

**Table IX-16**

MUNICIPALITY	TOWN PANCHAYATS	VILLAGE PANCHAYAT
Thirumangalam	Thiruparankundram Avaniyapuram Thirunagar Harvepatti Vilangudi Anaiyur	Vandiyur Uthankdi Melamadai Naganakulam Kannanenthai Thiruppalai Vilacheri Pudukulam Bit-I Pudukulam Bit-II Yerkudi Achampattu Iravathanallore Chinna Anuppandy Thiagarajar Colony Chinthamani Thoppur Thanakkankulam Nilayur Bit-I Nilayur Bit-II Nagamalai Pudukottai Kappaloor Uchapatti

6.2. Although Madurai City is gateway to the South, it covers only a small area of 52 sq.km the lowest among all six Corporations. Since 1971 when Madurai Municipality was upgraded as a Corporation, lot of new residential colonies and development have taken place in the peripheral areas. Madurai is a weak Corporation and has little scope for sustainable investment as per the analytical study by the Task force constituted by this Commission. This is due to several factors of which population, area and property stock pattern act as structural constraints. In order to tap these additional revenues and provide better services to the residents in suburban areas, **the Second State Finance Commission after a quick study recommends the proposal of Madurai Municipal Corporation for merger of the proposed areas in para 6.1. above, except the following local bodies.**



Table IX-17

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

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

6.4. Further in view of the continued resource crunch faced by the existing Municipal Corporations such as Salem, and Tirunelveli, the Second State Finance Commission suggests that there is no need to upgrade any Municipality into Municipal Corporation till concrete action is first taken to make the existing financially weak Corporations viable, during the award period of this Commission.

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

Existing No. of Local Bodies		Proposed No. of local bodies	
6	Municipal Corporations	6	Municipal Corporations
102	Municipalities	93	Municipalities
611	Town Panchayats	432	Town Panchayats
28	District Panchayats	29	District Panchayats (including Ariyalur District Panchayat) after 2001 election
385	Panchayat Unions	345	Panchayat Unions
12619	Village Panchayats	10000	Village Panchayats

## 8. Conclusion:

8.1 This Commission is well aware that reclassification of local bodies is a delicate and sensitive issue. **In the light of combined resources position of the State and the local bodies, it is necessary that as many local bodies as possible are viable. This will minimize the number of local bodies requiring equalization fund or additional support.** This is most pragmatic approach. Retaining large number of non-viable local bodies would only keep up sense of grievance of inadequate devolution. But this is not conducive to good Government-Local Bodies relation, when in effect there is increasing flow of resources from the State over the years. **Hence, the Second State Finance Commission recommends that the reclassification package as worked out in this Chapter may be implemented well before issue of notification for the next elections to local bodies, which is expected by September 2001.**

8.2. Any reclassification after elections and after the commencement of the award period of Second State Finance Commission may lead to legal, practical, administrative and procedural problems and hence these recommendations in this chapter may be given first priority before processing other recommendations. In this connection, the Commission was given to understand that in the years 1997 and 1998, Government took earnest steps to reclassify 98 Town Panchayats. The respective councils initially passed resolutions, but majority of them subsequently backtracked, with actual reclassification eventually fructifying in respect of 25 Town Panchayats only. Once in position, the elected representatives may be reluctant about any reclassification process. Hence the period just before the local body elections is the most opportune period for giving effect to reclassification.

“பீலிபெய் சாகாடும் அச்சிறும் அப்பண்டஞ்  
சால மிகுத்துப் பெயின்”

(குறள்:475)

## **CHAPTER - X**

### **PAYMENT OF PENSION**

#### **1. Introduction**

Para 8 of the notification on Terms of Reference requires the Commission to make suitable recommendations on the changes, if any, in the system of payment of pension to the retired employees of Local Bodies. In view of the intricate nature of pension commitments, the Commission constituted the Pension Sub-Committee to look into all relevant issues. The composition of the Committee and the terms of reference issued to it may be seen in the annexure (X-1).

1.1 The Pension Sub-Committee went into the origin, growth, the present level of outgo and future commitments in respect of pension relating to Local Bodies employees.

1.2 It presented the report to the Commission at its meeting held in January 2001. (Summary of Recommendations enclosed: appendix -10). The Commission has analyzed the report and identified major components to make pension payments sustainable over the years. Besides, the Commission interacted with pensioners' associations on various issues relating to pensioners and also their grievances. It also interacted with officials concerned connected with pension schemes.

#### **2. The local bodies pension scheme:**

The Local Bodies Pension Scheme was first introduced in 1970 on the footsteps of the lines of pension scheme for Government employees. But, over the years the ballooning of the expenditure could not be curtailed owing to various factors; of them, some are direct factors and some are indirect factors.

2.1. **Direct Factors:** - The direct factors are the growth in pensioners and expansion of pensionary benefits. The number of retirements in turn is dependant on the past growth of employment in the Local Bodies. The growth pattern of employment in the Local Bodies is such that the state had but to support two pensioners for every five employees in service. The pensionary benefits have been increasing on account of inflation reflected in the enhanced dearness allowance and also pension revisions on account of Pay Commission's recommendations at regular intervals.

2.2. **Indirect Factors:** - The indirect factors are as follows. :- The indirect first factor is the increase in the life expectancy for both males and females, thanks to the vastly improved health and medical care schemes. The sound second reason is the larger recruitment than the annual retirement. These have happened over the past three decades. The average life expectancy of Tamil Nadu has increased from 41.092 years and 38.24 years during 1951-1961 to 59.50 years and 59.30 years during 1981-1991 for males and females respectively. The latest data indicates that the average life expectancy of Tamil Nadu would improve further to 64.85 years for males and 65.20 years for females by 2001. These would be higher than the national average of 62.80 years and 65.20 years respectively.

#### **3. Employees in different types of local bodies :**

3.1. Local Body employees comprise those working in all Local Bodies except Village Panchayats. Further, the numerical strength of employees varies widely between different types of Local Bodies. It is quite significant to note that Chennai Corporation has the largest complement of staff of 27769, which is nearly 52 % higher than the staff strength of all other Corporations put together and also more than the number of total municipal employees in the State. Another interesting feature is that the last grade Basic Service employees of Chennai Corporation outnumber the total employees of all other corporations.



### 3.2. Distribution of employees in different local bodies as on 1-4-2000

**TABLE 1**

Local Body	Total number of Employees		Basic Service Employees		Basic Service as % to respective totals
	Number	% to Total	Number	% to Total	
Corporations					
i. Chennai	27769		18482		66.6
ii. Madurai	6979		3993		57.2
iii. Coimbatore	5384		3079		57.2
iv. Salem	1852		1357		73.3
v. Tirunelveli	1354		826		61.0
vi. Thiruchirappalli	2750		2143		77.9
Sub-Total	46088	41.2	29880	47.5	64.8
Municipalities	27552	28.2	17912	28.5	65.0
Panchayat Unions	13913	14.2	8412	13.4	60.5
Town Panchayats	10192	10.4	6705	10.7	65.8
<b>Grand Total</b>	<b>97746</b>	<b>100.0</b>	<b>62909</b>	<b>100.0</b>	<b>64.4</b>

*Note – Excluding Staff of Educational Department.*

*Source : Report of the Local Bodies, 2000.*

### 4. Local body employees – Population ratio:

In Tamil Nadu, the numbers of employees in Local Bodies per thousand population are furnished below: [Reference 2000 population (projected)]

**TABLE - 2**

Municipal Corporations	- 5.11 per thousand
Municipalities	- 3.87 per thousand
Town Panchayats	- 1.75 per thousand
Panchayat Unions	- 0.7 per thousand

Source: KAMPSAX/DEAR reports

The comparative figures for other neighbouring states are:

**TABLE - 3**

Andhra Pradesh and Kerala	- Less than three 3 per thousand
Maharashtra	- 2.5 to 3 per thousand
Gujarat	- 2 per thousand

Source: Pension Committee report

4.1 From this it is seen Tamil Nadu is one of the states, which has the highest ratio of Local Body employees per 1000 population in the country.

4.2 Even though the Government has fixed the norms for appointment of conservancy operations, water supply and public health in 1998, still the ratio is high because of the past accretion. The distribution of Local Body employees according to the scale of pay as on 31.3.2000 indicates that about 76% of the staff are in the lower rung drawing the basic pay of Rs.4,500/- and below. In view of their large number and inevitable impact on salaries and pensions Heads, considerable reduction should be thought of to contain expenditure in the medium and long run as discussed in the Chapter on Better Fiscal Management.

### Local Body Pensioners, Pension Expenditure & And Revenue Receipts

#### 5. A Growth Trend: (1990 - 1991 to 1999 - 2000)

The total outgo on pensionary and other retirement benefits of local body employees has been increasing at an annual compound growth rate of 22.2 per cent between triennia ending 1992-93 and 1999-2000, while the revenue receipts grew at 19.3 per cent. It may be noted that the growth of pension expenditure was significantly higher than that of revenue receipts even during the normal period 1992-1997. This shows structural imbalance between the revenue and pension payments.

5.1 During the corresponding period, significantly the total number of local body pensioners (all categories) rose at an annual compound growth rate of 8.5 per cent which is higher than the 6.3 per cent obtaining for the State pensioners. This meant that further, as of 1999-2000, roughly about 38 per cent

of the increase in pension expenditure was accounted for by the increase in number of pensioners and the rest 62 per cent by other factors.

## 6. Growth in the number of pensioners, pension expenditure and revenue receipts of local bodies:

Table 4

Year	Total Number of Pensioners	Total pension Expenditure (PORB)	Total Revenue Receipts	Pen-Exp as % To Rev - Rec
	(Rupees in lakhs)			
1990-91	18783	2397	33820	7.1
1991-92	21081	3104	41087	7.6
1992-93	23554	3360	43018	7.8
1993-94	25549	4188	53052	7.9
1994-95	28308	4556	60252	7.6
1995-96	30502	5620	70592	8.0
1996-97	32759	7301	90110	8.1
1997-98	35117	9129	115451	7.9
1998-99	37386	11707	135262	8.7
1999-00	40261	15492	154690	10.0
CGR% TE 92-2K	8.5	22.2	19.3	
TE 92-97	9.6	518.5	17.0	

Source: CMA, Commissioners of Corporations and Municipalities, DRD & DLFA.

6.1 In the total revenue receipts, of Local Bodies, the share of pension expenditure rose from 7 percent in 1990-91 to 10.0 percent in 1999-2000. Further, it may also be noted that even during the normal period (T.E. 1992-93-1996-97) pension expenditure was increasing by a faster annual growth of 19 per cent, compared to 17 per cent growth registered by revenue receipts. Considering the constraints of growth of tax revenues of the State and the Local Bodies, the future growth of the revenue receipts of Local Bodies could, at best, be around 14% per annum. In that case, the burden on account of pension expenditure will mount and put the Local Bodies in dire straits, many of which are struggling to provide basic infrastructure and civic amenities. This calls for devising alternate methods of funding for the same.

## 7. Growth of pensioners in different local bodies:

7.1 As of 1999-2000, there are about 40,300 local body pensioners in the State excluding teacher pensioners. Between 1990-91 and 1999-2000 the number of local body pensioners had more than doubled. Out of the total estimated addition of 21478 pensioners during the decade, as many as 9841 (45.8 %) were accounted for by the Corporations.

7.2 One special feature of the local body pension structure is the presence of relatively higher proportion of family pensioners, contributed also by the incidence of death in harness of lower category employees engaged in hazardous / unhygienic activities. As of March 2000, the ratio of service pensioners to family pensioners of Local Bodies stood at 57:43 against the 67:33 in respect of Government pensioners.

7.3 A look into the distribution of pensioners (as on 31.3.2000) among various types of Local Bodies reveals that pensioners of Corporations numbering 17112 accounted for 42.5 per cent (Chennai Corporation alone accounting for about one-fourth of the total) and is followed by Municipalities with a strength of 13209 (33%).

7.4 Below 90: This category of pensioners represent those who retired in the category below the level of Junior Assistants i.e., those whose basic pay was below Rs.90/-  
Above 90: This category of pensioners represent those who retired in the category of Junior Assistants and above i.e., those whose basic pay was above Rs.90/-



### Growth In The Number Of Pensioners:

**TABLE – 5**

Local Body	1990-91			1995-96			1999-2000		
	SP	FP	Total	SP	FP	Total	SP	FP	Total
<b>Corporation:</b>									
Chennai	2566	1817	4383	3996	3197	7193	5504	4515	10019
Madurai	544	876	1420	1018	1161	2179	1459	1332	2791
Coimbatore	464	422	886	645	644	1289	809	796	1605
Trichy	118	83	201	349	422	771	553	711	1264
Salem	194	187	381	308	361	669	483	434	917
Tirunelveli			-	176	213	389	262	254	516
Total	3886	3385	7271	6492	5998	12490	9070	8042	17112
<b>2. Municipalities</b>									
Below 90	2485	3298	5783	3740	4541	8281	4906	5676	10582
Above 90	1335	629	1964	1612	813	2425	1657	970	2627
3.Town Panchayats (*)	2786	979	3765	5406	1900	7306	3013	1058	4071
4.Panchayat Union (*)							4343	1526	5869
Total	10492	8291	18783	16860	13252	30202	22989	17272	40261

Source:

i) Commissioners of respective Corporations.

ii) Director of Local Fund Audit

iii) Individual Municipalities.

(\*) Town Panchayats were under Panchayat Unions control till 1994-95 and thereafter came under Urban Local Bodies.

### 8. Pension expenditure:

71.The liberalization of pensionary benefits consequent on the implementation of Fifth Central Pay Commission (Sixth for Tamil Nadu) conferred substantial monetary gain on both service and family pensioners. The total outgo on pension and other retirement benefits, which was about Rs.24 crores in 1990-91 for all the Local Bodies, rose sixfold to over Rs.155 crores by 1999-2000. The monthly payments received by a pensioner, on an average, had more than doubled in the post Pay Commission period. The average monthly pension payment, which was Rs.1551 during 1995-96, rose to Rs.3207 in 1999-2000. It is further seen that the average pension received by the working level pensioner obtained at Rs.2470 (at 1999-2000 level) against the Rs.5006 received by a higher category pensioner per month as revealed in the case of municipal pensioners.

## 8.21. Growth in pension expenditure:

**TABLE-6**

Sl. No.	Local Body	Total Pension and other Retirement Benefits (Rs. in lakhs)			Average Monthly Pensioner (Rs.)	Pension per
		1990-91	1995-96	1999-2000	1995-96	1999-2000
I. Corporations						
1.	Chennai	704.20	1493	4032.86	1730	3354
2.	Madurai	176.17	400	1119.66	1530	3343
3.	Coimbatore	93.48	251	596.11	1623	3095
4.	Trichy	74.64	159	399.16	1719	2632
5.	Salem	39.99	119	277.91	1483	2725
6.	Tirunelveli	--	42	156.88	900	3044
	Total	1088.48	2464	6582.58	1643	3206
II. Municipalities						
1.	Below Junior Assistant's Cadre	606.25	1396.28	3103.05	1405	2470
2.	Above Junior Assistant's Cadre	310.75	671	1578.03	2306	5006
III.	Town Panchayats	391.28	1089	1380.27	1242	2821
IV.	Panchayat Union			2848.49		4045
	Total	2379.26	5620	15492.42	1551	3207

## 9. Growth of pension expenditure: component - wise analysis:

9.1. The share of pension expenditure proper (i.e., out go on account of payment of service pension and family pension alone) accounted for a little over two-thirds of the total expenditure on pension head (average T.E 1999-2000) and the rest went towards the payment of DCRG, commutation of pension and other retirement benefits.

## 9.2. Composition of service and family pension expenditure:

**TABLE-7**

Expenditure Component	T.E 1992-93 (Average)		T.E 1999-2000 (Average)		Index of rise T.E 1992-93 =100
	Amount (Rs .lacs)	% Shares	Amount (Rs lacs)	% Shares	
a)Service Pension	1133.2	58.8	5273.2	62.7	465
b) Family Pension	792.4	41.2	3133.1	37.3	395
<b>Total</b>	<b>1925.6</b> (65.2%)	<b>100</b>	<b>8406.3</b> (68.7%)	<b>100</b>	<b>437</b>

Note: Figures in brackets represents share to total expenditure on PORB.

## 10. Distribution of local body employees by pay structure:

10.1. A pay scale-wise distribution of Local Body employees has been attempted. Nearly two-thirds of employees are found concentrated in the minimum Scale of Pay of Rs.2550-3200 as on 1.4.2000. If all those below the cadre of Junior Assistant (upto Rs.3050) are taken into account, more than three-fourth of the total employees belongs to this category.



## 10.2. Distribution of local employees by their pay range

**TABLE-8**

Scale of Pay	No. of employees	% total
2550-3200	62909	64.4
2610-3570	4622	4.7
2650-4000	2604	2.7
2750-4400	2267	2.3
3050-4590	1992	2.0
Sub-Total	74389	76.1
3200-4900	13334	13.6
3675-4900	375	0.4
4000-6000	4117	4.2
4300-6000	2	0.0
4500-7000	1715	s1.8
5000-8000	890	0.9
5300-8300	504	0.5
5500-9000	489	0.5
5900-9500	319	0.3
6500-10500	49	0.1
8000-13500	1157	1.2
9100-14050	60	0.1
10000-15200	80	0.1
12000-16500	17	--
12750-16500	--	--
14300-18300	15	--
15000-18600	1	--
16400-20000	4	--
17400-21900	--	--
Total	97746	100.0

Source: Details furnished by Local Bodies, 2000.

## 11. Annual retirement :

11.1. From the data supplied by various Local Bodies it is observed that the number of annual retirements of municipal employee rose from about 1626 in 1990-91 to 2304 in 1999-2000 (with variation in between) which gave an annual growth in retirement of 3.3 per cent. However the past growth of retirement of municipal employees being lower at 2.55 per cent during 1977-88 and 0.19 per cent between 1988-97, an increase of 2.55 per cent per annum could be taken as a realistic one. It further emerged that average age of entry into service increased with time. (Average age of entry during the sixties was around 19 years, increasing to more than 25 years, of late). Therefore, a minimum qualifying service of 33 years could be assumed for the municipal employees at retirement. This meant, all those who entered in to service between 1967 and 1982 will retire during the period 2000 – 01 to 2014 – 15. Since the exact number of persons who entered into service during 1967 – 82 is not available, suitable method was adopted to arrive at the number of annual retirements.

11.2. Realistically an average number of annual retirements would be around 2500.

## 12. Trend growth model:

Three methods were used in estimating the pension commitments:-

- Semi-Log Function Method
- Compound Growth Rate Model
- Double log Regression Model

Realistic forecast based on the above is as under:

**TABLE 9 Projected Pension Expenditure**  
Base: Actual 1999-2000 (Net of Arrears)

(Rs. in lakhs)					
Year	Corpo.	Munici.	PU	TP	Total
1999-00 (Base)	5490	3868	2364	1145	12867
2000-01	6646	4624	2825	1369	15463
2001-02	8045	5528	3376	1636	18584
2002-03	9740	6609	4034	1955	22337
2003-04	11792	7902	4820	2336	26851
2004-05	14278	9449	5760	2791	32279
2005-06	17288	11299	6884	3336	38807
2006-07	20934	13513	8226	3986	46659

12.1. According to this estimate, the total pension expenditure of Local Bodies is expected to increase from Rs.155 crores in 2000-01 to Rs.467 crores in 2006-07 and further exponentially to Rs.2044 crores by 2014-15. At these levels it would account for 11.3 per cent and 16.2 per cent respectively of the Revenue Receipts accruing to the Local Bodies. The differential pattern of growth and the variation in the base level expenditure had resulted in corporations accounting for nearly half of the total pension expenditure of the Local Bodies. The shares of all other local body are likely to show a decline.

13. From the analysis, it is beyond doubt that major chunk of the resource base will be taken away by the salary and pension components. Unless this is arrested and gradually reversed, Local Bodies cannot render due services. There is a need to fix a ceiling on salary and pension expenditure. The Tamil Nadu Urban Local Bodies Act 1998, has fixed the salary ceiling at 45% under Section 61. Similar provisions need to be incorporated in the Tamil Nadu Panchayats Act 1994 for Panchayat Unions Staff. Even then, the percentage of spending appears to be high. In order to render justice to the people who expect minimum level of civic service, 51% of the total revenue has to be set apart for civic amenities, O & M, debt servicing, etc. Accordingly, it is desirable to have ceiling of 49% of the total revenue for salary and pension expenditure. Out of 49% the pension commitment for Local Bodies employees needs to be within 14%.

14. These issues were also discussed in state level seminars held for Town Panchayats, Municipalities and Corporations and Rural Local Bodies. The working groups have also felt that there is need for reviewing the pension payment and also the working procedure for sanction and disbursement. Based on the available material, it appears that there is every need to push through reforms packages in consonance with the liberalization process. The Government of India has also realized the implications and has initiated measures to make it a sustainable one. In the Indian context, there is no dedicated legislation governing the working and operations of occupational pension scheme.

14.1. The Income Tax Act 1961 and the Income Tax Rules provide a framework for the Constitution, operations (including the pattern of investments) and the termination of approved superannuation scheme. But the framework does not completely address the regulatory concerns. Hence this needs to be addressed through a comprehensive legislation governing these schemes on lines similar to the Pension Act, 1995 in the U.K. and Employees Retirement Income Security Act, 1974 (ERISA) in the U.S.A.

14.2 The present system of a "pay as you go" pension for Government servants is unsustainable in future especially since pension payments are indexed to the cost of living and also to the minimum pay of the grade in which the individual has retired. Continuing with such a system amounts to living with an actively ticking fiscal time bomb. It may not be legally possible to alter the term of pension for existing employees, but it is necessary that all future Government employment with effect from a date to be notified should be on new terms involving a fully funded pension with a defined contribution system. (Source: Prime Minister's Economic Advisory Panel recommendations).



15. The Union Finance Minister has, in his budget speech for 2001-02, outlined the pension reforms by the Centre. Under this scheme, the Central Government employees who enter service after 1/10/2001 would receive pension through a new pension programme based on defined contributions. He has also stated that in order to provide a road map for the next steps to be taken by the Centre, he has proposed to constitute a high level expert group, which would give its recommendations within three months. The Second State Finance Commission suggests that the report of this expert group be studied and adapted suitably to local body employees in our State, vide recommendation 16.2 below.

16. In the light of the above analysis, the following recommendations are made to make the system of pension payment workable and sustainable.

1. In view of the wide spread satisfaction in the working of pension payment system under Directorate of Local Fund Audit, it may be continued through that Directorate. It is also recommended that Municipal Pensioners, in below 90 categories may also be transferred to Director of Local Fund Audit so as to centralize the functions.
2. In view of the sharp increase in expenditure as brought out in the forecast, it is suggested that future pension scheme may be re-oriented by involving employees to contribute to the Pension fund. While for the existing employees it may be optional to get increased pension, in respect of future recruits the contribution to Pension Fund shall be made compulsory. As the operative period of Second State Finance Commission is from April 2002, it is recommended that those who are recruited on or after 01.04.2002 shall contribute a minimum of 5% of his basic pay for the pension fund. This should form part of the service terms to make it compulsory.
3.
  - a. It is suggested that there should be a ceiling on pension expenditure. As a first step to contain pension expenditure, a ceiling of 14% of the total revenue of Local Bodies may be fixed for pension payment. A holistic view of salary and pension needs to be taken and both monitored carefully. Hence it is recommended that the total outgo on salary and pension out of the total revenue shall be restricted to 49%.
  - b. For the new recruits, the Local Body is liable to pay only gratuity and that the pension entitlement shall be with reference to his contribution.
  - c. Necessary amendments to the Tamil Nadu Panchayats Act 1994 and Tamil Nadu Urban Local Bodies Act 1998 may be made to achieve the objectives set forth above.
4. Replacement of personnel shall be with reference to the broad norms outlined in Better Fiscal Management. Even within the norms, there is need to prune down wherever possible in view of privatization in certain sectors like conservancy and public health. Hence, it is recommended that the replacement level shall be within 50% of the vacancies as and when they arise. After ensuring need-based replacement, the remaining vacancies shall be surrendered. This needs to be an annual exercise.
5. In future, the disbursement of Pension may be left to professional agencies like LIC, Banks and other reputed institutions for which the U.K. and the U.S.A. models of occupational pension scheme may be studied. The post-retirement benefits of the local body employees may be monitored by a compact regulatory body as has been in vogue in the U.S.A. and the U.K.



6. The post retirement benefits in respect of future beneficiaries may be divided into two components and administered as suggested below.
  - i. Gratuity and commutation – Preferably by Director of Local Fund Audit.
  - ii. Regular Monthly Pension – By Professional agencies like LIC, Banks or other agencies competent enough to shoulder the responsibility.
7. Computerization in full form shall be attempted in respect of Pension Payment and that avoidable delay reduced. If necessary, the availability of computer systems in Director of Local Fund Audit may be studied and future requirements supplied. The present system of operation of local body pensions by Director of Local Fund Audit, by restricting to 4 or 5 Banks may be changed so as to bring in more Banks under the net by making use of computers.
8. All concessions available to State Government pensioners need not be extended to local body pensioners as a matter of routine. The implications may be studied and implemented, as in the case of social security fund and health fund by prescribing higher rate of contribution. Moreover a separate Local Bodies Pay / Administrative Reforms Committee may be constituted when next revision of pay scales and pensions is given effect to by State / Central Government, for their employees / pensioners. This Committee will balance the need for reasonable levels of pension against sustainability.
9. Other issues:
  - a. It is recommended that death gratuity now in vogue may be changed so as to place it on par with those retiring on superannuation, voluntary retirement and invalidation etc.
  - b. If a person is in receipt of one civil pension / family pension, he / she need not be sanctioned another Family Pension as it defeats the very purpose of helping a person in dire straits. This however need not be made applicable to those who are in receipt of military pension, which is in a different footing.
  - c. Having become inoperative owing to the non-amendment of rules, G.O.MS.No.600/MA & WS Department, Dated 14.09.1989 may be rescinded.
  - d. Payment of local body pensions need not be transferred to treasuries / sub-treasuries as they are already over-burdened with State pensioners.
  - e. The Director of Rural Development / Director of Town Panchayats / Commissioner of Municipal Administration may be instructed to release the withheld gratuity immediately on settlement of audit objections against the pensioners, raised when they were in service.
  - f. To avoid delay in the sanction of Pension, a database for personnel may be created and updated periodically. The Director of Local Fund Audit may be requested to scrutinize the service particulars of all local body employees one year prior to retirement with reference to the database.
  - g. The RD Department may be directed to pay the demand raised by Director of Local Fund Audit so as to ensure timely payment. Accordingly, the rule provision, which is inhibiting full payment, may be amended to ensure timely disbursement as has been done by Municipal Administration & Water Supply Department.

“ஆற்றின் அளவறிந்து ஈக அது பொருள்  
போற்றி வழங்கும் நெறி”

(குறள்:477)



## CHAPTER - XI

### ELEVENTH CENTRAL FINANCE COMMISSION RECOMMENDATIONS RELATING TO LOCAL BODIES

#### Introduction

The Tenth Central Finance Commission recommended adhoc grants of Rs.100.71 Crores annually for the Local Bodies in Tamil Nadu to upgrade the infrastructure, even though there was no specific mandate in its Terms of Reference relating to Local Bodies. This is the first time when a Central Finance Commission touched the Local Bodies.

The allocation under Tenth Finance Commission was based on the following approach:

1. Rs.100 per capita of rural population as per 1971 census for Panchayat Raj Institutions.
2. For Urban Local Bodies, the assessment has been on the basis of inter-se ratio of the slum population derived from the urban figures as per 1971 census.

Accordingly, the following amounts were released annually for the years 1996-97 to 1999-2000.

1. Panchayat Raj Institutions	-	Rs.71.84 Crores
2. Urban Local Bodies	-	Rs.28.88 Crores

The First State Finance Commission, while reviewing Tenth Central Finance Commission report and also on the reference of the State Government for suggesting suitable criteria, had recommended that the grants could be earmarked as a corpus fund for upgrading the level of services of capital nature.

It also suggested for matching contribution by the Local Bodies, especially urban bodies for the capital nature of work. The Government while acting on the recommendations of the First State Finance Commission decided to release the Tenth Finance Commission's grants partly on discretionary basis, vide Annexure - XI-1 to this chapter.

While releasing the amount the Government had stipulated that the Local Bodies could take up capital works from out of the Tenth Central Finance Commission's grant by suitable contribution from its general fund, so as to satisfy the conditions laid down by it.

#### 2. Eleventh Finance Commission Report

2.1. In the Terms of Reference issued to the Second State Finance Commission, the Government have specifically stated, "The Commission shall also have regard to the existing level of devolution and other resources transfer from the State and Central Government and other agencies, including the award and recommendations of the Eleventh Finance Commission to the Local Bodies and their adequacy".

Unlike the Tenth Finance Commission, or for that matter all earlier Central Finance Commissions, the Eleventh Finance Commission has the specific Term of Reference for looking into the issues relating to the Local Bodies and their overall financial position. The Eleventh Finance Commission exhaustively dealt with Local Bodies' finance and devoted a separate chapter for Local Bodies. (Vide Chapter VIII of the Eleventh Finance Commission Report). The Eleventh Finance Commission has made 36 recommendations on Local Bodies in its report. These may be seen in the annexure XI -2. The recommendations have been grouped in the manner as noted below for an in-depth study.

## 2.2. Group I

Recommendations on which, Central / State Government have to act.

- Para 8.11a :- State Finance Commissions to synchronize with the term of Central Finance Commission.
- Para 8.11c :- ATR on State Finance Commission to be placed within six months.
- Para 8.12 :- Appointment of State Finance Commission
- Para 8.16b :- Replacement of octroi
- Para 8.19a :- Opening of new minor and sub heads in the Budget
- Para 8.22 :- Devolution under Eleventh Finance Commission and its distribution
- Para 8.23 to 8.26 :- Inter-se share of States in the distribution of devolution to Local Bodies.
- Para 8.28a :- Transfer of functions to Local Bodies through Legislation
- Para 8.28b :- Delineations of the role of 3 tiers of Panchayats.
- Para 8.28c :- Ministry of Rural Development and Ministry of Urban Development to take steps for transfer of subjects as contemplated in the XI & XII Schedules respectively.
- Para 8.28d :- Flexibility to states to fix three tier or two tier Panchayat Raj Institutions system
- Para 8.28i :- Constitution of District Planning Committee & Metropolitan Planning Committee and to make them functional.

## 2.3. Group II

Recommendations on which,, Second State Finance Commission has to act.

- Para 8.11b :- Contents and coverage in State Finance Commission reports.
- Para 8.11d :- Deletion of (bb) & (c) of Article 280 (3) of the Constitution
- Para 8.15 a, b, c and 8.16 a } Levy of taxes and cess by Local Bodies.
- Para 8.16c :- Levying of user charges.
- Para 8.18 :- Distribution of funds to Local Bodies, which have primary responsibility.
- Para 8.19a :- Opening of new Minor & Sub heads
- Para 8.19e :- Contracting to outside agencies for preparation of accounts
- Para 8.20 :- Distribution of funds for accounts maintenance.



- Para 8.21 :- Creation of database
- Para 8.28h :- Administrative re-organization of Panchayats.
- Para 8.32 :- Levy of user charges for Central Government buildings.

#### 2.4 Group III:

Recommendations, which need to be implemented by Government based on State Finance Commission's report

- Para 8.22 :- Devolution under Eleventh Finance Commission and its distribution.
- Para 8.23 to 8.26 :- Inter-se Share of States in the distribution of devolution to Local Bodies.

#### 2.5 Group IV

Other recommendations

- Para 8.28 e, f, g :- These are not relevant to Tamil Nadu.

#### 2.6 Group V

Recommendations, which, have to be taken up with C & AG / AG.

- Para 8.19b :- Assigning of responsibility to C & AG over the maintenance & audit of accounts of Local Bodies.
- Para 8.19c :- Bringing Director of Local Fund Audit under the control of C & AG .
- Para 8.19d :- Prescribing format for preparation of budget & accounts for Local Bodies by C & AG.
- Para 8.19f :- Placing of 0.5% of the total expenditure by Local Bodies for the purpose of audit at the disposal of C & AG.

#### 2.7. Abstract:

GROUP I	:	14
GROUP II	:	13
GROUP III	:	2
GROUP IV	:	3
GROUP V	:	4
		----
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3 Paras viz., 8.22, 8.23, 8.19a, figure under Group I and also in Group II & III.

The paras on which action has to be pursued by C & AG have relevance to Terms of Reference relating to accounts and accountability of Second State Finance Commission and therefore the Commission has to address them.

3. The Eleventh Finance Commission has recommended a total transfer of Rs.131.89 Crores for each year of the award period from 2000-2001 to 2004-2005 for both Rural Local Bodies and Urban Local Bodies.

1. Rural Local Bodies - Rs.93.22 Crores

2. Urban Local Bodies - Rs.38.67 Crores

From out of the grants suggested for release, a sum of Rs.10.96 Crores has been allocated for creation of database and a sum of Rs.5.19 Crores for maintenance of accounts in Village Panchayats. The Grants recommended for maintenance of accounts and database shall be the first charge on the grants due to Local Bodies.

#### **4. Analysis and our Recommendations** **Recommendation 8.11 (b)**

State Finance Commission Report:

The Eleventh Central Finance Commission has recommended proper categorization of chapters with reference to the Terms of Reference so as to enable the Central Finance Commission to look into the issues analytically. As far as Tamil Nadu is concerned, the report of the First State Finance Commission has been based on the Terms of Reference issued to it and its report has been commended by experts in National Institute of Rural Development / National Institute of Urban Affairs / National Institute of Public Finance and Policy etc. The report of the Second State Finance Commission is also on the similar lines specifically relating to the Terms of Reference. The broad guidelines and observations of Central Eleventh Finance Commission on this issue are annexed to the Chapter on Summary of Recommendations.

#### **Recommendation 8.11 (d)**

The recommendations of Eleventh Finance Commission on deleting sub-clauses (bb) and (c) under Article 280 (3) of the Constitution of India appears to be based on its earlier observation that many State Finance Commission reports have not addressed the specific terms listed in Articles 243 I and 243 Y. Since all these were first generation State Finance Commission reports, some of them may not have squarely met the Terms of Reference and in some States State Finance Commissions have not been constituted. The second generation State Finance Commission reports will surely be an improvement over the first generation State Finance Commission reports. While enacting the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Act, the Parliament in its wisdom thought it fit to encourage qualitative reports from State Finance Commissions, which could be made use of by Central Finance Commission. A clear perception of the wording may convey that the State Finance Commission ought to take up the augmentation of the consolidated fund of the state through the Local Bodies taxation and on the basis of such reports, Eleventh Finance Commission or other Central Finance Commission may have to review how far the state went about on their recommendations. Hence the sub-clauses (bb) and (c) are needed to strengthen the tax base and incidentally the consolidated fund of the State. Hence the sub-clauses may be retained and possibly the phrase "any other relevant information", which the Finance Commission may obtain in this regard", may be added.

**8.11d: This Commission recommends that the deletion of Article (bb) & (c) under Article 280 (3) as mooted by Eleventh Central Finance Commission need not be accepted but the same retained**



for critical analysis by Twelfth Central Finance Commission. If need be suitable addition may be made as mentioned in Para above. This may be taken by the Government with the Centre.

#### **Recommendations 8.15 / 8.16**

Recommendations of the State Finance Commission on this are dealt with in the relevant Chapters.

#### **Recommendation 8.18**

The grants under Tenth Finance Commission made available to Local Bodies were utilized primarily for creating assets as per recommendations made by that Commission. On the other hand, the Eleventh Finance Commission has recommended that the grants made available by it may be utilized for maintenance and other purposes but should not be utilized for salary and wages. The assets owned by the Local Bodies are in a poor condition as they have not been regularly maintained.

Hence the grants shall be utilized for maintenance of assets and for capital purpose directly related thereto, namely, acquisition of vehicles for conservancy services, water supply and sanitation. Besides, this may be distributed for local bodies on the basis of population without any discretionary element.

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

#### **Recommendation 8.19 (a)**

The Eleventh Finance Commission has recommended for opening of new minor and sub heads for proper monitoring the funds transferred to the Urban Local Bodies and Rural Local Bodies. At present transfer of funds to Local Bodies has been classified under the major head 3604 compensation & grants-in-aid to Local Bodies under the respective demand. There is no need to open separate sub-heads. However, the issues may be taken up with C & AG for changes if any, as suggested by Eleventh Finance Commission.

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

#### **Recommendation 8.19 (d)**

The Eleventh Finance Commission has recommended that the C & AG should prescribe the formats for preparation of budgets and for keeping of accounts for the Local Bodies, which should be amenable to computerization. The State Finance Commission feels that this can be done with the help of C & AG to ensure uniformity.

**8.19d: This Commission recommends that the Government may take up with AG for preparation of accounting and budget formats amenable to computerization.**

#### **Recommendations 8.19 (e) & 8.20**

The Eleventh Finance Commission has recommended that the Local Bodies, which do not have trained staff, may contract out the upkeep of accounts to the outside agencies. The Eleventh Finance Commission has also recommended that the C & AG may lay down the qualification and the experience required for this purpose. Allocation for such contracting has been suggested to the level of Rs.4000/= per annum per Panchayat and any cost incurred over and above this sum, should be met by the Panchayats. This appears to be rigid as the issues in the up-keep of accounts are best left to the states concerned. Hence it is suggested that the Government may take up the matter with the Central Government and also C&AG for flexibility in the matter.

**8.19(e): This Commission recommends that the States should have flexibility in maintaining accounts in keeping with the spirit of the statutory provisions. The AG may suggest measures for timely preparation of accounts.**

#### **Recommendation 8.20**

The Eleventh Finance Commission has recommended that the audit of Local Bodies may be entrusted to C & AG, who may get it done through its own staff or by engaging outside agencies on payment of remuneration fixed by him. It has also recommended that the amount of 0.5% of the total expenditure incurred by the Local Bodies should be placed at the C & AG for this purpose.

This recommendation is both unfair to local bodies and not practical considering the large number of local bodies in the state. By Eleventh Finance Commission's reckoning, the 0.5% of the total expenditure of Local Bodies in Tamil Nadu may come to nearly Rs.12 Crores, which would add to their burden.

The present audit system has been suitably designed to take care of the interests of the Local Bodies and in fact no amount has been paid to auditing agency by Rural Local Bodies and also by several Urban Local Bodies. The Second State Finance Commission recommends that the Director of Local Fund Audit will be the statutory auditor and Accountant General may conduct audit as per Section 14 of Comptroller & Auditor General of India Act as explained in the Chapter on Audit and Accountability. Besides, the Accountant General, Chennai may give technical guidance after studying the audit reports of Director of Local Fund Audit.

**8.20: This Commission recommends that the Government may take up with C & AG for not giving effect to this recommendation. The AG may conduct audit as per Sec 14 of C & AG Act without any contribution by the State or Local Bodies. This has been elaborately dealt with in the Chapter on Audit and Accountability.**

**8.21: This Commission recommends that the States may create database accessible, wherever necessary, as for instance the Central grants to local bodies, to national-level and that the agency responsible for monitoring the database at Central Government level may scrutinize the functioning at frequent intervals.**

#### **5. Recommendation 8.28a**

The Eleventh Finance Commission recommendations on these issues, need to be looked into in depth. This is dealt with later separately.

#### **6. User charges for Central Government buildings**

This has been dealt with in tax review of the Rural Local Bodies and Urban Local Bodies.



7. Other recommendations and observations of the Eleventh Central Finance Commission are dealt with in appropriate chapters of our report.

**“A valid method of decreasing the dependence of the States on the Centre would be to see that the States get more through assured devolutions”**

**(Dr. P.V. Rajamannar )**

## CHAPTER-XII

### ISSUES GERMANE TO TERMS OF REFERENCE

Para 9 of our Terms of Reference enables this Commission to make suitable recommendations regarding any other issues having bearing on the Terms of Reference issued to us. Accordingly, in this chapter we propose to deal first with a set of issues giving our **recommendations** on the following which have vital bearing on local bodies finances:-.

#### 2. Population

2.1. A fundamental issue facing this Commission is the population to be adopted in our approach and in various computations. This has not been spelt out in terms of reference to us.

2.2. In this connection, the Government of India have announced the Population Policy 2000. Among other things it has frozen the population for the period upto 2026 and 1971 census is reckoned for purpose of delimitation of constituencies and wherever population occurs explicitly in resources transfer from the Centre to the States. As far as this Commission is concerned, only the figures of 1991 census population is available while finalising our report. The overall population figure as on 2001 for Tamil Nadu was announced in the media, around the time of our report going to the press.

2.3. Unlike other census operations, 2001 census needs to conform to the Constitutional provisions as incorporated in the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Act. Till 1991, census was governed by the Census Act of India and the regulations made there under. The 73<sup>rd</sup> Constitutional Amendment Act has defined the rural classification. Similarly, the 74<sup>th</sup> Constitutional Amendment has spelt out the urban classification viz. Municipal Corporations. Municipalities and Towns or Nagar Panchayats as urban. The rider introduced by census department by including the census towns under 'urban' goes against the spirit of the Constitution.

2.4.1. Proper way of classifying would be:-

Rural	a. Village Panchayats population
	b. Village Panchayats deemed as census towns
	<b>Total Rural Population</b>
Urban	a. Population of Municipal Corporations
	b. Population of Municipalities
	c. Population of Town Panchayats.
	<b>Total urban Population</b>

2.4.2. This Commission approached the Director of census operations at Chennai for classifying the rural /urban population on the above basis. The Director census operations pleaded his inability saying it has to be done by Registrar-General, census operations in Delhi. The issue was thereafter taken to the notice of Registrar General for appropriate decision but of no avail.

2.5. We also tried to quantify the floating population and whether this could be built in devolution. The urban sector functionaries tried to highlight the amenities and services availed of in ULBs by the floating population from rural areas. At the same time, the spending by the rural population in urban centers adds to money circulation and to some extent income to Urban Local Bodies by way of entertainment tax etc. Hence floating population will have to be kept out of reckoning except in towns of temple and tourist importance. In exceptional cases, equalization grant could be thought of.

2.6. As the National Population Policy 2000 has envisaged involvement of Zilla Parishads and Panchayats for population control, **we recommend that Government may constitute a Committee in**



which demographers, eminent NGOs / persons involve in health and population control may be involved, who can develop guidelines for involving local bodies in reducing population.

2.7.1. For our award period, we recommend that Government of Tamil Nadu in Public (Census) Department as a neutral authority may issue a G.O. classifying 2001 census figures as under:-

(in lakhs)	
Rural	a. Village Panchayats population
	b. Village Panchayats deemed as census towns
	<b>Total Rural Population</b>
Urban	a. Population of Municipal Corporations
	b. Population of Municipalities
	c. Population of Town Panchayats.
	<b>Total urban Population</b>

2.7.2. In the above context, this Commission recommends that the population (including SC/ST population) as arrived in the above statement may be adopted for the following purposes: -

- i. **Reclassification of local bodies (vide the chapter thereon)**
- ii. **Inter-se allocation among Urban Local Bodies, after reclassification, if any**
- iii. **Allocation to Panchayats, after reclassification, if any, of Town Panchayats.**

2.8. In the case of inter-se allocation between Panchayat Raj Institutions and Urban Local Bodies as a whole, this is dealt with in the Chapter on Devolution. Further, as far as slum population is concerned, the survey figures while formulating urban poverty alleviation schemes(1998) may be adopted.

### 3. Setting up of State-Local bodies council

3.1.1. While the relationship between the States and the Centre is more federal in nature, the relationship between the local bodies and the State is perhaps unitary, resulting in the State Government taking some decisions perceived as unilateral and affecting the local bodies without a process of consultation. Some illustrative issues are;

- i) Absence of effective periodical monitoring of implementation of State Finance Commission recommendations (As of March 2001, final orders have not been passed in respect of 69 recommendations of the First SFC).
- ii) Waiver of land revenue without compensation to PRIs for the LC/LCS loss due to waiver.
- iii) Changes made by the Government in the inter-se allocation percentage among ULBs that was originally accepted in the ATR of the Government.

3.1.2. As these and other issues are likely to crop up in future, it is essential to set up a State – Local Bodies Council akin to Inter-State Council under Article 263 of the Constitution of India. The Presidential notification regarding the constitution of Inter-State Council is found in the Annexure XII-1. Just as Inter-State Council discusses issues of common interest and makes recommendations on any subject concerning the Centre and the States, a similar State-Local Bodies Council needs to be created as an institutional mechanism to oversee various issues as outlined above between the State and the Local Bodies.

3.2. Experts in the seminar of the southern States on local bodies (September 2000) also suggested that a representative forum of members of local bodies should be constituted with legal validity and consulted by the State Government whenever the Government needs to intervene in the affairs of local bodies and to settle the disputes arising between local bodies and the State Government. At present, there is a passing mention about resource transfer to the local bodies in the policy notes placed in the legislature relating to Rural Development and Municipal Administration and Water Supply Departments.



Given the wide range of subjects to be discussed by the Assembly during the budget session, it may not be possible for the Assembly to devote more time than hitherto to the issues relating to State-Local Bodies. Hence a suitable provision needs to be made in the Tamil Nadu Panchayats Act and the combined Urban Local Bodies Act for setting up of State Local Bodies Council, which will meet once a year. This forum will be apprised of the resource transfer in the preceding financial year and the changes, if any, to be made with regard to the formula, criteria and so on.

3.3. It is learnt that the State Government have recently constituted two high level Committees, viz. Tamil Nadu Rural Developmental Council and Tamil Nadu Urban Developmental Council, Vide G.O.Ms.No.237 RD dated 4-11-1999 (vide Annexure XII-2) While commending the State Government for setting up such committees, the following set up is recommended by the Second State Finance Commission.

3.4. One Council may be newly constituted in the following manner to discuss the general policy issues common to both the Urban Local Bodies and Rural Local Bodies:

1	Chief Minister	Chairman
2	Minister of Finance	Member
3	Minister for Local Administration	Member
4.	Minister for Law	Member
5.	Mayor of Chennai Corporation	Member
6.	Mayor of Municipal Corporation other than Chennai	Member
7.	2 representatives from Municipal Chairmen	Members
8.	2 representatives from Town Panchayat Chairmen	Members
9.	2 representatives from District Panchayat Chairmen	Members
10.	2 representatives from Panchayat Union Chairmen	Members
11.	2 representatives from Village Panchayat Presidents	Members
12.	Chief Secretary	Member Secretary

**Note:** Other Ministers in the State Government may be invited as and when any item relating to a subject under their charge is to be discussed.

3.5. The Government will nominate the heads of local bodies to the Council. This Council can meet annually in January / February on the eve of the presentation of budget in the Assembly.

3.6. This Council shall be a recommendatory body. The terms of reference shall be as under:-

- i. To consider issues relating to the placement of the recommendations of the State Finance Commission, along with Action Taken Report of the Government on the floor of the Legislative Assembly within six months as specifically recommended by Eleventh Central Finance Commission vide para 8.11.c. of its report.
- ii. To review and sort out the delays and discrepancies, if any, arising in the distribution between the State and Local Bodies (both rural and urban) of the net proceeds of taxes, duties, tolls, fees, etc. and inter-se distribution among the local bodies as per the recommendations of State Finance Commission.
- iii. To discuss issues relating to the increase or decrease in the rates of taxation towards 'Assigned Revenue' which will have a bearing on the local bodies, before taking a policy decision by the Government.
- iv. To consider changes if any relating to the fiscal or any functional issues to be brought about after the acceptance of the SFC recommendations.
- v. To deliberate upon other issues, arising between State Government and the local bodies, as may be referred to by the Chairman of the Council.



3.7. Provision on the above lines may be made in the Tamil Nadu Panchayat Act and Tamil Nadu Urban Local Bodies Act respectively.

#### **4. Training needs of urban local bodies**

4.1. The present circumstances warrant upgradation of the capabilities of Tamil Nadu Institute of Urban Studies for imparting training to the huge manpower entrusted with the task of reorienting the urban sector.

4.2. Keeping this in mind, the Secretary to Government Finance Department has requested the Second State Finance Commission to consider setting apart a special fund from out of the devolution to the Local Bodies for the upgrading of Tamil Nadu Institute of Urban Studies at Coimbatore.

4.3. The Commission after considering the report of the sub committee formed to study the subject makes the following recommendations: -

a. The TNIUS should be revamped and necessary faculty (a mix of academicians, consultants and serving officers) may be positioned, who will engage in both training and research.

b. While core training may be given to the staff of Urban Local Bodies including Town Panchayats at Coimbatore, workshops for Officials, Chairman, Vice-Chairman / Mayor, Deputy Mayor is to be held at Chennai, and the training for Councillors of Corporations and Municipalities would be held in various regions, coinciding with RDMAs' regions. In respect of Town Panchayats, training for Councilors will be held at district level.

4.4. Infrastructure will be strengthened at a cost of Rs.5.00 Crores to be provided from State Finance Commission Devolution Fund to be given in two instalments @ Rs.2.50 Crores in the year 2002-03 and another @ Rs.2.50 Crores in the year 2003-04 to TNIUS Coimbatore, in the following manner.

Year	(Rs. in lakhs)		Total
	Buildings	Equipments	
2002-03	100	90	190
2003-04	210	100	310
<b>Total</b>	<b>310</b>	<b>190</b>	<b>500</b>

4.5. In respect of running cost for the TNIUS, the Commission recommends Rs. 25 lakhs per annum. Hence primary sources of funding shall be the Course Fee from Urban Local Bodies.

4.6. The training programmes of PMU at Chennai and TNIUS at Coimbatore are to be integrated from 1.4.2002.

4.7. Copy of the recommendations of the sub-committee is enclosed as Appendix- 11

#### **5. Training needs of panchayat raj institutions**

5.1. Panchayats need to function effectively, despite the very large number involved and widely varying resource base. This objective cannot be realized if elected representatives and officers involved in the activities of Local Governments do not possess requisite attitudes and skills. In order to strengthen the training needs of Panchayat Raj Institutions a Sub Committee was constituted by this Commission to analyze the infrastructure facilities now available in existing five RETCs and SIRD, Maraimalainagar and submit proposals for strengthening them. The Sub Committee made several

recommendations for strengthening the existing five RETCs and SIRD and felt that additional RETCs may be set up to cover the entire State.

5.2. This Commission after considering the report of Sub Committee makes the following recommendations.

1) A grant of Rs.6.00 crores may be given for meeting the fixed cost of SIRD, RETCs and for setting up two RETCs at Cuddalore and Koilpatti and amount may be given in two instalments one at Rs.3.00 crores in the year 2002-03 and balance of Rs.3.00 crores in the year 2003-04 in the manner in Annexure 3 (a)

2) In respect of running cost for these Training Institutions, this Commission recommends Rs.75 lakhs per annum at the rate of Rs.25.00 lakhs to SIRD and at the rate of Rs.10.00 lakhs to five RETCs as shown in Annexure 3 (b) and the devolution amount may be given to Commissioner of Rural Development for distribution to SIRD and RETCs every year based on felt need not exceeding the amounts indicated above.

3) The quality of faculty in SIRD/RETC may be enriched by having suitable linkage with reputed, accredited NGOs and faculty of the nearest University/ reputed academic institution.

4) This Commission recommends constitution of district level training committee as follows:

1) Collector	Chairman
2) P.A.(PD)	Member Secretary
3) Principal, RETC	Member
4) AD (Pts)	Member
5) One NGO at District level identified by Collector	Member
6) One Panchayat Union Chairman nominated by Collector	Member
7) Two Village Panchayats Presidents nominated by Collector	Member
8) Gandhigram Rural Institute / Nearest University Faculty	Member

The Committee should draw training plan every year and review the training programme once in three months. The Commissioner of Training should also review at State level that district plans are prepared well before February every year and programmes are organized as per plan. Commissioner of Rural Development should review the minutes of district level committee and action thereon once in three months.

5. This Commission also recommends 10% special allowance of basic pay for the trainers of RD Department also in the training institutions.

6. Local bodies - Tamil Nadu water supply & Drainage Board relations

6.1. Tamil Nadu Water Supply & Drainage Board was created in the year 1971 to act as an implementing agency for provision of water supply and sewerage schemes on behalf of the rural and urban local bodies area other than Chennai metropolitan area. In the absence of elected representatives in the local bodies from 1975 to 1986, Tamil Nadu Water Supply & Drainage Board became a monopolistic agency designing and executing water supply and drainage schemes on its own without any consultations with local bodies whatsoever.



6.2. All these years Tamil Nadu Water Supply & Drainage Board was exclusively relying upon ground water for satisfying the drinking water needs of people. The combined water supply schemes implemented in the last 10 years has resulted in cost and time overrun for which the local bodies had to pay a price, pushing them into debt trap. A sample of such projects which resulted in the repayment of loan/interest by local bodies without availing the benefit of the scheme has already been discussed in the chapter on Debt Management. The following would depict the plight of local bodies

6.3.1. The Tirupattur Municipality had a loan of Rs.1.40 crores as on 1.4.98. But the new augmentation scheme was drawn up in December 1996 by which Tamil Nadu Water Supply & Drainage Board had drawn a sum of Rs.81 lakhs in March 1997 itself. The fact remains that the work order for the scheme was given in September 2000. So far a sum of Rs.56.80 lakhs has been deducted towards old and new loans from 1998-99 onwards. This is a clear case of repaying the loan even before the scheme has been awarded for execution. A similar predicament came about in Shencottai water supply scheme. Tamil Nadu Water Supply & Drainage Board had drawn Rs.69.85 lakhs even before the work could be entrusted for execution.

6.3.2. In Salem, sewerage project has been conceived way back in early 1980's and TWAD had drawn a sum of Rs.175.17 lakhs. For want of land for sewerage treatment plant, the scheme has been abandoned but the Municipal Corporation has been repaying the loan liability without the scheme being put into operation.

6.3.3. In Madurai the comprehensive water supply project from Vaigai river costing Rs.60 crores conceived in 1980's and finally implemented in 1995 was one of the major reasons which resulted in the financial ruin of Madurai Corporation, as the OHTs constructed under the scheme were found leaking and this expected water charges did not materialize as people preferred public taps to individual house connection when water supply was erratic. Again two head works on the Vaigai river bed (Tiruppuvanam and Manalur) were so ill conceived as it was located downstream from Madurai city where the river was heavily polluted due to discharge of sullage and sewage and water had to be pumped against gravitational force at five times the normal cost and supplied to the residence in some parts of the city.

6.4. Thus the need to redefine the equation between the local bodies and Tamil Nadu Water Supply & Drainage Board would be obvious. While interacting with the Second State Finance Commission, the M.D. Tamil Nadu Water Supply & Drainage Board claimed that all the ills associated with the monopolistic nature of Tamil Nadu Water Supply & Drainage Board have been sorted out since 1998 and TWAD is now implementing 'Turn Key' system in executing its work through reputed contracting agencies from April 1999. Prior to this period, projects were divided into numerous works and awarded to several contractors, which had given rise to inefficiency, lack of coordination and delayed execution. Moreover the estimated cost is now frozen to check time overrun. The impact of the above revised system was checked up with DTP, CMA & Commissioner of Rural Development. While DTP has stated that Peraiyur Town Panchayat scheme under Golden Jubilee has been completed within the time frame under turnkey system, the other two heads of departments have stated that the impact is yet to be felt.

6.5. In the context of the above developments, our Commission commends the new system as it is primarily aimed at cutting down delay and consequential cost escalation. But there is need to give statutory backing to such measures. **Therefore, our Commission recommends that necessary amendments may be made to TWAD Board Act, Tamil Nadu Panchayat Act and TNULB Act so as to consolidate the gains that may accrue by virtue of the turnkey system.**

6.6. Instead of placing the funds entirely at the disposal of the Tamil Nadu Water Supply & Drainage Board, a better alternative would be to place the funds at the disposal of the Commissioner of Municipal Administration, who can monitor the flow of funds and release funds depending upon the pace of execution by Tamil Nadu Water Supply & Drainage Board. The amount received from HUDCO & LIC and other financial institutions for water supply and drainage can be kept in separate account maintained by Commissioner of Municipal Administration outside the public accounts of the Government.



**6.7.1.** The Second State Finance Commission recommends that funds be routed through the heads of department and not directly given to TWAD. Provisions for water supply may be made in the budgets of CMA, CRD and DTP in regard to respective local bodies. Further, a coordination committee may be formed with the following members to monitor the progress and release of funds.

- |      |   |                    |
|------|---|--------------------|
| i.   | <b>Commissioner of Municipal Administration</b>                                 | - <b>Convenor</b>  |
| ii.  | <b>Commissioner of Rural Development</b>  | } - <b>Members</b> |
| iii. | <b>Director of Town Panchayats</b>  |                    |
| iv.  | <b>Managing Director, Tamil Nadu Water Supply &amp; Drainage Board</b>          |                    |
| v.   | <b>Joint Secretary, Municipal Administration &amp; Water Supply Department.</b> |                    |

**6.7.2.** The committee may meet every month and regulate the release of funds to ensure that the funds of local bodies are not unduly locked up at Tamil Nadu Water Supply & Drainage Board, while at the same time Tamil Nadu Water Supply & Drainage Board does not suffer for want of funds during execution. The above procedure is better than routing funds through individual local bodies, even though that would be more logical.

**6.8.** The Urban Committee (February 1999), which prepared report on behalf of Urban Local Bodies for the Eleventh Central Finance Commission had, among other things pleaded for powers for Urban Local Bodies to choose their own implementing agencies for executing water supply projects. The main drawback in the implementation of water supply schemes is that Tamil Nadu Water Supply & Drainage Board does not / did not consult the local-bodies who are owners of the scheme.

**6.9.** There is a general preference for tapping ground water with bore well schemes / bore well fitted with power pump and conveying water over a long distance. Very often this results in neglect of local traditional sources, which are cheaper and dependable. Further in an era of public / private sector participation, Tamil Nadu Water Supply & Drainage Board need not have monopoly in execution of water supply and drainage projects. The successful execution of storm water drains by a private agency in Valasaravakkam Town Panchayat and the Alandur Sewerage Project must be used to encourage more such private initiatives. Such healthy competition will prove beneficial to the public. All these points have been discussed in detail in the critique on water supply.

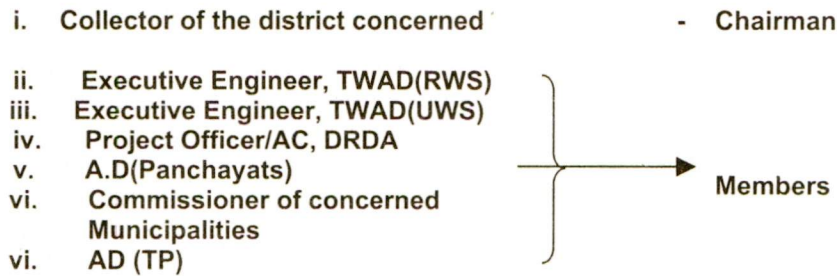
**6.10.1.** We also recommend that the Tamil Nadu Water Supply & Drainage Board may be revamped to include certain elected representatives of the local bodies in the following manner.

1. **Minister for Local Administration - Chairman**
2. **A Mayor of Municipal Corporation- (Other than Chennai)**
3. **A representative of Municipal Chairmen Association.**
4. **A representative of Town Panchayats Chairmen Association**
5. **A representative of Village Panchayats Presidents' Association.**

**6.10.2.** While choosing the representatives, it needs to be ensured that the incumbents are a different set of elected representatives and not those on the Town and Country Planning Board. **The Commission also recommends that Tamil Nadu Water Supply & Drainage Board Act may be amended to give effect to the above changes.**

**6.11.** We also recommend that a committee may be constituted at District level as below, to sort out various field level problems such as land acquisition, laying pipes etc. It may also debate on choosing of works in rural areas with suggested priority of habitations and recommend to TWAD, based on which TWAD will execute the works. (In such meetings functionaries (i) to (iv) will deliberate).





6.12. This committee can meet every quarter and sort out all problems between TWAD and the local bodies. For instance, water received by each ULB at its boundary has to be metered for making payments. If there is dispute, Collector may co-opt PWD engineers to give their readings in the presence of representatives of TWAD and ULBs and arbitrate. Again this Committee may intervene if a particular local body where the water sources for a combined water supply scheme is located, refuses to share water with other local bodies. The Committee may also look into the following issues:

- a) Curtailing of sand quarrying in areas adjacent to head-works.
- b) Illegal Tap connections to be assessed and action pursued
- c) Prevention of pollution of drinking water sources
- d) Proper fillup to community consultation
- e) Ensuring the quantum arrived at for each local body in the combined water supply scheme as conceived at the project execution stage with reference to the relative costs shared.

6.13. As in the case of CMDA and Commissionerate of Town and Country planning, it is necessary to send on deputation engineer / diploma holders to five corporations and bigger municipalities in which major projects are executed. This will ensure transfer of expertise to these Urban Local Bodies. One of the negative features of the functioning of TWAD Board is that it continued to be in financial deficit for the past three years. Hence, it is necessary that TWAD Board, which is now said to contain some 11240 personnel of various categories and functions, gradually reduces its strength over the years, to reduce the overhead costs. This Commission learns with satisfaction that TWAD is now (April 2001) in the process of privatizing some of the combined water supply schemes for which Government and TWAD deserve our commendation. When TWAD employees are sent on deputation/transfer to local bodies, proper training need to be imparted so that the employees of local bodies would be equipped to properly maintain the projects.

## 7. Chennai Metropolitan Water Supply & Sewerage Board

7.1. Prior to the year 1978, the Chennai Corporation was engaged in providing water supply and sewerage facilities to its residents. Chennai Metropolitan Water Supply & Sewerage Board was set up in 1978 for exclusively attending to the water supply and sewerage services in Chennai metropolitan area. Under the Chennai Metropolitan Water Supply & Sewerage Board Act 1978, it is empowered to collect water tax, water charges and sewerage charges from the public. In this respect it is qualitatively different from Tamil Nadu Water Supply & Drainage Board which is an executing agency and also does not levy any tax on public. The question of allocating a portion of amount to Chennai Metropolitan Water Supply & Sewerage Board from out of the devolution to Chennai Corporation engaged the attention of First State Finance Commission. Before taking any view, the contention of Chennai Metropolitan Water Supply & Sewerage Board for deeming it as a local body has been checked up by our Commission with reference to the newly enacted Tamil Nadu Urban Local Bodies Act, 1998. In the above Act, Chennai Metropolitan Water Supply & Sewerage Board has been referred to in Section 40 (ii) and 153. In other words, the said Act has recognised Chennai Metropolitan Water Supply & Sewerage Board as a local authority for water supply and sewerage services.



7.2. This was put across before the Chennai Corporation Commissioner whose views on the issue of setting apart a portion of devolution to Chennai Metropolitan Water Supply & Sewerage Board, are broadly as follows:

1. Chennai Metropolitan Water Supply & Sewerage Board is not a local body. It is separate board in charge of water supply and sewerage activities.
2. There is no waiver of tax allowed for the educational institutions by the Chennai Metropolitan Water Supply & Sewerage Board.
3. There are no exempted categories for levying water tax and sewerage tax under the new Tamil Nadu Urban Local Bodies Act 1998.

7.3. In the above backdrop, the Managing Director, Chennai Metropolitan Water Supply & Sewerage Board was invited for interaction with our Commission. During interaction, the Managing Director, Chennai Metropolitan Water Supply & Sewerage Board pleaded for setting apart 6 to 7% of the Second State Finance Commission devolution to Chennai Metropolitan Water Supply & Sewerage Board by dwelling on the project cost, present funding pattern and O & M for the next 20 years. The activities of Chennai Metropolitan Water Supply & Sewerage Board as of now and the focus for the future are discussed in the chapter on Assessment of Civic Needs and Finances.

7.4. During our interaction with common functionaries connected with Chennai Corporation and Chennai Metropolitan Water Supply & Sewerage Board they have opined that setting apart 10% to 15% of devolution available to Chennai Corporation would be in order.

7.5. The Managing Director, Chennai Metropolitan Water Supply & Sewerage Board also sent the legal opinion on the existence / continuance of Chennai Metropolitan Water Supply & Sewerage Board in the wake of 74<sup>th</sup> Constitutional Amendment Act. The legal opinion heavily relies on Art 243W which enables the state legislature to enact law endowing the Municipalities with such powers and authority as may be necessary to perform the functions, in relation to matter listed in the XII Schedule of the Constitution which is identical to XI Schedule to the Municipal Corporation Act. Art 243 W has left the matter to the discretion of the legislature, which is seen by the use of the expression 'may', and which resembles the use in Section 415 of the Municipal Corporation Act. Therefore, if the state legislature in its wisdom had thought it fit to entrust some of the items of work to a statutory body that cannot be stated to be inconsistent with 74<sup>th</sup> Constitutional Amendment Act. Further, it would not be wise to wish away Chennai Metropolitan Water Supply & Sewerage Board, as over the years it has gained expertise in this field. As a statutory body it is approaching the capital market for borrowing and HUDCO is funding the Metro-water projects without Government guarantee. The M.D., Chennai Metropolitan Water Supply & Sewerage Board has also stated that the externally aided projects, which are a mixture of 30% grant and 70% loan, the Government, have been retaining a share of 12.5% and passing on the remaining 17.5% grant to Chennai Metropolitan Water Supply & Sewerage Board. On the other hand, the entire Krishna-project is funded by Government.

7.6.1. The Commission has considered all the above aspects carefully. Among the Metropolitan cities, Chennai City alone lags behind Delhi, Mumbai and Kolkatta in per capita supply. In order to encourage the Chennai Metropolitan Water Supply & Sewerage Board in its efforts mentioned above, **the Second State Finance Commission, as a matter of policy, recognizes Chennai Metropolitan Water Supply & Sewerage Board as local authority eligible for devolution. The Commission recommends setting apart 10% from out of the devolution payable to Chennai Corporation towards the share of Chennai Metropolitan Water Supply & Sewerage Board. This is earmarked for strengthening and streamlining the distribution system till it is made fool-proof. The Commission recommends that DLFA be made the statutory auditor of Chennai Metropolitan Water Supply & Sewerage Board. The recommendations and observations made in the chapter on civic needs relating to Chennai Metropolitan Water Supply & Sewerage Board are reiterated : in particular rightsizing of the organizational strength should be undertaken.**



7.6.2. The devolution recommended by the Commission is also subject to recasting Board with inducting the following elected representatives in the Board of Chennai Metropolitan Water Supply & Sewerage Board.

- |    |  |   |
|----|--|---|
| a) | Mayor of Chennai Corporation                             | Deputy<br>Chairman<br>CMWSSB<br><br>} Members |
| b) | 2 Ward councilors of Chennai Corporation                 |   |
| c) | One Municipal Chairman in the CMA serviced by CMWSSB     |   |
| d) | One Chairman of Town Panchayat in CMA serviced by CMWSSB |   |

The Minister in charge of Local Administration will continue as the Chairman of the Board whose operations may continue as at present with a full time Managing Director. It is also necessary in the context of proper distribution, ward level co-ordination by having Ward councilor, field level officer of Chennai Corporation and J.E. level officer of CMWSSB to meet once in a week to sort out problems of water supply and the like.

7.6.3. Hence the Second State Finance Commission recommends the induction of elected representatives in the Board of Chennai Metropolitan Water Supply & Sewerage Board as mentioned in para 6.2. above. It also recommends that Ward level coordination may also be evolved as indicated above.

## 8. Equation between Chennai Corporation and Chennai Metropolitan Development Authority

8.1. It was believed in the 1960s that the Chennai Corporation being the gateway to the South and growing metropolis was already overburdened with running the day to day affairs of the city, it does not have the time or the orientation to develop a vision for the city with a long term perspective. In this background, the Chennai Metropolitan Development Authority was created under section 9A of the Town & Country Planning Act 1971. Under section 9C of the Act, Chennai Metropolitan Development Authority is the planning authority for the Chennai metropolitan area. As consistent with the provisions of this Act, Chennai Metropolitan Development Authority was expected to confine itself to the development of a long range perspective master plan to the city or a vision document for the city 50 years hence. When planning is considered an unglamorous activity in our scheme of things, slowly taking advantage of the absence of elected representatives in Chennai Corporation from 1973 onwards, the Chennai Metropolitan Development Authority took upon itself regulatory and enforcement roles such as sanctioning building licences, which rightfully belong to the realm of local bodies.

8.2. However, now that (i) urban planning including town planning and (ii) regulation of land use and construction of buildings are the first two entries under Twelfth schedule of the Constitution envisaged to be performed by Urban Local Bodies and with the constitution of Metropolitan Planning Committee envisaged under section 243(ze) it is only proper to redefine Chennai Metropolitan Development Authority's role.

8.3. In the last 30 years of its existence Chennai Metropolitan Development Authority is credited with only one master plan drafted in 1975 and the second master plan is said to be in the pipeline. In the present scheme of things, Chennai Corporation is permitted by Chennai Metropolitan Development Authority to issue building licence for buildings upto ground and first floor and the remaining high rise buildings will have to obtain building licences from Chennai Metropolitan Development Authority. In the case of other Urban Local Bodies and Panchayat Raj Institutions within the Metropolitan area, Chennai Metropolitan Development Authority is the sole authority for issuing building licence. One estimate is that there are nearly 3 lakhs building plan violations in Chennai metropolitan area alone, whereas official figures given are much below 10,000. One reason for this large scale violations is that the Chennai Metropolitan Development Authority has deviated from its original role as a planning authority and



become the regulatory authority, a task which is better performed by the concerned local bodies. The recent devastation caused by earthquake in Ahmedabad reveal that it was more a man made disaster than a natural disaster as 80% of the buildings that crashed were unauthorized. This, coupled with the fact that there are nearly 3 lakhs building plan violations in Chennai metropolitan area , shows that in the event of a disaster the effect would be devastating. This can be prevented only if regulatory and enforcement functions of Chennai Metropolitan Development Authority are immediately restored to the respective local bodies. The need for transfer of enforcement functions arises also from the fact that the Chennai Metropolitan Development Authority right from September 2000 to March 2001 was engaged in regularizing the deviations ,and the owners of the buildings had to run from pillar to post. In fact in the history of Chennai Metropolitan Development Authority grievance day was observed for the first time in February 2001. This confirms the general perception that its regulatory function is best entrusted to the respective urban local bodies.

8.4. In order to develop Chennai as a mega city, all the local bodies located within the urban agglomeration were contributing 1% of their revenue besides development and OSR charges towards a corpus fund. However, not even 10% of the collection of developmental charges from each local body is ploughed back into the concerned local body for its benefit. This Commission learns that this 1% contribution from the local bodies has been reduced to 0.25% and Chennai Metropolitan Development Authority is pleading with the Government for restoring it to 1%.

8.5.1. An expert body like Chennai Metropolitan Development Authority needs to have futuristic approach. To give an illustration : it is stated that Shanghai (in China) is slowly sinking due to massive investments: A body like Chennai Metropolitan Development Authority is eminently suited to undertake similar study relating to Chennai and based on its findings come up with medium - term solution and long - term policies.

8.5.2. Likewise, while assessing the impact of special projects like MRTS, the possible traffic increase in each station and concerned hinterland may be taken into account and detailed development plan for each area may be prepared for integrated rail and road transport management.

8.6. In the above scenario, the Commission makes the following recommendations.

- i) The Chennai Metropolitan Development Authority should confine itself to pursuance of goal setting, resource allocation, determining priorities, capital budgeting, coordination and monitoring and should pursue these areas at all times.
- ii) The Chennai Metropolitan Development Authority should not take upon itself any execution role or the task of line agency or dissipate its energy, expertise and manpower resources in dealing with planning permissions and granting licenses, which task the local bodies are better equipped to perform more effectively and diligently.
- iii) Consistent with our recommendations to confine Chennai Metropolitan Development Authority to planning activity only we recommend for the transfer of at least 300 officers and staff out of the present strength of 900 from Chennai Metropolitan Development Authority to be sent on deputation to Chennai Corporation and major Urban Local Bodies within Chennai metropolitan area to man the town planning wings in these local bodies. Eventually they may be absorbed in the respective local bodies.
- iv) It also recommends that all matters relating to layouts or even regularization of buildings beyond 5 floors may be dealt with by a committee headed by Commissioner Chennai Corporation, Member Secretary Chennai Metropolitan Development Authority or Chief Urban Planner and an Additional Director from Commissionerate of Municipal Administration.
- v) As envisaged in our paragraphs on Metropolitan Planning Committee, Chennai Metropolitan Development Authority may be used as a secretariat of the Committee.



## 9. Constitution of Metropolitan Planning Committee

9.1. As per Article 243-ZE of the Constitution of India, there shall be constituted in every Metropolitan area a Metropolitan Planning Committee to prepare a draft development plan for the metropolitan area as a whole. The Metropolitan Planning Committee as contemplated in Constitution of India is a Constitutional body vested with the powers to decide on the planning needs of the metropolitan area. Before the advent of the 74<sup>th</sup> Constitutional Amendment Act, the CMDA was created to take care of the Metropolitan needs as per the State law "Town and Country Planning Act 1971". If the constitutional body viz. Metropolitan Planning Committee is put into operation, the role of CMDA will have to be redefined.

9.2. The metropolitan area of Chennai extends over 1172 Sq.Km with a population of 5.7 million (1991). All the local bodies existing within the metropolitan area are overburdened by a multiplicity of tasks and responsibilities relating to the provision of basic amenities like drinking water, housing, sanitation and living environment. Several civic functions previously exercised by the local bodies within the Chennai Metropolitan area are now performed by different line agencies such as Chennai Metropolitan Development Authority (CMDA), Chennai Metropolitan Water Supply and Sewerage Board, TamilNadu Slum Clearance Board etc. There is need for co-ordination and co-operation between the line agencies and the local bodies. The Urban Local Bodies in Chennai Metropolitan Area as also the interspersed Panchayat Raj Institutions therein do not have a comprehensive plan for development of civic services to improve the quality of life.

9.3. As per Article 243-ZE (2) (b) of the Constitution of India, the legislature of a State may, by law, make provision with respect to the manner in which the seats in Metropolitan Planning Committees shall be filled; provided that not less than two-thirds of the members of such Committee shall be elected by, and from amongst, the elected members of the Municipalities and Chairpersons of the Panchayats in the Metropolitan area in proportion to the ratio between the population of the Municipalities and of the Panchayat area.

9.4. In order to take a holistic view about Metropolitan problems, **this Commission recommends that the Chennai Metropolitan Planning Committee be constituted as under:-**

1. Minister for Local Administration	Chairman
2. Mayor, Chennai Corporation	Vice Chairman
3. Vice Chairman, Chennai Metropolitan Development Authority	Executive Vice Chairman
4. Secretary, Finance Department	Member
5. Member Secretary, Chennai Metropolitan Development Authority	Member Secretary
6. Commissioner, Chennai Municipal Corporation	Member
7. Commissioner of Municipal Administration	"
8. Commissioner of Rural Development	"
9. Director of Town Panchayats	"
10. District Collector, Chennai	"
11. Director of Town and Country Planning	"
12. Members elected by and from amongst the elected members of the Panchayati Raj Institutions in the Metropolitan area in proportion to the ratio between them	9 members
13. Members elected by and from amongst the elected members of the Urban Local Bodies in the Metropolitan area in proportion to the ratio between them	10 members
Total	30 members
14. a) District Collector, Kancheepuram b) District Collector, Thiruvallur	Spl. Invitees

The following functionaries may be nominated as the standing invitees of the committee whenever their subject is taken up for discussion by the committee.

1.	MPs / MLAs	5 or 6 Members
2.	Secretary, Municipal Administration and Water Supply Department	Member
3.	Secretary, Rural Development Department	Member
4.	Secretary, H &UD Department	Member
5.	Secretary, Transport Department	Member
6.	Managing Director, TWAD	Member
7.	Managing Director, Chennai Metropolitan Water Supply and sewerage Board.	Member
8.	Managing Director, Tamil Nadu Slum Clearance Board	Member
9.	Managing Director, Tamil Nadu Housing Board	Member
10.	Commissioner of Police	Member
11.	Chief Engineer (Highways and Rural Works)	Member
12.	General Manager, Southern Railway	Member

9.5. This commission also suggests that the Government may make necessary amendment to the TNULB Act 1998 (when it is re-notified) to give effect to the constitution of the Chennai Metropolitan Planning Committee as envisaged in para 4 above.

9.6. The Commission recommends that Minister (Local Administration) may be the Chairman of Chennai Metropolitan Development Authority also to ensure effective coordination between Chennai Metropolitan Development Authority and Chennai Metropolitan Committee.

9.7. This Commission envisages following functions for the Metropolitan Planning Committee:

- i) Assisting Urban Local Bodies & Panchayati Raj Institutions to prepare a comprehensive master plan.
- ii) Approval for launching new schemes by all local bodies
- iii) Processing and recommending allocation of funds for capital works.
- iv) Monitoring the progress of implementation of capital works.
- v) Development control on all Local Bodies
- vi) Formal prior consultation on Budget allocations by all local bodies.
- vii) Ensuring co-ordination, monitoring and evaluation in providing Services by line agencies of local bodies.
- viii) Regulation of finance flow from State Finance Commission devolution Government grants and aids to the local bodies.

9.8. The present office of Chennai Metropolitan Development Authority may be the Secretariat of the Committee for Metropolitan planning of Chennai. The role of issuing individual building licenses and permissions and the enforcement machinery now with the Chennai Metropolitan Development Authority for attending to the deviation etc., may be transferred to the urban local bodies. The Metropolitan Planning Committee will formulate realistic and effective urban development planning systems incorporating resource mobilization plans, formulation of new projects, institutional mechanisms for implementation, etc., for all the urban local bodies of the Metropolitan area including the interspersed Panchayat Raj Institutions therein.



9.9. The Metropolitan Planning Committee needs to be made responsible for integrating all the activities of the line agencies to provide quality core civic services. The extension of Krishna Water to Alandur Municipality, Comprehensive water supply scheme for Pallavaram and Alandur Municipalities and creation of common (centralized) land fill sites are a few schemes warranting the unified action by all urban local bodies in Metropolitan area including the interspersed Panchayat Raj Institutions therein.

**10. Licensing and planning functions : equation between local bodies and Directorate of town & country planning**

10.1. The Directorate of Town Planning was set up as early as 1920 but reorganized as Directorate of Town & Country Planning in 1971 in the wake of separate enactment to primarily guide, direct and assist the planning authorities and advise the Government in matters relating to planning and development and the use of rural and urban land in the State. The planning authorities in the State are three as follows:

- i) Regional Planning Authority
- ii) Local Planning Authority
- iii) New Town Development Authority

10.2. In all these authorities, there is no representation for the local bodies, as they were all created prior to the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments in 1992. The rationale in setting up DTCP as an exclusive organization for urban planning was that the local bodies are fully immersed in the day-to-day running of the city such as providing essential civic amenities. Hence, it was felt that the ULBs particularly Corporations and Municipalities would not have the orientation and expertise to attempt long term perspective urban planning amidst their humdrum work schedule. However the master plans developed for Municipal local bodies have not been properly put to use by way of detailed development plan. Further because of the centralized functions the people have to run to Chennai to get their plans approved. Now that urban planning including town planning is the first entry in the Twelfth schedule of the Constitution, time has come for some kind of linkage to be brought about between local bodies and DTCP. For this, the Commission recommends the Section 5 of the Town & Country Planning Act may be amended to induct elected representatives from each category of local bodies. The Commission also recommends that the Commissioners / Executive Officers of Municipalities / Town Panchayats instead of the Town Planning Officers as at present may be immediately inducted as member of the composite planning authority.

10.3. The Commission also recommends that the Tamil Nadu Town & Country Planning Act 1972 may be amended suitably so as to enable the local bodies to undertake urban planning, development and regulation, without the interface of the Local Planning Authorities. This recommendation is directly applicable in the case of single Planning Authorities, where the Planning Area notified is coterminous with Municipal Area and the Municipal Council is the planning authority and the executive authority of the Municipality is the executive of the planning authority. The objective could be achieved by suitably designating the Municipalities as the planning authorities instead of notifying a planning authority separately as is being done now. This could be achieved by a simple amendment to the sections 10 and 11 of the Tamil Nadu Town & Country Planning Act 1972.

10.4. The 16 and odd composite Planning Authorities might be retained but their structure so modified as to make them broad based by giving adequate representation and say to the executive authorities and elected Chairmen of the various local bodies, which form an integral part of the Planning Authority. The State Town and Country Planning Act may be suitably amended. The Directorate of Town & Country Planning should not involve itself in the routine tasks of issuing planning permissions irrespective of the nature of construction of area or development so long as they are in accordance with developmental planning parameters. This task is appropriately left to Local Planning Authorities or even better still to Municipal authorities as the Town & Country Planning act permits such delegation.



10.5. Handing over Integrated Urban Development Programme administration to TUFIDCO has been dealt with in the chapter on Debt Management. This would enable DTCP to concentrate on town planning.

10.6. Consistent with our view that detailed perspective planning is a specialized task best performed by an agency like DTCP and sanction of individual building permits can be easily done by local bodies, **we also recommend that the Directorate of Town & Country Planning may retain personnel required for planning and other specialized nature of work. The remaining officers/staff may be transferred to five Municipal Corporations (other than Chennai) and RDMA's offices. The officers/staff suggested for transfer will take care of the functions, which are now attended to by the regional officers of the Directorate. The idea behind the move is to avoid dual control. The above mentioned officials to be positioned in RDMA's offices will take care of the building permits and other functions relating to Town Panchayats also, as it is not possible to have another set of officials for Town Panchayats which have been classified as Urban Local Bodies. In the case of building permits, lay-outs etc. relating to Village Panchayats, the officers and staff may be transferred to Collectorate concerned with AD of Town and Country Planning or Town & Country Planning officers as the case may be who will function as PA (T & CP) to Collector so that most of the functions of T & CP relating to Village Panchayats can be settled at the district level itself.**

10.7. In the above context most of the enforcement functions need to be vested with Urban Local Bodies and that Chennai Metropolitan Development Authority /Director of Town and Country Planning will have to limit their role to planning only. In the light of the above changes, the Commission suggests that it would be in the interest of uniformity in scrutiny and monitoring, if Chennai Metropolitan Development Authority/Director of Town and Country Planning are brought under the control of one department viz. Municipal Administration & Water Supply Department at Government level.

## **11. Area planning: Local bodies and Tamil Nadu Housing Board**

11.1. This Commission learns that section 152 of the Tamil Nadu Housing Board Act enables the Board to function like a local authority in any area in respect of which a housing or improvement scheme is in force; the Government may by notification declare that for the period during which such scheme remains in force and subject to such restriction and modifications, if any, as may be specified in the notification, the powers and functions exercisable by a local authority or its executive authority under the enactment constituting such local authority shall be exercised by the Board or by its M.D. as the case may be. According to this proviso local body will have no say in the matter of layout, building regulations, building fees, levy of vacant land tax, provision of open space, adoption of standards for roads and drains etc.

11.2. The above provision conceived long before the enactment of 73<sup>rd</sup> & 74<sup>th</sup> Constitution Amendment Acts, in 1992 is inconsistent with the constitutional provisions. Local body is a constitutionally recognized authority and no other subordinate Act can override Constitutional provisions.

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

## **12. Equation between Urban local bodies and Tamil Nadu Slum Clearance Board**

12.1. The Tamil Nadu Government enacted the Tamil Nadu Slum Areas (Improvement and Clearance) Act 1972 to provide accommodation and basic civic amenities to the slum dwellers. The areas encroached by slum dwellers were either Government lands or private lands. The Act provided for acquisition of private lands also. During the late 1970's the slums were identified and a census was taken. According to this census, there were 1202 Slums throughout the State, including 1157 notified slums. No further census was taken and today there are hundreds of slums not covered by the above Act.



12.2. This Commission learnt that the Board which was set up in 1970 has been implementing two schemes: one, where the completed flats are given out on rental basis for which the Board is remitting property tax to the concerned local-bodies and later on the Government is reimbursing the Board, and in another scheme flats are constructed and sold out by the Board, but the residents in these flats are not paying any property tax. In Chennai alone, the property tax dues from such slum tenements from 1995-96 to 1999-2000 work out to Rs.301.19 lakhs.

12.3. While the Central Government funds for providing basic amenities to slum dwellers are routed through local bodies, under NSDP programme, the Tamil Nadu Slum Clearance Board also provides basic amenities. Hence, there is need to demarcate the role and functions of Tamil Nadu Slum Clearance Board and local bodies to ensure that there is no duplication of efforts. After the advent of 74<sup>th</sup> Constitution Amendment Act which confers powers on urban local bodies, to undertake slum improvement and upgradation, vide S.No.10 in Twelfth Schedule, the existence of a separate statutory body for slum improvement needs rethinking. However, as Tamil Nadu Slum Clearance Board has developed expertise in this field over the last three decades, it is desirable to use its expertise. **After a careful consideration, this Commission suggests that Tamil Nadu Slum Clearance Board as a statutory Board may continue with its assigned role of constructing tenements to slum dwellers in Chennai Corporation only as explained in Para 4. It also recommends rescinding the notification extending the jurisdiction of Tamil Nadu Slum Clearance Board to Town Panchayats in 1995.**

The Commission has been informed that Tamil Nadu Slum Clearance Board has constructed about 60000 flats in Chennai Metropolitan area and about 7000 in mofussil. From 1997 the TNUDP has not been providing funds to Tamil Nadu Slum Clearance Board.

12.4. The Tenth Central Finance Commission has provided funds for slum improvement and the Tamil Nadu Slum Clearance Board has taken up construction of flats in Oggiumthuraipakkam. The list of beneficiaries selected by Tamil Nadu Slum Clearance Board may be formally intimated to the respective Corporations so that their views may be taken into consideration before finalizing the beneficiaries list. While the slum tenements in Chennai Corporation may be with Tamil Nadu Slum Clearance Board, tenements in other Corporations and slum improvement and in site improvement need to be transferred to the Urban Local Bodies. It is reported that the Tamil Nadu Slum Clearance Board has borrowed funds from HUDCO. Hence as and when the properties are taken over by the Urban Local Bodies, the dues from the residents have to be collected by the local bodies and remitted to HUDCO. A sum of Rs.49 crores has been provided by Eleventh Central Finance Commission for slum improvements in Chennai, Madurai and Coimbatore. Out of this, the construction and maintenance in Chennai can be with Tamil Nadu Slum Clearance Board. In respect of Madurai and Coimbatore Tamil Nadu Slum Clearance Board can construct on behalf of these Corporations as an executing agency and then hand over tenements to these Corporations for maintenance.

12.5. Hence, Second State Finance Commission **recommends that the approach roads leading to the slum tenements should be maintained by the local bodies and that all basic amenities may be provided by the concerned local body. The present practice of Tamil Nadu Slum Clearance Board remitting property tax and getting it reimbursed from Government may continue. In respect of apartments sold on 'out-right-sale' basis the concerned local body should immediately arrange for collection of property tax from its owners, with the assistance of TNSCB on the due dates with deterrent punishment for defaulters. The huge arrears of property tax noticed in Chennai Corporation may be collected within a period of two years. The Commission also recommends that the Tamil Nadu Slum areas (improvement and clearance) Act may be amended to give effect to the measures suggested.**

12.6. To ensure that there is effective co-ordination between Corporations and TNSCB, **the Commission recommends induction of elected representatives on the Slum Clearance Board as under:**



- i) Minister in charge of TNSCB - Chairman  
(Housing Minister)
- ii) Mayor of Chennai Corporation - Deputy Chairman

### 13. Relationship between Tamil Nadu State Pollution Control Board and Urban local bodies

13.1. Tamil Nadu State Pollution Control Board created in 1982 is attempting to provide clean environment by enforcing the following Acts and rules:

- i. Water (prevention and control of pollution) Act, 1974 as amended in 1988.
- ii. Water (Prevention and Control of Pollution) Cess Act, 1977 as amended in 1991
- iii. Air (Prevention and Control of Pollution) Act, 1981 as amended in 1987)
- iv. Environment (Protection) Act 1986
- v. Hazardous wastes (Management and Handling) Rules, 1989
- vi. Manufacture storage and import of hazardous chemical Rules, 1989
- vii. The Public Insurance Liability Act, 1991
- viii. Bio -Medical Wastes (Management and Handling )Rules, 1998
- ix. The Municipal Solid Waste (Management and Handling) Rules, 1999 dated 27.9.99

13.2. Earlier TNSPCB was the sole agency responsible for the prevention of water, air and land pollution. However from the early 1990's as per the Twelfth schedule to 74<sup>th</sup> Constitutional Amendment Act, Urban Local Bodies have been given responsibility regarding Protection of Environment and Promotion of Ecological aspects vide S.No.9 of the schedule and Section 175 to 179 of TNULB Act. Thus, it is imperative to maintain close co-ordination and co-operation between Tamil Nadu State Pollution Control Board and Urban Local Bodies for effective monitoring of environment.

13.3. This Commission came to know that recently in the case of Chitlapakkam Town Panchayat, TNSPCB issued a notice against the Town Panchayat for abatement of pollution. Instead, TNSPCB should have taken up the matter with Government and Director of Town Panchayats and sensitized the local body about environmental issues.

Further, there is at present no logic or relevance in claiming the right to levy the so called Water Cess on local bodies ostensibly under the Water Cess Act of 1977 by the TNSPCB on the basis of water made available to the public as it is a core civic service rendered by the local bodies.

13.4. At the same time, it is to be acknowledged that the TNSPCB has developed expertise in combating pollution of all kinds. This expertise which TNSPCB has developed over two decades will have to be shared with Urban Local Bodies through training programmes, workshops to both elected representatives and officials. Then, together as co-partners both ULB & TNSPCB will have to fight pollution. Eventually after Urban Local Bodies have developed adequate expertise in this field, TNSPCB can function as a unit attached to major Urban Local Bodies, starting with Corporations.

13.5. Therefore, the commission recommends that District Level Committees consisting of following members may be constituted for all the Districts except Chennai District to monitor effective implementation of environmental and pollution control programmes launched by Tamil Nadu Pollution Control Board in Urban Local Bodies.

- |    |   |   |          |
|----|---|---|----------|
| a. | Collector                                   | : | Chairman |
| b. | District Environmental Engineer of TNSPCB   | : | Member   |
| c. | RDMA  | : | Member   |
| d. | ADTP  | : | Member   |
| e. | Commissioner of Municipality / Corporation. | : | Member   |



**13.6. For Chennai Corporation area, the Committee will be under the chairmanship of the Mayor of Chennai, with the Chairman TNSPCB, and Commissioner, Corporation of Chennai as members.**

**13.7.1. Functioning of the TNSPCB needs to be restructured in a such way that the following responsibilities are discharged effectively in close co-operation with Urban Local Bodies.**

- a. **Regional Waste Management Planning**
- b. **Developing the capabilities in regulation of sanitary landfill sites**
- c. **Scientific disposal of Municipal solid waste in a centralized landfill sites for a group of Urban Local Bodies**
- d. **Enforcement of the provisions of statutes to create clean urban environment.**

**13.7.2. Before issuing licence for establishment of an industry, it would be appropriate to obtain the environment impact assessment and to apply the concept of 'Polluter pays' as pronounced by the Apex court in the judgement against shrimp farms (February 1995).**

#### **14. Equation between local bodies and Tamil Nadu Electricity Board**

14.1. Tamil Nadu Electricity Board is another line agency whose activities directly impinge upon the Local Bodies. Some of the common problems frequently faced by the Local Bodies are briefly given below: due to low voltage problems Local Bodies are forced to install two types of lights, as mentioned elsewhere, leading to additional power consumption. This low voltage problem is also cited as a reason for frequent replacement of chokes, spares, etc. This Commission was informed that the low voltage problem will be reduced in the coming years due to increased generation and strengthening of distribution. During the district visits of the Commission, we were informed that the service charges payable to the electrician for replacing defective bulbs, tube lights, etc, varied from Rs. 5 to Rs.10, as the rates are fixed by S.Es., Tamil Nadu Electricity Board, of the concerned region. When this Commission brought to the notice of the Tamil Nadu Electricity Board that they have given a number of metered cards to the Local Bodies and it will help the Local Bodies if all these metered cards are consolidated and one card is given to one Local Body. Tamil Nadu Electricity Board responded with alacrity and issued consolidated card, which is commendable. The elected representatives were also aggrieved that Tamil Nadu Electricity Board was giving house service connections to houses constructed in poramboke lands without obtaining NOC from the concerned Local Bodies. The elected representatives of the Local Bodies unanimously feel that Tamil Nadu Electricity Board is generally not prompt in providing services sought for by them. The Commission also learnt that the staff working in the field units of Tamil Nadu Electricity Board are not remitting profession tax due to the Local Bodies.

14.2. Another area where both officials and non officials have legitimate grouse against Electricity Board is levying of charges for shifting of electricity poles. While at the time of installing a pole for streetlights, a charge is levied and again for shifting either at the instance of Highways department or any department, the Electricity Board is levying the charge on local bodies. In this connection the relation between Tamil Nadu Electricity Board and the local bodies appears to be one sided. In the discussion, the Tamil Nadu Electricity Board functionaries mentioned that Indian Electricity Act permits electric poles being installed on the land of local bodies without any payment. On the other hand, Tamil Nadu Electricity Board insists on payments by local bodies even before shifting of poles is done for legitimate reasons.

14.3. This Commission feels that the local bodies have a case. **Hence Second State Finance Commission recommends that a nominal fee of Rs.1000/- may be levied for shifting of Electricity Board poles by amending the relevant Act /rules /guidelines. Similarly, the Commission recommends that a tract rent of Rs.1000/- may be levied by local bodies on any agency including Tamil Nadu Electricity Board for using the local body land by amending the relevant Act /rules /guidelines.**



14.4.1. Further in order to sort out field-level problems, **the Commission recommends that the following District level Co-ordination Committee may be formed.**

- |                          |             |
|--------------------------|-------------|
| 1) District Collector    | - Chairman  |
| 2) SE, TNEB              |             |
| 3) RDMA                  |             |
| 4) A.D., Town Panchayats | - } Members |
| 5) A.D., Panchayats      | - }         |

The above committee shall meet once in a quarter to sort out various issues relating to local bodies and Tamil Nadu Electricity Board.

14.4.2. The Commission also makes the following recommendations: -

- i) **Tamil Nadu Electricity Board shall obtain the NOC from Village Panchayats before giving house service connections to houses constructed in poramboke lands.**
- ii) **Tamil Nadu Electricity Board should insist on production of registered document or patta, any proof of legitimate ownership of property before giving electricity connections to individual properties.**
- iii) **The service charges payable to the electricians by Village Panchayats may be fixed by Chairman, Tamil Nadu Electricity Board uniformly in consultation with the Commissioner of Rural Development .**

This Commission also suggests the Tamil Nadu Electricity Board to take steps to reduce the low voltage problem including installation of suitable transformers for streetlights urgently to reduce the O&M expenses of Local Bodies.

## 15. Panchayat Raj Institutions - Equation with H & RW Department

15.1. Originally, Highways & Rural works Department was involved in the formation of rural roads other than village panchayat roads upto B.T.Standards. All the rural roads including ODRs except village Panchayat roads were under the control of District Boards till they were abolished. These roads were maintained with assistance of engineers on deputation to the District Boards from Highways & Rural works department. After the District Boards were abolished and Panchayat Unions were constituted in 1960, ODRs were brought under the control of Highways and Rural Works Department and all the rural roads were entrusted to Panchayat Unions and Village Panchayats.

15.2. Rural Road Wing of the said department, which was executing works, related to Panchayat Union roads under SS programme beside works taken up under their own rural roads programmes including bus route schemes continue to exist even now. This Rural roads wing is presently headed by Chief Engineer. Earlier this wing used to take up upgradation and improvement of Panchayat Union roads/Village Panchayats roads. However, allocation under rural road works programmes dwindled over the years. Subsequently for the development of rural infrastructure under TNADP and also under RIDF, NABARD, works involving local body roads were also taken up by rural road wing as NABARD was insisting to utilize RIDF funds only for the rural roads, which are not classified as rural roads excluding ODR and above. In the recent years Rural road wing therefore has been fully depending on the village Panchayats and Panchayat Union roads for executing NABARD assisted Rural Development infrastructure project. Under Rural roads programme, the procedure earlier adopted was that as and when any of the local body roads (village Panchayats and Panchayat Union) were taken up by RR Wing for improvement, such roads would be automatically reclassified as ODR and brought under Highways control. However, in TNADP and NABARD, this procedure is not adopted. Therefore, roads taken up by Highways and Rural Works Department, Rural Road Wing from the local body roads under TNADP & NABARD were retained in the local body list even after improvement for maintenance.



15.3. In order to ensure better coordination and administrative control over the engineering staff working in R.D. Department the separate Rural Engineering Wing was formed under the direct control of Commissioner of Rural Development and Assistant Engineers were also recruited by RD Department through TNPSC directly. At present, the remaining engineers are on deputation from various departments, Highways and Rural Works Department, TWAD, PWD, Agricultural Engineering and Tamil Nadu Construction Corporation. The rural Engineering Wing is headed by Superintending engineer at present. While forming rural engineering wing, engineers of other department were asked to give option for permanent absorption in RD Department and some of engineers were already absorbed. Meanwhile, certain staff have moved Tamilnadu Administrative Tribunal against absorption and matter is subjudice. Even after the constitution of Rural Engineering Wing, as part of Commissionerate of Rural Development in 1996, Rural road wing of H&RW Department continues to implement the road projects related to local bodies under NABARD. There seems to be overlapping due to lack of co-ordination between local bodies and the Rural road wing of the said department while taking up road works.

15.4. There is general feeling that Rural road wing of H&RW Department is not in a position to take adequate care of ODRs due to paucity of funds on one hand; strangely there is overlap with the functions of local bodies through its RR wing on other side. The Highways and Rural Works Department is one of the oldest Departments of the State Government, created by the British Government in the 19<sup>th</sup> century. Its work has been commended at the national level and Tamil Nadu's road network and quality of the roads are one of the best in the country. As such, It is better if H&RW functions as an expert body concentrating its efforts on NH/SH/MDR. In such a scenario, Panchayats roads are best left to the care of Panchayat Raj Institutions. H & RW Department can lend its technical expertise and act as a referral department for Panchayat Raj Institutions. Regional testing laboratories can cater to the districts near the same. The department can give standard type designs, costs etc for upgradation and maintenance for each soil condition.

15.5. Therefore, there is need to rationalize and demarcate the functions relating to roads. In this regard, the Commission recommends the following course of action to streamline the area of their operation.

- a. **Rural road wing of Highways & Rural works Department may be disbanded and all the local body roads should be executed only through local bodies through their Rural engineering wing of Commissioner of Rural Development.**
- b. **Since, ODRs are not getting adequate attention in Highways and Rural Works Department, for want of funds, ODRs can be transferred to District Panchayats and the present engineers and staff RR wing at the District level may be placed under District Panchayat as a part of Rural engineering wing. District Panchayat will maintain ODRs from out of their devolutionary grants or from the funds received under centrally and state sponsored programmes. Government of India guidelines permitting ODRs as part of rural roads under the newly launched PMGSY may be taken note of and this will eventually benefit and improve these roads under PMGSY.**
- c. **If the Government feels that a segment of Rural roads wing of Highways and Rural Works Department, could continue it may be entrusted with all the bridge works exceeding 12 metre span which are executed in local body roads since Rural Engineering Wing at present is not having sufficient expertise and design cell. Such works have to be executed as deposit works based on the resolution of the respective local bodies without any centage charges. Further, if any local body roads are to be taken up and executed by RR Wing either under NABARD or any other programme, these also have to be taken as deposits works only. The list of works so taken up for implementation by RR Wing shall be approved by respective local body as well as committee headed by the Collector consisting of Project Officer, District Rural Development Agency, Divisional Engineer (Rural Roads), Assistant Director (Pt) with a view to avoid overlapping.**



- d. In any case, to avoid confusion and to ensure role clarity, the Commission feels that it would be appropriate to have the nomenclature "Highways Department", deleting the words "rural works".

## 16. District Planning Committee

### 16.1. Composition of District Planning Committee

Art 243 ZD of Constitution of India specifies setting up of District Planning Committee. The much-awaited District Planning Committee is aimed at arming the Local Bodies with planning powers. Section 241 of Tamil Nadu Panchayats Act empowers the Government to constitute District Planning Committee in each District and accordingly, Government constituted District Panchayat (which replaces the erstwhile District Development Councils that were headed by the Collectors). The composition of members of District Planning Committee as per Sub Section (1) of Section 241 of Tamil Nadu Panchayats Act is as follows: -

1) District Panchayat Chairman	Chairman
2) Collector	Vice-Chairman
3) Mayor of Corporation	Member
4) Members chosen by both District Panchayats and Urban Local Bodies	Members

16.2. Apart from the above statutory members, the following elected representatives are nominated as special invitees to District Planning Committee.

- 1) MLA - representing their area
- 2) M.P - representing their area
- 3) Chairman of Municipal Council
- 4) Chairman of Panchayat Union Council
- 5) Chairman of Town Panchayats

16.3. Government in G.O. Ms. 278 RD dt: 24-10-2000 have issued orders fixing strength of members to be chosen by District Panchayat Ward Members and Ward Members of Municipalities and Town Panchayats. About 15 functionaries will be on the Committee and about 100 functionaries will be special invitees. It is doubtful whether any meaningful business could be transacted in such a forum.

16.4. On analyzing the composition of District Planning Committee keeping in mind the functions of the committee, there is a lacuna in the set up of District Planning Committee, wherein there is no representation for Village Panchayats. Even the chief executives of Panchayat Unions, Town Panchayats, and Municipalities are only special invitees.

### 16.5. Nomination of Collector

Government while constituting the District Planning Committee in tune with proviso of Sub Sec (1) of Section 241 of Tamil Nadu Panchayats Act, have constituted District Planning Committee with Collector as Chairman of District Planning Committee. Subsequently, by an amendment, the Collectors were replaced from Chairmanship of District Planning Committee by substituting the Chairman of District Panchayat as Chairperson of the Committee and Collector as Vice- Chairman of District Planning Committee.

16.6.1. Our Commission has examined the above issue during interaction session with Collectors and other elected representatives and by eliciting views from various agencies through questionnaire and examined this issue in depth with reference to following facts.



16.6.2. The District Planning Committee is expected to consolidate micro level plans of local bodies and thrashes out local problems. In that context, the participation and co-ordination of officials belonging to various line departments seems necessary for assisting the District Planning Committee to approve the plan of local bodies.

16.6.3. Collector is not only the Head of the district as Government's Chief representative in the district; he is also the Inspector of Panchayats and Chairman of DRDA in which role he guides the development activities in the district. As head of the district, Collector commands immense respect from officials of other departments and respect from the public at large; with these strengths, he would be in a better position to be coordinator and team leader. As District Magistrate, Collector is involved in law and order maintenance, crime detection, prohibition etc., all of which have their own impact on the development of villages and vice-versa. Even now the public are approaching the Collector for settling wide variety of grievances, irrespective of the departments concerned, showing their confidence in the institution of Collector.

Again the special invitees, viz. MPs & MLAs are all of higher rank than the Chairman of District Panchayat as per present protocol. Moreover, the Chairman of District Panchayat has no role on the urban side, whereas Collector has a role in Urban Local Bodies as discussed in Chapter XVII (f). The majority view that the Collector may not be replaced as chairperson of District Planning Committee.

**16.7.1. Considering all the above reasons, the SSFC recommends that the Collector may be nominated as Co-Chairman instead of Vice-Chairman of District Planning Committee.**

16.7.2. The District Planning Committee to be effective and operational needs to be compact. It should not be unwieldy. Considering the relevant factors and the administrative culture in this State, the SSFC recommends the following composition of members of District Planning Committee keeping in mind the proviso of 243 ZD of Constitution of India.

1. Chairman, District Panchayat	- Chairman	
2. Collector	- Co-Chairman	
3. Mayor	- Member	
4. Members chosen by Rural Local Bodies vide G.O.Ms.No.278, Rural Development), Department dated 24.10.2000.(Electoral college will consist only of Chairman of Panchayat Unions and President of Village Panchayats)	- Village Panchayats Presidents	3 Nos
	- Panchayat Union Chairmen	- 2 Nos.
5. Members chosen by Urban Local Bodies (Electoral college will consist of Chairman of Municipalities and Town Panchayats)	- Municipalities	- 2
	- Town Panchayats	- 3
6. MP Special Invitees	-	2
7. MLA (Special invitees)	-	3
8. Experts/Economists/Planners/Academicians	-	4
		-----
	Total	22
		-----

16.7.3. The District Planning Committee requires a Secretariat with due expertise to formulate District Plan and to take follow up action on the issues on which decisions were taken. For this, the Commission recommends that instead creating a new establishment, the present officers and staff in the office of District Panchayat and office of the Regional Deputy Director of Town and Country planning may be made the secretariat of the District Planning Committee. This Secretariat



along with the Collector concerned may follow up with both Heads of Government departments and the local bodies and see that the District Plan is dovetailed into the Annual Plan of the State and the budgets of local bodies concerned.

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

17.1. In para 3 of the first Chapter, we have given the historical development relating to Panchayat Raj Institutions. Consequent on 73<sup>rd</sup> Amendment to Constitution of India, it became mandatory for States to constitute three tier system of PRLs as per Article 243 (b) of Constitution of India. Accordingly in Tamil Nadu also three-tier system was introduced by abolishing District Development Council.

17.2. Before the Constitutional amendment, different tier systems were followed by the States. In West Bengal, four-tier system was in vogue till 1973 and revised Panchayats Act of West Bengal introduced three-tier system after 1973. In Kerala State, single tier system (viz) Village Panchayat was followed. Thus in the past, there were States with single tier system at one end and States with four tier system at the other end of the spectrum. But majority of the states followed two tier or three tier systems. In States like Maharashtra, Andhra Pradesh, Karnataka, Gujarat, Madhya Pradesh etc District Panchayats were entrusted with several functions, which are not only advisory and coordinating, but also executive in nature.

17.3. This Commission during interaction with elected representatives at the district level and replies elicited through questionnaires found that majority of elected representatives preferred to have two-tier system only. The Constitution of India vide Article 243(C) speaking of composition of Panchayats has mandated the present system of having directly elected ward councils at the Village Panchayat, Panchayat Union and District Panchayat level. In addition, vide Article 243(C)(iii) that the Constitution has given freedom to the legislature to the State to provide for the representation for "all the chairpersons of the Panchayats at the intermediate and the district level". Thus an organic linkage among three-tier of Panchayats has been contemplated and provided for by the Constitution itself. The State Finance Commission also learns that as there is no effective linkage between the three tiers at present, the resources placed at the disposal of District Panchayat and Panchayat Union Council are arithmetically divided among the Councillors and works taken up without any reference to the needs of the Village Panchayat as can be ascertained from the Grama Sabha. The net result is that there is duplication of works – some works taken up by both Panchayat Union Councillor and District Panchayat Councillor – and waste of resources.

17.4. Further, it is understood that Tamil Nadu Government are committed to have two tier system only and with that intention, Government have entrusted the District Panchayat with advisory functions only. Even EFC in its recommendation has given choice to the State Governments to choose the number of tiers of Panchayat Raj Institutions depending upon the peculiar circumstances and conditions prevailing in each State. It is also understood that there is a Constitution Amendment Bill pending in Parliament proposing to give freedom of choice to the State Governments to have either three tier or two tier set up in their states depending upon local conditions.

17.5. Taking these factors into consideration, the SSFC opines there are two options available in ensuring organic linkage among the three-tiers. i) As provided for in Article 243(C) of the Constitution, whereby all ward members of the three-tiers of Panchayat Raj Institutions are directly elected by the people and in addition following Article 243(C)(b) the Panchayat President is made councilor of Panchayat Union and the Chairman of the Panchayat Union is made councilor of the District Panchayat. ii) The other option is to seek Constitutional amendment, whereby the earlier system can be restored and direct elections can be held only for the post of Village Panchayat President and Village Panchayat Councilor or Ward Member, whereby the Presidents of Village Panchayat can be the Ward Member of Panchayat Union Council and all Chairpersons of Panchayat Union Council can be the Ward Members of District Panchayat Council, which would ensure better organic linkage between the three tiers.



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

## 18. Primary Education in Panchayat Unions

18.1. Education including primary and secondary schools is one of the 29 subjects contemplated in the Eleventh schedule vide Article 243(G) of the Constitution of India, to be entrusted to the local bodies. Accordingly, the State Government has included the subject in Schedule IV, of Section 257 of the Tamil Nadu Panchayat Act 1994. At present primary schools are administered by Directorate of Primary education. In practice, there is scope for improvement in quality of education in rural areas and enrolment of children needs to improve. The elected representatives of the local bodies, who met the SSFC during its district sittings, expressed their desire for bringing back this subject under the purview of the local bodies. There is a perception among the general public, Collectors and stakeholders, who interacted with the SSFC that local monitoring by elected representatives could improve matters. They have also drawn the attention of the Commission to the fact that traditionally this subject was dealt with by the local bodies both under the District Boards Act 1920 and Tamil Nadu Panchayat Act 1958. Moreover, in the present system, there are some drawbacks and anomalies, as the school buildings have to be maintained by the local bodies and the salary of non-teaching staff such as conductresses, watchmen, etc. is incurred by the Panchayat Unions.

In tune with 73<sup>rd</sup> amendment to Constitution of India, Government have issued orders contemplating supervision of Panchayat Union elementary schools by Panchayat Unions. But most of the above measures have remained in paper only and are not meaningful as the educational establishment is not accountable to Panchayat Raj Institutions.

18.2. In the above scenario, the SSFC interacted with the concerned functionary to understand the perception of the school education department. He posed whether it would be practicable to bring this subject again under the control of Panchayat Unions, in the light of the events that have taken place since 1.6.1981.

18.3. The Commission examined the issue carefully. Prior to introduction of Tamil Nadu Panchayats Act 1958, the District Boards were entrusted with elementary and secondary education and subsequently, elementary education was entrusted with Panchayat Unions. Prior to provincialisation of Panchayat Union elementary school teachers, the entire gamut of issues relating to Panchayat Union elementary school including payment of salary and other allowances was looked after by Panchayat Unions. Significantly, the Panchayat Union Education Fund is still in operation in Panchayat Unions as L F Accounts-III. As such, elementary education continues to be one of the statutory functions under Tamil Nadu Panchayats Act 1994. Hence one option is the education budget operated by the AEO may be credited to Panchayat Union Education fund accounts which is in operation. This may be in the form of grants to Panchayat Unions. The AEOs may be authorized to operate the LF III Accounts by withdrawing the power from BDOs. The AEOs can draw the grant from Government as done by Director of Local Fund Accounts operating pension funds. Thus, salary and disbursement to teachers will not be affected in any way. New recruitment of teachers and decisions relating to transfers, postings etc will continue to be with Directorate of Primary education. Regarding the maintenance of elementary school building and drawing salary for conductress and other contingent staff, the grant received from Government may continue to be credited to Panchayat Union General Fund Account and BDOs can draw the grant as hitherto being done at present. At Panchayat Union level, there can be effective



supervision not only by AEO but also by Chairman of Panchayat Union Council, the concerned ward member of Panchayat Union Council and officials from Panchayat Union.

18.4. On analysing the State budget, the actuals relating to 2000-01 indicates Rs.1050.26 crores in respect of Panchayat Union elementary schools. This expenditure is therefore totally met from the State funds. If this expenditure incurred for 2000-01 is added to the normal devolution of the State Finance Commission for 2000-01 to Local Bodies from state taxes, (8%) the total devolution would become 16%.

18.5. Taking the totality of circumstances, and in keeping with the recommendations of the State Planning Commission group 1997, **SSFC recommends that the following options can be examined by the Government and suitable decision taken thereon.**

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

## **19. Data Base Management in Local Bodies**

### **19.1. Introduction:**

The world wide reforms initiated in early 1990's has transformed even the countries, which took refuge under secrecy to openness and transparency in this Information Age. From the era of official secrets, we have moved into an era where States are vying with each other to be seen as IT friendly by the enactment of Information and Technology policy and Right to Information. Accordingly, the Tamil Nadu Government, one of the pro-reform States was the first to enact Right to Information Act and has enunciated its information technology policy with the objective to share the information it has with people.

### **Data base management:**

19.2. In the recent years organizations are grappling with the problem of delivering customer services in an efficient manner. A sound database and an efficient MIS will atleast partially solve the problem. Database is nothing but the collection and suitable tabulation of data that are created during the regular operation of any organization. The continuous practice of taking well-informed decisions can eventually become the collective wisdom of the organization. The storage and archiving of database can lead to the creation of invaluable intellectual property that has a long-term strategic value for the organization. With the introduction of Personal Computers and Internet, the concept of database has become quite fascinating.

19.3.1. The first State Finance Commission in its report has recommended for creation of database in the form of Urban Information System (URBIS) and Rural Information System (RURIS). This has been partly complied, with the computerization of information at HOD level, which is primarily aimed at



providing a good MIS and not from user angle. In the absence of data bank / data base either in individual municipality or in RDMA's office and with similar situation in Municipal Corporations and Town Panchayats no worthwhile data could be culled out. In fact the vital data which are supposed to have been developed over a period of time in ULBs appeared to be a myth and that whatever information it stored were meant for review / administrative purposes. It took about time to six months to get data by Second State Finance Commission in respect of Urban Local Bodies; worse are the PRIs where the data had to be procured and developed by Second State Finance Commission with the assistance of Government Data Centre . The Government Data Centre after a laborious effort could bring out the data in CD-rom. As a matter of fact 'jamabhandi type' verification and validation had to be resorted to get reliable data in respect of PRIs. This took in all about eight months. The situation is not better in respect of personnel MIS too. The service data was totally absent even in big corporation like Chennai when pension commitment was worked out.

19.3.2. Recently the department of Municipal Administration has developed software for 18 modules for use by Municipalities and Municipal Corporations. This has been put to use in Corporations and Municipalities. While a good MIS has been installed in the offices of CRD and DTP, in respect of Panchayat Unions and Town Panchayats, computerization is yet to take off except in a few districts like Tiruvarur, Thanjavur, and Tiruvellore, thanks to the initiative by the District Collectors. The concept of data base as citizen friendly tool, is yet to emerge, although a few ULBs put their Citizens Charter on the Internet along with some useful information.

19.4. During the field visit by officials of Commission secretariat to Thanjavur, Thiruvarur and Tiruvellore, it was noticed that a data base was created for land records. In respect of non-land record applications, petition monitoring, old age pension and public distribution system are brought on on-line and a base has been created. In Chennai Corporation database in the strictest sense of the term has not been created. However, operations relating to financial, functional and engineering wings have been computerized. This need to be integrated so that a relevant database can be created.

19.5. While collecting data from Panchayat Raj Institutions and Urban Local Bodies the much needed details on existing assets and O&M expenses on assets were not available, either in manuscript nor in soft copy. The present monitoring, whether manual or computerized, is largely oriented to schemes and their timely completion. This strengthens the argument that creation of database for various sectors/discipline is of utmost importance.

19.6.1. The Eleventh Central Finance Commission after going through the progress in computerization in all states has recommended for creation of data base for Panchayats and Municipalities at the District level, state level and Central Government level which will be easily accessible by computerizing it and linking it through Website. It has also stated that the Director of Local Fund Audit or the authority prescribed for conducting the audit of accounts of the local bodies may be made responsible for this task and the Chief Secretary of the State may do the State level co-ordination and monitoring. It has further observed that the Comptroller & Auditor General of India should be involved at all stages.

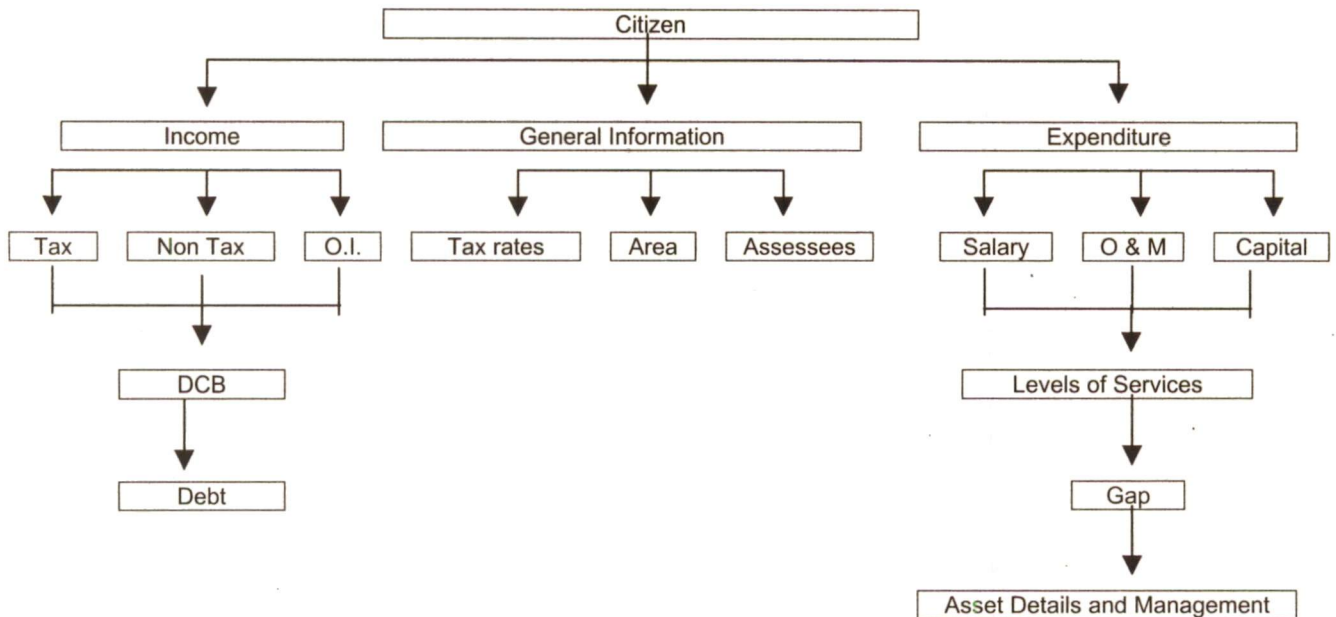
19.6.2. Further, the Eleventh Central Finance Commission has recommended for allocation of funds for creation / development of data base from out of the grants recommended for local bodies. The allocation of the grant for data base is as below. This has to be the first charge of the grants made available by Eleventh Central Finance Commission.

1. Panchayat Raj Institutions - Rs. 1037.51 lakhs
2. Urban Local Bodies - Rs. 59.35 lakhs

#### **Why Database?**

19.7. The rationale for creating a national network for local finance database lies in the fact that such a database would provide strong support for understanding the problems of local Government in the country. This should include data on income, expenditure and the levels of services provided in the local area. While the database for each Panchayat / Municipality should not only have the above information but also have information about the town, tax-rate details, property / assessee details.

19.8. The following chart may form the basis for data base for individual Municipality / Municipal Corporation / Panchayat Union and Panchayats. It is needed to link it to better asset management and to reorient operation and maintenance expenses and criteria based distribution, to decide on incentive for tax collections and to enforce frugal spending.



19.9. It will be useful for HODs, if the data base is stored in Internet / website with a home page as suggested below:

- a. Income
- b. Expenditure - Salary and O & M Capital Debt servicing
- c. Debt and total liabilities
- d. Service levels
- e. Work Details
- f. Gaps
- g. DCB of tax and Non-tax
- h. Total assets
- i. Schemes - in pipe line
- j. Perspective plan for the next 10 years
- k. Staff details

19.10. In the wake of enactment of cyber-laws, piracy of software is considered as offence. Hence the local body institutions are advised to have licensed version of software to avoid files being corrupted and thereby their data-base.

#### Panchayat Raj Institutions:

19.11. a) Recently Government has announced that all Panchayat Unions will be computerized in a phased manner. Panchayat Unions should be the focal center for computerizing its own operations as well as that of Village Panchayats. Transfer of data may be by way of floppies to Districts. Districts may create Data base based on Floppies and transfer the data through NICNET, to State Government / CRD.

b) The CRD after receiving the data may host a website for periodical Monitoring.



## Urban Local Bodies:

19.12. Urban Local Bodies may create database and transfer the data through floppies to Regional Centres. Hence this Commission recommends that each R.D.M.A. office and A.D. of Town Panchayats will be the focal center and should have the relevant data base as aforesaid and that each Municipal Corporation shall have its own data base and Web-site for venturing into 'E Governance'. The Government Data Centre as a nodal agency for data warehouse may be provided with database by the respective HoDs.

19.13. The Second State Finance Commission recommends that the networking envisaged in para 19.10 (a) and (b) and 19.12, may be put into operation during the award period of Second State Finance Commission.

## 20. Funding of Disaster Mmanagement

20.1. The recent Gujarat earthquake (2001) and the super-cyclone, which devastated coastal Orissa (1999) underline the importance of setting up a Calamity Relief Fund, exclusively at the disposal of local bodies to take care of the assets of the local bodies, damaged due to such disasters. The SFC learnt that Government of India has constituted a High Power Committee on Disaster Management, which has identified both natural and manmade disasters under five major categories. This list can be seen in the Appendix -12 of our report. With tremors along the Western Ghats both in Kerala and Tamil Nadu sides reported in December 2000 and January 2001, practically most of the disasters in the list except, perhaps, snow avalanches and tornadoes could occur in Tamil Nadu. Hence, it is not a question of academic interest but of genuine concern that those with local knowledge be associated in the operations to provide immediate relief and assets of local bodies be restored at the earliest. Non-involvement of local bodies in relief operations in both Orissa and Gujarat has been conspicuous and has been commented upon by experts.

20.2. The following table indicates the expenditure incurred towards natural calamities from out of the State fund. This is in respect of local body assets.

**Table 1 Expenditure Incurred Towards Natural Calamities**  
(Rs. lakhs)

Year	Total expenditure towards natural calamities fund	Water supply	Lights	Roads	Total Col.(3)+(4)+(5)
1996-97	26915.50	2263.00	111.20	5562.91	7937.09
1997-98	9404.20	2544.50	(-) 1.22	885.50	3428.79
1998-99	5548.34	(-) 29.76	95.99	2059.82	2126.05
Total	41868.04	4777.74	205.90	8508.23	13491.93
Average TE 1998-99	13956.01	1592.59	68.65	2836.08	4497.31

Source: Budget Documents, Government of Tamil Nadu.

20.3.1. While working out this, the actual expenditure incurred on water supply and electricity has been taken fully while for roads @ 75% of the expenditure has been taken into account as apart from local bodies, line departments also have the responsibility of repairing the damage caused on account of disaster. During natural calamities, distress relief in the form of exgratia payment for loss of life, cattle and crops is taken care of by the District Administration. Most of the scheme funds available with the district agencies are tied in the sense that only Government properties are restored. up. Repair and restoration works are not generally permitted under the Central sector schemes, which have substantial resources. Now that the local bodies have been entrusted with the responsibilities of providing and maintaining the civic amenities, people justifiably look towards them for immediate relief and restoration of core civic facilities during such eventualities. The local bodies are not in a position to take up the restoration or relief work immediately from their own funds. The restoration of core civic amenities will have to be undertaken by the local bodies on emergency basis.



20.3.2. The Directorate of Evaluation and Applied Research Task force committee has suggested allocation of Rs. 50 crores for funding disaster management, based on a field level study of 1000 Village Panchayats. This Commission, which examined it, urges that earmarking of 30% for local bodies from out of the total allocation for the State made by XI CFC is necessary. Further, the Commission feels that an amount of Rs.15 crores to be earmarked from devolution in 2002-03 to be increased by Rs.2.5 crores per annum during the period upto 2007. The following will be accordingly the local bodies' share.

**Table 2 Calamity Relief Fund for Local Bodies (2002-07)**

	State level relief fund		Local Bodies' share (30%)	Ear-marked in SFC Devolution	Total (Including 30% of Local Bodies share from State level relief fund)
XI CFC Period	2002-03	Rs.113.16 crores	Rs. 33.948 crores	Rs.15.00 crores	Rs.48.95 crores
	2003-04	Rs.118.82 crores	Rs. 35.646 crores	Rs.17.50 crores	Rs.53.15 crores
	2004-05	Rs.124.75 crores	Rs.37.425 crores	Rs.20.00 crores	Rs.57.43 crores
XII Central Finance Commission Period	2005-06	Rs.125 crores (minimum)	Rs.37.50 crores	Rs.22.50 crores	Rs.60.00 crores
	2006-07	Rs.125 crores (minimum)	Rs.37.50 crores	Rs.25.00 crores	Rs.62.50 crores

20.4. Taking all these factors into consideration, the SSFC makes the following recommendations:

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

ii) On the lines of the State anti-disaster plan and Districtwise anti-disaster plan, detailed anti-disaster plans with due role for local bodies, for Panchayat Unions, Town Panchayats, Municipalities and Corporations may be prepared.

iii) All elected representatives and officials connected with local Bodies may be sent periodically to the State Institute of Rural Development / Tamil Nadu Institute for Urban Studies, Coimbatore for training in disaster management.

iv) The allocation between rural and urban shall be with reference to population and the actual allocation to needy areas will be decided every year by the concerned Secretaries to Government, viz., Rural Development Department / Municipal Administration and Water Supply Department with inputs from the respective Head of the Departments and Collectors concerned.

## **21. Monitoring Mechanism for local bodies fiscal reforms**

21.1. Although the State Finance Commissions are required to be constituted only once in five years, the nature of work relating to local bodies finances is permanent and a continuous one. The Tamil Nadu Second State Finance Commission will be submitting the report by May 2001. The Twelfth Central Finance Commission is expected to be constituted by the beginning of 2003 and the Third State Finance



Commission by the beginning of 2005. Since local body finances are an emerging area of public finances, a detailed and well-knit data base needs to be set up for monitoring fiscal reforms relating to local bodies.

21.2. The work of the State Finance Commission is highly technical in nature and follow-up action thereon cannot be performed by normal Ministerial staff nor can it be done by research staff, who may not have any orientation in public finances. Follow up measures would start placing the recommendations of the Commission along with the Action Taken Report of the Government, on the floor of the Legislative Assembly within six months. The report of this Commission needs to be widely disseminated among experts, officials, Non-Governmental Organisations, elected representatives and other stakeholders in local bodies. Another activity relates to taking steps to set up State-Local Bodies Council, arranging for its annual meetings and following up the decisions and suggestions of the council meetings.

21.3. The Eleventh Central Finance Commission (EFC) submitted a supplementary report with reference to the Additional Term of Reference assigned to it. The recommendations of the supplementary report of EFC were accepted by the Government of India in the interest of furthering the cause of fiscal reforms of the States. Pursuant to above, the Ministry of Finance has constituted a Monitoring Committee to monitor the fiscal reforms programme of the States in accordance with the Programme drawn up by the Union Ministry of Finance for the States' Fiscal Reforms Facility (2000-01 to 2004-05). All correspondence regarding State Fiscal Reforms Policy as well as any supplementary facility extended to the States time to time will be considered by this Committee including Fiscal Reforms Facility, Sub national lending by the multilateral and bilateral lending agencies. Besides, Sectoral fiscal reforms of the States including Public Sector Reforms Programme, Power Sector Reforms will be considered by the aforesaid Committee.

21.4. It is commendable that the Government of Tamil Nadu realizing the importance of taking follow up action on the recommendations of the Central Finance Commission and State Finance Commission, in every quinquennium have constituted a High Level Committee consisting of the following officers vide G.O.Ms.No.86, Finance (F.C.IV) Dept., dated 27-2-2001. (Vide Annexure – XII-4).

i)	Chief Secretary	Chairman
ii)	Officer on Special Duty cum Ex-officio Principal Secretary to Government Finance Department	Member
iii)	Secretary to Government, Finance Department	Member
iv)	Secretary to Government, Rural Development Department	Member
v)	Secretary to Government, Municipal Administration and Water Supply Department	Member
vi)	Secretary to Government, Law Department	Special invitee whenever need arises

This Commission<sup>tee</sup> is similar to the Monitoring Committee referred to in para 3 above. 21.

21.5 Even though the time limit given for presenting the Commission's report to the Governor of Tamil Nadu is 31<sup>st</sup> October 2001, the Commission decided to present the report in advance owing to the following factors:

- As the elections to local bodies are due by October 2001, any reclassification of local bodies has to precede the election so that no legal hurdles emerge to the reclassification process, vide the chapter thereon.
- The distribution of Eleventh Central Finance Commission grants is dependant on State Finance Commission recommendations. Even though the first year of the award period of viz. 2000-01 Eleventh central Finance Commission has gone by, yet atleast for 2001-02, our suggestions need to be made available at the earliest.
- Besides Eleventh Central Finance Commission has allocated separate fund for data base and accounting for which suggestions have to be tendered by this Commission. Particularly database for O&M has to be set up before March 2002.



- d. Certain other measures like amendments to Tamil Nadu Panchayat Act and State election laws have to be undertaken to provide linkage among the tiers, accountability of prospective candidates in local bodies' election etc. These need to be done before September 2001.
- e. Several committees have been envisaged in various chapters. If most of them hopefully present their reports, it would enable Government to take decisions by March 2002.

As there is no specific mention in TOR for presentation of interim report and also as the Government on assuming office in May 2001 may need some time to study and take decisions, the commission has advanced the presentation of the report.

**21.6. This Commission recommends that the State High Level Committee among other things may look into the issues pertaining to the local bodies periodically, as indicated in Annexure -XII-4. The High Level Committee may monitor placing ATR in the legislative assembly in six months.**

21.7. At present, a Finance Commission wing consisting of four sections and one Deputy Secretary is working in the Finance Department at Secretariat, to monitor the expenditure and release of upgradation grants from the Centre, to the State. One of the four sections in this Finance Commission wing is presently gathering data related to Local Bodies and consolidate proposals. This Section may be made responsible for providing background materials to the issues entrusted to the High Power Committee also.

Besides, it may coordinate with RD and MA & WS Departments of Secretariat, and monitor the follow up action to be taken on the recommendations of the Second State Finance Commission. This would also ensure an up-to-date building up of database on State Local Body finances and documentation, which could be used by the incoming Finance Commission as and when it is constituted. **Hence the Second State Finance Commission recommends that one section out of the above Four sections and the concerned Deputy Secretary may be made responsible for the issues and works enumerated in para 5 and 6 above for monitoring the Second State Finance Commission-related matters.**

**22. On the following issues, we give our findings by way of suggestions:-**

**23. Primary Health: equation between Panchayats and Public Health Department**

23.1. Health and sanitation, including hospitals, Primary Health Centres and dispensaries is S.No.23 in under the Eleventh Schedule of the Constitution of India and Schedule 4 of the Tamil Nadu Panchayat Act 1994, entrusted to the PRIs. However, the public health establishments of Panchayat Union Councils have been taken over by the Government since 01.10.1982 and as such the PRIs have no effective linkage with the staff working in Primary Health Centres. While discussing this subject in December 1998 the High level Committee constituted under the chairmanship of Minister for Local Administration had also commented that the Public Health establishment should be transferred to Local Bodies in stages within one year.

23.2. Less than 50% of the respondents in the Citizen's audit organized by Catalyst Trust (Chennai) and Public Affairs Centre (Bangalore) were satisfied with the quality of Public Health Centre's service. This Commission feels that some kind of linkage between PRIs and the staff in public health establishments will go a long way in nurturing a healthy population in the countryside.

23.3. In this context, the Tamil Nadu Panchayat Act provides for the constitution of a standing committee on health and welfare vide section 97(i) and enjoins upon the Panchayat Unions to promote health of the people in its area out of its own funds, vide section 115. This Commission learnt that in Kerala State, doctors have been transferred along with the institutions to local governments and doctors are the Conveners of the Task Force on health at the local government level. It is this Task Force, which draws up development projects for using the plan grant-in-aid from Government. These projects are to be



approved by the local body. Once projects are approved by the local body, those relating to health sector are implemented by the doctor concerned and all financial and administrative authorizations are issued by the local body.

23.4. Even if we cannot go to the extent of Kerala, still to bring an effective linkage between PRIs and public health establishments, this Commission suggests that i) Funds provided for by the State Government for meeting the running cost of medical institutions (other than drugs, diet and salaries) may be routed through local bodies and they can be spent only with the general or specific approval of the concerned local body, ii) The Medical Officers of the Primary Health Centres and the Health Inspector / Block Health Inspector may be nominated as members in the Health, Water and Sanitation Committees, which should be activated at Village level and iii) the maintenance of Primary Health Centres and sub-centres may be entrusted to Panchayat Union Councils along with adequate budget provisions therefor iv) The Medical officer of the Primary Health Centre should compulsorily attend the meeting convened by the Panchayat Union Councils.

#### **24. Demarcation between Government and local bodies – Rationalization and Integration of functionaries at Panchayat level**

24.1. The PRIs and ULBs have been given a constitutional status with an intention to ultimately enable them to become the third tier of the Government and make them local self Government in letter and spirit. Although 29 subjects have been earmarked for PRIs under the Eleventh Schedule still there is a lot of overlapping of functions and there has been no clear-cut demarcation between Government and Local Bodies as far as these functions are concerned. Both the Government and Local Bodies continue to exercise these functions in a concurrent manner, so much so that votaries of local self Government have been demanding for a separate local bodies list as List 4 under the Seventh Schedule of the Constitution. Even if one cannot immediately concede this demand and prepare such a list, it is imperative that the Government clearly demarcate the boundary and list out the functions, which have to be exclusively implemented by the Local Bodies.

24.2. The State Planning Commission has in its report advocated transfer of functions as mentioned in Article 243(g) of the Constitution and also as per Schedule 4 of the Tamil Nadu Panchayat Act 1994. This was reviewed by the High Power Committee set up under the Chairmanship of Minister for Local Administration. The Committee has, among other things, suggested for conferring power and responsibilities on PRIs. The Government have also amended Sections 110, 111, 112 and 163 of Tamil Nadu Panchayat Act 1994, to bring about change in powers and responsibilities, so as to make them truly self-governing. This Government have brought about 40 amendments to the Tamil Nadu Panchayat Act 1994 to confer powers and functions in the three tier set up. To mention a few are;

- a) Water supply has become the core function of Village Panchayats
- b) More powers to Gramasabhas and reducing the minimum attendance
- c) Classification of Village Panchayats
- d) Levy of profession tax and advertisement tax, etc.

24.3. For the changes brought about in the Act / Rules and delegations, the Government needs to be complimented. But, the elected representatives, the functionaries and NGOs who participated in the district sittings of the Commission have different perceptions. In fact they all unanimously demanded power and functionaries to be transferred to them. While NGOs found fault with the system and blamed both the local bodies and Government, the elected representatives expressed that powers had not percolated down to field level. At the same time, most elected representatives are first-time functionaries after the advent of 73rd & 74<sup>th</sup> Constitutional Amendment Acts. But in the second quinquennium, people and the elected representatives would be mature enough to duly shoulder responsibility. This must be reflected in clear terms. This is the logical course, we have hinted at in chapter in "Approach & Methodology" and developed in various other chapters in our report. To start with atleast all the functions which were traditionally carried out by local bodies under Tamil Nadu Panchayats Act 1958 as "obligatory functions may be clearly demarcated by Government and local bodies made responsible for their satisfactory implementation. This is duly highlighted by Article 243 G and Eleventh Schedule of the



Constitution which mandates the State to devolve powers and authority as mentioned in the schedule to enable them to function as institutions of self- Government.

Hence this Commission suggests suitable amendments in Tamil Nadu Panchayat Act 1994 to give effect to the above scheme.

24.4. Village Panchayats cumulatively in the State spend Rs.66.98 crores per annum towards pay and allowances for staff, while their own tax income is only Rs.63.41 crores. The existing staff in the Village Panchayats also do not have a full day's work. On the other hand, there are several Government functionaries posted in the Village Panchayats, who also do not have adequate work. This Commission felt that if the Government staff posted in Village Panchayats and the Village Panchayat's own staff are integrated and rationally deployed, there will be considerable savings to the Village Panchayats. We made an empirical study in two Village Panchayats viz. Perambakkam and Iluppur of Kadambathur Block in Thiruvallur District with the help of Collector, Thiruvallur. From this empirical study, we found that there will be an annual savings of Rs.1,80,000 for Perambakkam Panchayat and Rs.60,000 for Iluppur Panchayat per annum.

24.5. The following employees are typically found in any Village Panchayats in the State.

<u>Local Body staff</u>	<u>Government side staff</u>
1. Panchayat Assistant (full/part-time)	1. Village librarian
2. OHT Operators	2. Village health nurse
3. Sanitary workers	3. Health Inspector
4. Makkal Nala Paniyalargal	4. V.A.O.
	5. Live Stock Inspector
	6. P.D.S. Salesman
	7. P.D.S. Packer
	8. Noon-meal Organiser
	9. Noon-meal Cook
	10. Noon-meal Assistant
	11. Anganwadi workers
	12. Helper

24.6. As we can see none of the above employees except V.A.O. have a full day's work and their spare time can be utilized by Village Panchayats, if there is a proper integration. For instance Noon-meal Organiser has real work only for about three hours from 10 a.m. to 1.00 p.m. and Anganwadi workers are really occupied only from 9. a.m. to 2.p.m. As most of the Anganwadi centres are located in Panchayat Union elementary schools the Anganwadi worker can be easily deployed as a Noon-meal Organiser in Panchayat Union schools and the present Noon-meal Organiser can be deployed as Panchayat Assistants for Village Panchayats. Similarly, Packers in public distribution shop can be easily deployed for operating OHT as in any case he keeps the shop open for a few hours in a day. The above is illustrative and could be modified if found necessary. But the basic approach will have to be steady integration of functions and functionaries at field level, which would result in better delivery of services and also considerable savings to Government and PRIs.

24.7. There is another way of bringing about healthy co-operation between the PRIs and the line agencies. Though various Departments have issued orders on 29 subjects in pursuance of Schedule IV of section 257 of Tamil Nadu Panchayats Act 1994, the role envisaged for PRIs is invariably advisory in character. With local bodies firmly in position, the line-departments and agencies could avail themselves of the opportunity and entrust village level functions to PRIs as agency functions, where local knowledge (such as choice of beneficiaries) would be critical for proper implementation of the schemes.

## **25. Role of elected councils and evolving code of conduct**

25.1. The Chairman/Mayor is responsible for the conduct of meetings in Urban Local Bodies. In respect of Panchayat Raj Institutions, the Village Panchayat President, Panchayat Union Chairman and District Panchayat Chairman are responsible for the conduct of meetings. The job of the Chairperson has become an unenviable one in the wake of composition of the councils. A small provocation results in



violence in council meetings. In one urban local body it is a recurring feature. Besides the following impediments are also brought to our notice.

- a) Executives talk about pressures from elected representatives even against the collective decision of the Municipal Councils.
- b) Budgets are not respected.
- c) Meetings could not be held for two to three months and hence the decisions on vital issues get held up.
- d) Filing of cases in courts in one's name / or in benami name to challenge the collective decision of the council.
- e) Taking contracts in the names of relatives thereby violating the rules.

These are only samples. These need to be addressed as they have bearing on finances of local bodies. The remedy lies in evolving a code of conduct for elected representatives. Those who violate the code may for the first time be admonished. Subsequent violations need to be dealt with by way of disqualifications.

25.2. Similarly, it is reported that some Chairpersons are not circulating the minutes to the members. In some cases the minutes are said to be tampered. In certain cases the disposal of tender is deliberately prolonged. All these point to the fact that the elected representatives need to be properly oriented and trained in public affairs. The citizens' welfare, which should have been the first priority, may ultimately turn out to be the first casualty. After taking a holistic view on the issues posed, the Second State Finance Commission suggests the following package: -

- a) Evolving a code of conduct for all elected representatives of local bodies.
- b) Disqualifying a member if he is found to be repeatedly violating the code of conduct.
- c) Recommending removal of Chairperson by the committee mentioned below if he / she deliberately violates the code of conduct, Act or rules.
- d) Prescribing a minimum of qualification for contesting election to local bodies.
- e) Prescribing the number of terms for Councilors / Chairpersons to hold office to infuse freshness and to give opportunity to upcoming generation.
- f) Recommending dissolution of the elected council if it is deliberately postponed twice or / thrice for no valid reason.
- g) Proper circulation of minutes to members within a week of holding council meeting and confirmation of the same in the next meeting.

25.3. Several of the above suggestions are already covered in Tamil Nadu Urban Local Bodies Act 1998. Similar provision may be made in Tamil Nadu Panchayat Act 1994. The above measures are only illustrative. Government may appoint two separate committees to codify these for Panchayat Raj Institutions and Urban Local Bodies. The Committee relating to Panchayat Raj Institutions may consist of Commissioner of Rural Development, one Collector, one District Panchayat Chairman, one Panchayat Union Chairman and one Village Panchayat President. Like wise the Committee relating to Urban Local Bodies may consist of Commissioner of Municipal Administration, Director of Town Panchayats, one Mayor, one Municipal Chairman and one Town Panchayat Chairman. The Committees can be given three months' time to give their reports. Based on the Committee reports, the Government decisions may be incorporated in Tamil Nadu Panchayat Act and Tamil Nadu Urban Local Bodies Act suitably.

## **26. Non-Governmental-organisations, and Community Participation**

In all developmental programmes, the role of the community is very crucial both for the success of the programme as well as for the sustainability, which means that the community should not only participate in the planning, implementation, monitoring and evaluation of the programmes, but to the extent possible should be partners in sharing the cost. In this context, NGOs play a vital role in organizing the community and ensuring their participation in developmental activities. Thus in a democratic society, NGOs acting as bridges between the government and the public, can mobilize community support and



give an effective feedback to the developmental authorities about the implementation of schemes at the field level.

However, there are NGOs and NGOs. While some NGOs are active in rural developmental issues, others concern themselves with civic issues in urban areas and yet others are concerned with specific issues such as AIDS, environment, women's issues, etc. Although the First SFC had recommended that a catalogue containing a list of all such NGOs involved in Local Bodies administration may be prepared immediately, such a list has not been prepared so far. In fact, while preparing questionnaires intended for NGOs, this Commission had difficulty in identifying reputed and credible NGOs. We understand that there are some 2000 NGOs in the State, of which 700 are said to be active. Therefore this Commission suggests that a list of NGOs may be prepared and accredited on an annual basis by Collectors, CMA, CRD, DTP, Commissioner of Social Welfare, CMD, Tamil Nadu Corporation for Development of Women Ltd and Commissioners of Corporations. Those NGOs with a bad track record may be blacklisted by the respective HODs and the list past on to other HODs. The accredited NGOs need to be actively involved in meetings of grama sabhas and urban sabhas, particularly when budgets and accounts are placed before them.

## **27. Involvement of industrial houses, NGOs, etc. in asset creation and maintenance**

The industrial houses have got a pivotal role to play in the economic affairs of this country especially after globalization and economic liberalization. Industries have realized that they have to invest in the villages from where the work force comes to their factories. Some instances of private sector involvement in community participation has been brought to the notice of Second State Finance Commission such as T.V.S. group, 1) Murugappa Group – AMM Foundation, 2) SPIC, 3) MRF, 4) EID Parry etc., which exemplify the credo that industrial houses cannot have a vacuum in their backyards but need to give something back to the India they derive their work force from.

Such industrial houses are actively participating for the upliftment of the rural Community by adopting villages by providing education, health care, sanitation, infrastructure, economic activities, environment etc., to improve the status of the people. Certain NGOs are also engaged in Rural Developmental Programmes.

Because of the credibility and reputation established by such corporate groups and NGOs, they could play catalytic role in community development. Some encouragement for them is called for. Therefore State Finance Commission suggests that established industrial houses may be encouraged to involve themselves under Namakku Name Thittam by offering incentives. If a Corporate body / industry comes forward with 50% of project cost, 25% could be funded by Government and the remaining 25% by the local public. Provision for maintenance of assets created has to be adequately made while releasing funds. As regards payment instead of check measurement by the concerned local bodies it can be done on certification by the Corporate body / NGOs subject to the condition that these bodies engage qualified Engineers.

In order to encourage industrial houses to adopt villages, tax concession may be made available for creating basic amenities and creation of infrastructure similar to incentives given earlier under 'TARRA' scheme implemented through Director of Rural Development. This may be taken up with the Centre.

## **28. Habitations in Village Panchayats**

28.1. Tamil Nadu State has witnessed a mushrooming growth in the number of habitations in Village Panchayats as evidenced by the following table.

Year	Number of habitations
1.4.1970	47,075
1.4.1980	49,561
1.4.1990	64,083
1.4.2000	66,631



This Commission learns that the number of habitations in TWAD's reckoning are 74919. The absence of definition of a habitation also poses a problem. A sample survey of 1000 Village Panchayats done by DE&AR reveals that on an average each Village Panchayat has five to six habitations. Coordination between development agency and the revenue department would greatly mitigate unplanned growth of habitations. Habitations are regularized with the issue of pattas. At the time of issue of pattas, the scope for providing basic infrastructure facilities should also be considered. Housing colonies under various schemes had contributed to the growth of habitations since 1980s. Till late 1980's, the target of the housing scheme based on total funds released and no provision was made for infrastructure development. Subsequently, provision was made for sanitary latrines and infrastructure. In the zeal of providing better houses, too often, the funds meant for infrastructure were added to housing project to the utter neglect of infrastructure development. Thus, in many of IAY colonies, no provision has been made for road or drinking water source through the scheme. The country, the State and local bodies just do not have the resources for innumerable habitations. These habitations are reckoned as such by Tamil Nadu Water Supply & Drainage Board in the first instance for providing protected water supply. Subsequently other Government organizations and local body concerned have to incur additional expenditure for provision of electricity, streetlights, roads, etc. Larger the number of habitations, greater will be the difficulty in administering them and higher the cost of providing civic amenities.

28.2. While some of the reasons for this phenomenal growth in habitations may be due to availability of water, natural resources, employment potential, etc, a major factor contributing to this increase of habitations is the implementation of group housing schemes by various departments in a haphazard manner. For instance, the free housing schemes of the Adi Dravidar Welfare Department, Fisheries Department, Rural Development Department, Co-operative Housing Societies for weavers, etc. have all resulted in the creation of such housing colonies invariably as isolated pockets not integrated with the main village. Any further unplanned growth of such habitations will put a severe strain on the slender finances of the State and Local Bodies who will find it very difficult to provide basic civic amenities to the residents of these habitations. **Hence, the Second State Finance Commission suggests that in future all such group housing schemes implemented by any Government department will have to ensure that the habitations so created by these departments are in close proximity to an existing habitation or colony as far as practicable and thereby ensure the harmonious integration of the rural communities and thereby effect economy in expenditure. Haphazard mushrooming of colonies needs to be discouraged. Such isolated colonies can be provided facilities only under schemes like 'Namakku Naame'.**

28.3. Mature democracies the world over have worked, in their decentralized governance, with limited sub-national tiers, reasonable number of local bodies, and compact jurisdiction. We have recommended in the chapter on Reclassification that the Village Panchayat boundaries may be redrawn on the basis of 3000 population. Accordingly the boundaries of habitations may also be fixed once for all with minimum population of 600. The number of habitations may be taken at present as 66,631. Further growth of habitations has to be regulated / frozen for which the **Commission suggests that a committee may be constituted under the Chairmanship of Commissioner of Rural Development and Managing Director, Tamil Nadu Water Supply & Drainage Board, as Member. At the district level, a committee may be formed with Collector as Chairman and PO/DRDA, Assistant Director (Panchayats), DRO, and EE(TWAD) as members. If needed, separate norm could be adopted for providing habitation : this norm shall not however apply to other amenities and infrastructure.**

## 29. Acceptance of State Finance Commission's recommendations

29.1. While enacting the legislation, the Parliament in its wisdom decided to confer on State Finance Commissions the same status as enjoyed by Central Finance Commission. In fact, the wordings of Article 280 & 281 have been repeated in Article 243 I (4) and Art 243 Y (2). In other words the relation between Central Finance Commission and the Centre and the State Finance Commissions and respective States are the same. In the above context, the expectation is that the State Government, in the normal course, would not make any substantive changes but accept in toto the recommendations of State Finance Commission.



29.2. In this connection it is worth mentioning the observation of Thiru Bala Saheb Vikhe Patil, Minister for State for Finance, while answering a question in Rajya Sabha in December 2000 on the plea of 9 States to change the recommendations of Eleventh Central Finance Commission. He recalled that the Eleventh Central Finance Commission is a constitutional body. Hence its recommendations are considered as sacrosanct. In view of this, the Central Government accepted the recommendations of Central Finance Commission devolution percentage to States without any modification. Therefore, it is not possible to effect any changes in recommendations relating to the award period 2000 - 05 as requested by nine States.

29.3. The State Finance Commission has suggested a council with representatives of Government on one side and elected representatives of local bodies on the other side similar to Inter State council. In such a council, the changes envisaged by Government need to be debated and after such a debate, the Government can certainly make suitable changes to the recommendations of State Finance Commission in exceptional cases. The legislature may be kept informed of such changes.

### **30. Notifying the rules of Tamil Nadu Panchayat Act**

The Tamil Nadu Panchayat Act 1994 has been enacted to bring the PRIs in tune with the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments. All the corresponding rules have not been notified so far. So far Government have notified 103 out of the 119 rules to be notified. For notifying the remaining 16 rules, a team under the guidance of the Commissioner of Rural Development has been actively working. **This Commission suggests that the remaining rules may be notified at the earliest so that the next batch of elected representatives would have the rules with them when they take charge in October 2001.**

### **31. Committee to decide on removal of village panchayat president**

31.1. Section 205 of the Tamil Nadu Panchayat Act 1994 confers powers on the District Collector as Inspector of Panchayats to remove a Village Panchayat President for malfeasance, mal-administration, and other irregularities. This has been taken as hegemony of bureaucracy over elected representatives and is resented by them. Recently the Federation of Women presidents of Panchayats has also submitted a memorandum to all political parties, requesting them to support their demands for repeal of Section 205 of the Tamil Nadu Panchayats Act. However, while most Collectors and Ex-Collectors have understandably represented to this Commission for retaining the status quo, a few Collectors have even opined that these powers may be entrusted to lower level officers! On the other hand, elected representatives have been saying that this amounts to travesty of democracy where a bureaucrat is allowed to remove an elected representative however low he may be. Presently the State government are the deciding authority for dissolution of Municipal Corporation Councils, Municipal Councils, Town Panchayats Councils, District Panchayat Councils and Panchayat Union Councils. Further every notification issued by the government for dissolution of these councils is placed on the table of the Legislative Assembly for information. However, in the case of Village Panchayats as their number is numerous, the powers are delegated to the Collectors and also the notification for removal of Village Panchayat Presidents is published in the District gazette and the State gazette but is not placed on the table of the Legislative Assembly.

31.2. After a careful consideration of both the views expressed for the retention and the abolition of Section 205 of the Tamil Nadu Panchayats Act 1994, this Commission suggests **that the Section may be suitably amended to enable the formation of a committee consisting of i) District Collector, ii) District Panchayat Chairman, iii) Chairman of the concerned Panchayat Union to decide on the issue of removing a Village Panchayat President. The Commission also suggests that the Legislative Assembly may be kept informed about the removal of a Village Panchayat President.**

### **32. Renotifying Tamil Nadu Urban local bodies Act 1998 / Rules 2000**

32.1. The Tamil Nadu Urban Local Bodies Act 1998 integrates all the previous Acts and contains a comprehensive legislation that will be applicable to all Corporations, Municipalities and Town Panchayats under a single umbrella. In tune with the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional amendments, the Tamil Nadu Government have enacted a combined Act for all Urban Local Bodies in 1998 which was assented by the President of India in 1999. The Urban Local Bodies Rules have been framed and approved in July 2000,



thereafter the Act and rules were to be notified by the Government on 1.8.2000. But owing to reservations from certain quarters, the Act and rules have been kept in abeyance for detailed deliberations. Some of the positive features of the TNULB Act in our view are as follows:

- i) A uniform Act for all Urban Local Bodies is acceptable for interpretation of the Act provisions. It has annulled about 7 earlier Acts, some of them drafted during British regime and brought all ULBs under one comprehensive Act.
- ii) General revision of Property tax has been made mandatory. Carpet area based property tax on the lines of Supreme Court judgement has been incorporated.
- iii) License rates in lieu of D&O Trade licence introduced.
- iv) Similarly for advertisement, rates have been prescribed in the rules.
- v) Service rules for employees with enough control powers have been incorporated.
- vi) Introduction of separate tax for water supply, sewerage and education.
- vii) The ceiling of 45% of the total income of ULBs towards establishment cost.

32.2. Above all, the new act, aimed for more financial autonomy and accountability to local bodies. It would have ensured non-interference of the Government in taking crucial decisions like budget preparations, plan approval, greater freedom to fix rates within the specified limits, allow Urban Local Bodies to raise resources by collecting licence fee for properties, birds and animals and toll for bridges and roads.

32.3. However, while renotifying the ULB Act, this Commission suggests that the Government may incorporate the following additional provisions:-

- i) Section 180 on penalties may elaborately specify list of offences section-wise in Schedule-VII and indicate penalties for continued offences in Schedule-VIII duly prescribing minimum and maximum punishments and provide for the collection of compounding fee on the offences.
- ii) The levy of property tax may be based on plinth area instead of carpet area.
- iii) The tariff for property tax may be fixed with reference to the category of the notified roads, streets and locations.
- iv) Provision for Self Declaration Return may be made with reference to nature and usage of the building.
- v) The ceiling of 45% of total income on establishment cost by the Urban Local Bodies as envisaged in Sec.61 of Tamil Nadu ULB Act 1998 may be revised as 49% covering both establishment (35%) and pension expenditure (14%) duly stipulating the condition that norm for staff shall be as under:

Chennai Corporation	: 3.50 per 1000 population
Other Corporation	: 3.00 per 1000 population
Municipalities	: 2.50 to 3.00 per 1000 population
Town Panchayats	: 1.75 to 1.90 per 1000 population

- vi) While notifying the Act / rules, provision regarding Zero-base budgeting and Fiscal responsibility may be incorporated in chapter V Finance and Budget as dealt with in our chapter Better Fiscal Management.

The process of privatization as contemplated in the act should be resorted to on conditions of achieving greater efficiency, lower costs, higher quality and better civic services, duly replacing the existing staff and avoiding double expenditure.

32.4. Hence the Second State Finance Commission suggests that the New T.N.U.L.B. Act 1998 and Rules 2000 framed there under may be renotified immediately, retaining all good features relating to personnel matters. Further, the powers under section 40 are not found in the same order of sequence as in the Twelfth Schedule of the Constitution. Hence, this Commission suggests that while the TNULB Act 1998 is re-notified Section 40 may be suitably reworded to bring out a harmony in diction between the Twelfth Schedule of the TNULB Act, so that the



powers under Section 40 are enlisted in the same sequence as found in Twelfth Schedule of the Constitution ( vide - Annexure XII-6). Further, a reading of Article 243 W reveals that 74 CAA mandates the State to devolve powers and authority to enable them to function as institutions of self-government with reference to various core functions illustratively listed in the Twelfth Schedule of the Constitution.

### 33. Commissionerate of Rural Development and Collectors.

33.1 The present day District Collector has come a long way since the British days when he was responsible only for the collection of land revenue and maintenance of Law & Order in the District. Today's Collector spends most of his time for the overall development of his District. In this endeavour his equation with the head of departments, line agencies and the elected representatives is quite crucial; he has to strike a very fine balance among different functionaries concerned with development and lead the district towards progress. He has a definite role in PRIs as he is the Chairman of the DRDA and also the Inspector of the Panchayats. But in the case of ULBs he has only a peripheral role and steps into the field only when things go out of control. Section 55 of the TNULB Act 1998 has conferred certain powers on the Collector for purpose of control over the ULBs.

33.2. In this connection it is worth recalling that the High Power Commission for Socio-economic and Industrial Development in Southern Districts (2000) headed by Justice S. Rathnavel Pandian has recommended the following towards strengthening the institution of Collectors:

1. At the District level, the departments on backward classes, rural development, revenue etc. are under the direct control of District Collector and also to their respective Heads of the Departments. However, the District Collector has no say in planning programmes and securing funding support in respect of the above departments. Therefore redefining the role of District Collector's position with a focus on certain key result areas would help in promoting greater effectiveness in district administration.
2. The District Collector should have overall control over revenue and law and other affairs, but his involvement in routine issues must be considerably reduced. Eighty percent of his time must be devoted to district development.
3. District Collectors must be clothed with adequate powers to carry out the tasks on district development effectively by coordinating and directing the activities of all Government departments and harnessing people's involvement in development through group action.
4. The aim of district planning must be to accelerate growth and reduce poverty by 50% within ten years. The service rules of District Administration must be adjusted supportive of this aim.
5. Surprise checks on the implementation of welfare schemes by audit teams constituted by District Collector and RDC.
6. The Government school supervisions and guidance system must be geared to perform effectively under the direct attention of District Collector.
7. The District Collector must formulate a plan of action to remove all encroachments particularly those relating to irrigation sources. The local institutions must be empowered to take action on illicit settlers and remove encroachments.
8. Public participation in development and in maintaining public resources must be promoted by the District Administration.
9. The District Collector must act as a catalyst for prioritizing the works relating to clean and green villages with safe drinking water, public latrines and a system of waste disposal at the block and village level.

33.3. Accordingly, to the extent possible, in the various chapters in our report, this Commission has assigned specific role for the Collector as a chief coordinator among various departments in his district by roping him in committees constituted for the welfare of the district. Recently Government has also issued orders that all technical departments such as PWD/TWAD/ and Highways Department should consult the respective District Collectors and take the Collector's opinion into account before finalizing list of works taken up for implementation. Although a major portion of the time of Collector is spent on developmental works, this is not adequately taken into account while writing the ACR of the Collector as the CRA is the



Reporting authority of Collector. Although the Government envisaged the CRD in the super-time scale of I.A.S. for the State, in practice, the functionary posted has often been from below the super-time scale and posted as DRD. In order to establish the CRD in a firm footing vis-à-vis Collectors and guide the young Collectors in a proper manner, **this Commission makes the following suggestions:-**

- i) **The post of Commissioner of Rural Development may be upgraded to that of Director General of RD in the rank of Special Commissioner. Along with the Commissioner of Revenue Administration, Director General RD may be made the Joint Reporting Authority for initiating the ACR of Collector.**
- ii) **As in some other States, a separate post of Director of Panchayats and Training from IAS cadre may be created for exclusively monitoring functions entrusted under Schedule XI of Constitution of India to PRIs. We have recommended elsewhere that all RETCs in the State may be brought under the umbrella of SIRD. After this is implemented as training of Panchayat Raj Institutions functionaries is very important the post of Director, SIRD and Commissioner of Rural Development Training may be abolished as Director of Panchayats and Training shall be in charge of SIRD, RETCs and the entire gamut of training activities.**
- iii) **The present Director of Rural Development may exclusively monitor the State and Centrally sponsored developmental schemes.**
- iv) **The post of Director DPAP attached to Agriculture Department may be attached to R.D. Department as the scheme is implemented by Project Officer, DRDA at field level and administered by Ministry of Rural Development at Government of India level. This will bring about synchronizing and integration at macro level .**
- v) **One Addl. Director of Rural Development from among the many already working may be exclusively in charge of devolution distribution and for creating data-base at state level in order to closely monitor the fund-flow and utilization.**

#### **34. Conclusion**

There is significance in our keeping this chapter before the chapter on devolution; any amount of devolution would not help local bodies unless it is preceded or at least accompanied by certain structural adjustments and decisions on issues directly impinging on local bodies' finances and their functioning. Hence, we do hope that both our recommendations and suggestions in this chapter will be acted upon suitably to have the full effect of devolution.

**“Just as it is wrong to withdraw from the individual and to commit to the community at large what private enterprise can accomplish so it is likewise unjust and a grave disturbance of right order to turn over to a greater society of higher rank functions and services which can be performed by lesser bodies on a lower plane. This is a fundamental principle of social philosophy, unshaken and unchangeable”**

**(Quadragesimo Anno)**



## CHAPTER – XIII

### DEVOLUTION MECHANISM

As per para –2 (a) (i) to (iii) of the Terms of Reference issued to the Commission, it shall review the financial position of the rural and urban local bodies and make recommendations on

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

Para 4 of the TOR expects the Commission to have regard, while making recommendations to the resources of the State Government, the demand thereon, in particular the expenditure of the State on debt servicing including the debt servicing on behalf of local bodies / other committed expenditure or liabilities of the State Government and the need to generate adequate surplus on revenue account for State's commitment on capital account.

2. State Finances are almost continuously under scrutiny and studies by bodies like Union Planning Commission, Central Finance Commission, NIPFP (1998), and Harvard Institute for International Development 1999/2000 etc. These studies reveal how best the State's Finance could be improved and how the non-plan expenditure could be curtailed. In chapter III of Eleventh Central Finance Commission's report, measures for restructuring Public finances of the Centre and the States have been elaborately dealt with. Further, the Eleventh Central Finance Commission as per the additional term of reference issued to it recommended a monitoring mechanism, which will be operational in the award period of Eleventh Central Finance Commission. Any way, a quick analysis of the State Government's financial position is necessary to arrive at the level of the devolution of funds to the local bodies.

3. From our analysis of the past trend of receipts and expenditure of the State Government it is seen that the State's overall budgetary position reflects a worsening position in the revenue account especially in the years 1998-99 and 1999-2000. However, the capital account shows an improvement since 1997-98(Annexure-1). The trend of revenue receipts and revenue expenditure of the State Government is analyzed as under.

#### 4. Revenue Receipts:

4.1. The major receipts under State owned tax revenue are sales tax, state excise, stamp duty and registration and taxes on vehicles. Sales tax alone contributes 43% of the total revenue receipts of the State(Annexure-2). The State's own tax revenue has decelerated from 23% trend growth between 1994-95 and 1995-96 to 13% between 1998-99 and 1999-2000. Stamp duty and registration also showed a decelerating trend in the past, however, 1999-2000 actuals show a spurt in growth, which may be due to arrear collection through 'Samadhan Amnesty Scheme'. The higher net land revenue realized in 1997-98 is actually due to Land Revenue waiver announced in March 1998 and consequent lesser quantum of transfer of assigned revenue (Rs.4 crores) viz. local cess and local cess surcharge to local bodies. (Annexure-3).

4.2. Prior to Tenth Central Finance Commission, sharing of central taxes was confined to income tax, Union excise duties and additional excise duties individually. With the advent of alternative scheme of devolution mooted by X Finance Commission, the XI Central Finance Commission recommended for sharing of 28% of the net proceeds of all shareable union taxes and duties and another 1.5% on account of additional excise duties levied in lieu of sales tax to the concerned States during the award period 2001-05. Reduced devolution to the State Government owing to the revision in the distribution formula by ECFC for 2000-05 is estimated at Rs.4036 crores by DE&AR.



## **5. Revenue Expenditure:**

The expenditure towards "social services" and "general services" contributes the maximum percentage in total revenue expenditure viz. 37% in 1999-2000 followed by 'economic services' (21%). The growth of non-development expenditure in the past has been higher than that of development expenditure and the total expenditure on revenue account has grown from Rs.9635 crores in 1994-95 to Rs.20728 crores in 1999-2000 showing more than a two-fold increase (Appendix-13). The increase in revenue expenditure and the consequent revenue deficit in 1998-99 was attributed partly to Rs.1100 crores spent on the award of Sixth Pay Commission. The impact of Sixth Pay Commission including payments to pensioners in the award period of Second State Finance Commission would be around Rs.8950 crores (Annexure-4). The share of assignment to local bodies in the total revenue expenditure was 2.5% in pre-State Finance Commission year 1996-97 and 4.95% in post-State Finance Commission year 1999-2000. The quantum of various major subsidies granted by the State government from 1994-95 shows a disquieting situation (Appendix - 14). Subsidy to TNEB for free supply of power to agriculturists and food subsidy form the major portion of these subsidies.

## **6. Capital Account:**

The capital account of the State government for the past years shows an increasing trend. It is evident that the increase in revenue expenditure for example in 1999-2000 is forcing a decline in capital expenditure to the tune of Rs.500 crores when compared to the previous year. The internal debt has increased abnormally from Rs.1789 crores in 1998-99 to Rs.6535 crores in 1999-2000. Loans and advances from Government of India also show a two-fold increase from 1995-96 to 1999-2000, whereas the repayment of loans of Government of India does not show a significant increase over the years. The excess of liabilities over assets of the State government is burgeoning more than two fold from 31.3.1995 to 31.3.2000(Annexure-5). The debt position of the State government is heavily increasing year after year, the impact of which is also discussed in the chapter on 'Debt Management'. The debt recovery from local bodies was reviewed by C&AG and as per the report of C&AG for 1998-99, out of loans advanced to Municipalities, Panchayat Union Councils, Town Panchayats and Village Panchayats, recovery of Rs.139.34 crores was in arrears as on 31.3.1998.

7.1 The revenue deficit was increasing abnormally to Rs.4400 crores in 1999-2000, which was met partly from borrowings (Rs.3108 crores) and the gross fiscal deficit in 1999-2000 was Rs.5382 crores (Annexure-6) which was met by net proceeds of the public debt, surplus from public account and decrease in cash balance. The ratio of revenue deficit to fiscal deficit ranges from 1:4 in 1995-96 to 1:1.2 in 1999-2000 indicating that a larger share of the borrowings was applied to meet the revenue expenditure.

7.2 It is however hoped that the State finances would improve in the award period of our Commission due to union Finance Ministry's monitoring mechanism and other measures.

## **8. Resource Gap of Local Bodies:**

8.1. The allocation and transfer of funds from the State government to local bodies will lay a solid foundation for local administration and for planning the activities of the local authorities, which will provide minimum standards of service to all the people in the respective local area. However, in the present scenario, it is evident that the funds devolved from the State government based on the recommendations of the First State Finance Commission are mostly utilized for the salaries of local body staff especially in Urban Local Bodies. The dependency syndrome of local bodies is embedded so deeply leading to the agitation of the local bodies staff seeking release of devolution grants from State government for paying their salary arrears. This can be rightly compared with the sayings of Dr. P.V. Rajamannar, who in his report on Centre-State Relations (1971) pointed out that chronic indebtedness and dependence on the Centre's charity gradually make the States ineffective and they develop a tendency not to take any responsibility but to throw the blame on the Centre for their defaults. These remarks are equally applicable to State-Local Bodies financial relations also.



8.2. A comparative statement on Revenue Income and its utilization towards salary and O&M for each class of local body for the award period of first State Finance Commission, i.e. 1997-98 to 2001-02 is narrated in the annexure -7. The revenue gap arrived for all local bodies for 2002-07 (annexure-7) is Rs.11952.80 crores. The total capital requirements to fill in the gaps in services arrived for each core civic service at a sustainable level based on norms are Rs.5025 crores including cost escalation (Annexure-8)

8.3. The fiscal gap constituting the capital needs at sustainable level and the revenue gap would then be Rs.16,978 crores. Since salary and O&M expenditure are the first charge on the SFC devolution and the salary and O&M expenditure constitute a major portion of SFC devolution, a comprehensive and well knitted mechanism for transfer of resources from the State Government taking into account the revenue gap is now necessitated.

8.4. The revenue gap thus arrived above needs to be met by the local bodies in the following ways.

- i) Strict implementation of measures recommended by the SSFC for resource augmentation and cost control.
- ii) SSFC devolution
- iii) Capital grants from State and Central governments.
- iv) Eleventh Central Finance Commission grants, which constitute Rs.93.22 crores for PRIs and Rs.38.67 crores for Urban Local Bodies per annum and after setting apart amounts earmarked for Data Base Management and Accounting are untied and intended for maintenance of civic services.

## **9. Concept of Global sharing:**

9.1. Fund flows between any two levels of Government are always accompanied by certain amount of misgiving, grievances and grudges mutually. This happens between the Centre and the States and the State and Local Bodies. For instance, Municipal Administration Department in its presentation to First State Finance Commission claimed that arrears towards DA subsidies to the tune of Rs.45 crores are pending due to Municipalities as on March '95. Likewise, due to repeated postponement of quinquennial revision of property tax, a total loss of Rs.81 crores was met by Municipalities. In the transfer of surcharge on stamp duty, there is even now difference in the amount due to the local bodies and the amount actually adjusted. Similar is the case in respect of entertainment tax, local cess and local cess surcharge also. Claims towards teachers pension paid by the Municipal Corporations have not been reimbursed by the Government as pointed out by Chennai and Coimbatore Municipal Corporations. There are also dues from Panchayat Unions to Village Panchayats and vice versa. These inter and intra transfer issues need to be addressed by the respective departments. Conversely, local bodies also owe Rs.26 crores as of 1998 by way of library cess to Government. These issues have to be examined by the Government and settled.

9.1.1 Similarly non-debt dues like water supply maintenance charges payable to TWAD for combined water supply schemes, which stood at Rs.122.29 Crores as on 31.3.2000 have to be settled by Panchayat Raj Institutions and Urban Local Bodies. It is pointed out by the functionaries that the figures needed reconciliation as the amount paid already have not been duly accounted for. This has been covered in the chapter on Civic Needs and Finances.

9.2. The Commission analysed the various aspects required to be studied as per the TOR and the overall fiscal picture of the State Government arrived for the award period of SSFC is placed in the Appendix -15). Our Commission while forecasting the resources of the State Government took into account the more reliable revised estimates for 2000-2001. Our forecast was checked with the projections of Directorate of Evaluation and Applied Research. These two independent forecasts tally within 1% (one percent) and hence we have taken our projections.



9.2.1 Another significant aspect of fund flows from the State to local bodies is that apart from SFC devolution and local body grants from Central Finance Commission, various plan, non-plan and discretionary grants and Government loans etc are transferred from State Government to local bodies outside State Finance Commission devolution every year. A list of major plan and non-plan discretionary grants transferred by the State Government to local bodies is placed in annexure -9 & 10. The quantum of plan, non-plan and discretionary transfers are as in the table below:

**Table -1 Plan and Non-Plan Discretionary Transfers to Local Bodies:**  
(Rs. in lakhs)

Year	Plan	Non-Plan	Total
1996-97	37141	29110	66251
1997-98	43377	11526	54903
1998-99	50212	14074	64286
1999-2000	57634	12711	70345
2000-01 (RE)	118559	11577	130136
2001-02 (RE)	91926	10372	102298

9.2.2 The above mentioned transfers include non-plan discretionary grants like maternity grants, Social education grants etc and plan grants like Anna Marumalarchi Thittam, Namakku Naame Thittam, Golden Jubilee Water Supply scheme grants and agency functions, schemes relating to Panchayat Raj Institutions etc. These funds are passed on to the local bodies outside the devolution package recommended by State Finance Commission.

9.2.3 The above trend and the order of magnitude have been taken into consideration when we evolve devolution package to local bodies later in this chapter. The total transfer to local bodies in 1999-2000 is reckoned at Rs.2012.16 crores (Annexure-11).

9.2.4 Regarding devolution from State Government to local bodies, various views emerged in various fora and by all means, the chorus of all local bodies was for increased percentage of devolution. In both the structured seminars conducted at Chennai and in our district sittings, the elected representatives from all classes of local bodies urged that the devolution from State Government to local bodies should take into account the increased financial commitment consequent on the additional functions, implementation of Pay Commission recommendations, increased O&M cost and also the backlog in infrastructure investments. The uniform plea was that 29% of State's revenue on own sources may be devolved to local bodies, just as the States are getting such devolution from the centre.

9.2.5 In this context, one needs to be clear that the relation between the Centre and the States is different from the State - Local Bodies equation. The functions of the States have been duly codified as the State list in the Seventh Schedule of the Constitution. On the other hand, local body functions as on date are largely the core civic activities. Further the devolution of 29% from the Centre to the States is formalization of what was prevalent for several years. Hence this Commission does not find the request of devolution of 29% of the State's revenue to the local bodies as acceptable; at the same time, the Commission has examined and considered the need for some increase commensurate with the level of civic responsibilities as discussed elaborately in the Chapter on 'Civic needs and finances'.

9.3. Taking into account the financial position of the State Government and also the financial commitments of the local bodies, the following Resource Distribution Device is designed:

#### **POOL-A**

9.3.1. This contains Entertainment tax, Surcharge on Stamp duty and Local Cess and Local Cess Surcharge levied by the State Government and earmarked as 'Assigned Revenue' to the local bodies. The Commission recommends **that these need to continue and are to be distributed among the local bodies concerned as mentioned in the chapter on Resource Base of Local Bodies.**



**Projection for 2002-03**

(Rs. in lakhs)

1.	Surcharge on Stamp duty	26318
2.	Local Cess and Local Cess Surcharge	3000
3.	Entertainment Tax	7196
	<b>TOTAL</b>	<b>36514</b>
	<b>or Rs. 365 crores</b>	

**POOL-B**

**9.3.2.** The quantum and type of devolution from the revenue of the State has been proposed after trying various permutations and combinations and considering what would be feasible under the State's fiscal constraints. The Commission is clear that the approach of global sharing is the proper mechanism. Further net tax revenue alone is to be shared.

**The percentages of global sharing from out of the State's own tax revenue after excluding the entire receipts under Entertainment Tax, which is covered under Pool-A, are recommended by this Commission as under:-**

<b>2002-03</b>	<b>8%</b>
<b>2003-04</b>	<b>8%</b>
<b>2004-05</b>	<b>9%</b>
<b>2005-06</b>	<b>9%</b>
<b>2006-07</b>	<b>10%</b>

However in a separate analysis, while dealing with the subject "Primary Education" in the Chapter "Issues germane to TOR", the Commission has recommended that the funds for 'Primary Education' one of the 29 subjects contemplated in the Eleventh Schedule of the Constitution be transferred as grants to Panchayat Unions. If our recommendation is accepted and thereby the grants are also taken into account the devolution would increase to 16% in 2002-03 and 2003-04 and 17% and 18% in subsequent years.

**9.4** As mentioned earlier, the commission tried various alternatives such as bringing non-tax revenue of the state into the divisible pool-B. After due deliberations, the Commission was convinced that the Central Devolution received by the State needs to be brought into divisible pool for the following major reasons:-

- The local bodies provide a substantial part of the infrastructure for the manufacturing sector.
- The manufacturing sector contributes considerable revenue to the Centre by way of corporate income tax, union excise duty, and customs etc, which are buoyant. The local bodies are justified in getting a share of such buoyant revenue resources.

**9.5.** Accordingly, the Commission recommends that 5% of Central devolution also be passed on to the local bodies and shared among the local bodies vertically and horizontally based on the formula suggested by SSFC for global sharing. The above mentioned two models of transfers including a percentage of central devolution are considered as 'Formula Based Transfers'. The quantum of global sharing and 5% Central devolution for 2002-03 based on the projections on State's Finances is as follows:

**Projection for 2002-03**

(Rs. in lakhs)

1.	8% of SOTR	129519
2.	5% of Central devolution	19789
	<b>TOTAL</b>	<b>149308</b>
		<b>or</b>
		<b>Rs.1493.08 crores</b>



9.6. Eleventh Central Finance Commission recommended 28% devolution for all States and 1.5% on account of additional excise duties to certain States within the overall ceiling of 37.5% of the gross revenue receipts of the Centre. The balance 8% relates to all other transfers. It is the fruition of the recommendation of Dr. P.V. Rajamannar, Chairman of the Committee on Centre-State relations who had suggested earlier in 1971 that a valid method of decreasing the dependence of the States on the Centre would be to see that the States get more through assured devolutions.

9.7. In adopting the above approach, one needs to remember that it is State's prerogative to evolve and implement its policies through various projects and schemes. Hence, the plan, non-plan and other discretionary transfers would have to continue. But this Commission feels that these need to be contained broadly on the model mooted by the Eleventh Central Finance Commission in resource flow to the States: the ratio between formula-based transfers and other transfers has been suggested at 29.5 : 8.0. If this is rounded off and adopted in State-local bodies resource transfers it would be 80:20. Hence this Commission recommends that **out of total transfer made by the State, 80% would be by way of formula based transfers (Pool A and enlarged Pool-B as above); the remaining 20% would be by way of Plan, non-plan and other discretionary transfers out side State Finance Commission devolution. In other words, all the transfers outside devolution need to be about 25% of formula-based transfers.**

Illustration for 2002-03	(Rs. in Crores)
Formula based transfers (8% of SOTR, Assigned Revenue and 5% of Central devolution)	1858.22
25% of above	464.56

This component outside devolution will be for the schemes mentioned in Para 9.2.2. above, the agency functions indicated in the chapter on Civic Needs as also State support to National River action programme vide para 16 of the Chapter on Debt Management. Further, the contribution to Rural Road Development fund (vide para 6.4 in Chapter IV) during the award period will also be part of resource transfer outside devolution. If need be, government may set off this contribution towards State's share for Centrally Sponsored Schemes.

9.8. Out of the above total transfers, 80% (Rs.185822 lakhs) will be formula based and 20% (Rs.46456 lakhs) will be plan, non-plan and discretionary transfers. Likewise the quantum of formula based transfers and plan and discretionary transfers for each year have to be calculated based on the percentage of global sharing. To test the reasonableness of the recommendation in Para 9.3 above, coupled with the 80:20 formula, this has been applied over the past actuals for 1997-98 to 2001-02 and it is observed that the total transfers are well within the limit of existing quantum of devolution. Thus they are affordable for the State. Of course, some adjustments and reductions in the outlays of the basket of schemes outside devolution would have to be made.

#### 10. Devolution versus Requirements:

The requirement of all local bodies and the quantum of transfer of funds based on the recommendations of SSFC for 2002-07 would be as follows:-

	(Rs. in crores)
I. i) Revenue Gap of all local bodies	11952.80
ii) Capital requirements of all local bodies	5025.00
Fiscal gap(i + ii)	16977.80
II. iii) Probable SFC devolution:	
a) Global sharing including 5% Central Devolution	10964.33
b) Assigned Revenue	2131.24
TOTAL	13095.57
III. Difference between Revenue Gap and (+) transfer of funds through SFC	1142.77



**10.1.** This surplus funds form over 20% of the minimum capital needs of all local bodies and hence this can be utilized to that extent. **The Commission therefore reiterates its recommendation in the chapter on 'Assessment of Needs and Finances' that 10% each of the SFC devolution may be reserved for capital works in Municipalities and Corporations, 15% for Town Panchayats and 20% for Village Panchayats.**

**10.2.** The present practice of adjustment consequent on buoyancy in revenue or reduction in revenue, as the case may be, is not being explicitly brought out during the first quarter of the next year. Hence, **this Commission recommends that while releasing the devolution for the next year, the adjustments to be made shall be explained clearly in the first quarter G.O. itself to ensure transparency in the devolution distribution.**

## **11. Inter-se ,Vertical and Horizontal Distribution:**

**11.1** Out of 100% global sharing prescribed under Pool-B for each year. 13% shall be set apart as Reserve, Equalization and Incentive Funds which will be discussed in the subsequent paragraphs. The remaining 87% may be made available for distribution between Panchayat Raj Institutions and Urban Local Bodies and the distribution among the various tiers is as detailed below:

### **11.2. Devolution : Basic Issues in Inter-se distribution between PRIs and Urban Local Bodies :**

a. The First State Finance Commission , though elaborately dealt with O&M Gaps, finally chose the only criterion of population for vertical distribution between the Rural and Urban sectors. The State Finance Commission's devolution is expected to enable the local bodies, after taking into account their resource potential, to meet their salary, O&M, debt servicing requirements and a component of capital needs. Hence, this Commission after going through various Central and State Finance Commission reports and after detailed deliberations in two internal sittings decided that the criteria should be as below:

Population	50% ( Vital index to reflect the aggregate demand)
Balance	50% apportioned as below
	25% Needs (O&M, Capital and Debt)
	25% Resource Potential

b. Some urban functionaries have pointed out that while most of the devolution of Panchayat Raj Institutions go to capital creation, in Urban Local Bodies it is not even enough for meeting the O&M. But the facts prove that over 20% of the devolution has been utilized eventually by Urban Local Bodies for capital creation in the period 1997-2000. This is most likely to repeat in our award period also.

c. The other contention relates to Centrally Sponsored schemes for PRIs giving them an edge over the Urban Local Bodies. However it is to be emphasized that adequate assets need to be first created in PRIs; further there has been decrease in quantum of assistance to Tamil Nadu under these schemes for various schemes. As these deal entirely with capital formation, they have little relevance to State Finance Commission's devolution.

d. In population, there could be no dispute. In order to ensure equity, under resource potential, inverse formula has been adopted for Per Capita property tax and Per Capita assigned revenue. This gives both Panchayat Raj Institutions / Urban Local Bodies a fair play. On the above basis after working out several permutations and combinations, the weightages have been accorded as under:-



1) Population		: 50%
2) Needs		
	O&M	: 10%
	Capital	: 10%
	Debt	: 5%
3) Resource Potential:		
	Inverse of per capita house /property tax	: 15%
	Inverse of assigned revenue	: 10%

e. This worked out to 59:41 for Panchayat Raj Institutions /Urban Local Bodies. For arriving at the inter-se distribution as above, 1991 population has been adopted as 2001 figures have not been announced. Since the award period commences from 2002, the population as of 2001 is relevant. Going by urbanisation the State had witnessed in the decade 1981-91, the Commission assumed that there would be 2% increase in urban sector. As population has been given 50% weightage, 1% hike in devolution needs to be made for Urban Local Bodies. This adjustment results eventually in 58:42 for Panchayat Raj Institutions and Urban Local Bodies.

**Hence this Commission recommends that Vertical sharing between Panchayat Raj Institutions and Urban Local Bodies shall be 58:42 respectively.**

### 11.3 Impact of Classification, reorganization etc. :

As per ToR 7, the State Finance Commission needs to look into the issue of classification of local bodies and on the basis of the mandate, the reclassification has been suggested in Chapter IX. Since the vertical sharing suggested in the foregoing paragraphs is based on the present status of local bodies, it would undergo changes if the proposals for downgradation of 178 Town Panchayats and upgradation of 18 Census Town Village Panchayats are accepted by Government. On acceptance of this package, the sharing pattern between PRIs/ULBs will be in the ratio of 60:40 respectively. **This is based on 1991 Census population. If the adjustment is done for 2% urbanisation as in para 11.2.e above, it would become 59:41 respectively.**

### Vertical :

#### 11.4. Rural:-

The District Panchayats are having only advisory role in the rural local body administration. No asset creation and maintenance are entrusted with them. Hence, no percentage allocation out of devolution for them is called for. The estimated requirements for salary and office administration for district panchayats may be first set apart. Panchayat Unions are maintaining the rural roads and school buildings. Village Panchayats are having all maintenance activities and their requirement is also high. The Eleventh Central Finance Commission has also recommended grants to the States for immediately passing it on to the Village Panchayats that have primary responsibility of maintaining assets. Eleventh Central Finance Commission has recommended that no amount from their grant should be given to intermediate or district level panchayats when they have no direct role in maintaining assets.

**The Commission, after assessing the needs and functions of various tiers of PRIs recommends that after allocating the proposed salary requirements of District Panchayats, the balance funds shall be distributed between Village Panchayats and Panchayat Unions in the ratio of 60:40 respectively.**



### 11.5 Urban:

11.5.1 To arrive at a formula based ratio, suitable weightages have been given for population, O&M and Capital needs, debt burden and also for resource potential viz: inverse of tax per property and inverse of assigned revenue (stamp duty) so as to balance the needs and resource potential. The weightages given for the above factors are given below:

1) Population	: 50%
2) Needs	
O&M	: 10%
Capital	: 10%
Debt	: 10%
3) Resource Potential:	
Inverse of per capita house /Property tax	: 10%
Inverse of assigned revenue	: 10%

Based on the analysis of all the above factors, the Commission recommends that sharing of devolution among Corporations, Municipalities and Town Panchayats may be in the ratio of 33 : 32 : 35 respectively.

11.5.2 Out of the amount accruing to Chennai Corporation, 10% will be sanctioned to Metro Water as recommended in the previous Chapter. The balance 90% will be Chennai Corporation's share.

11.6. As discussed in para 11.2, the reclassification among Urban Local Bodies may tilt the sharing with the downgrading of 11 Municipalities and upgrading / merging of 4 Town Panchayats. In the above scenario, the vertical sharing among Urban Local Bodies namely Municipal Corporations / Municipalities and Town Panchayats will be in the ratio of 34:31:35 respectively.

11.7. Illustrated models for PRIs / Urban Local Bodies inter-se distribution and Vertical distribution are placed in Annexure 13.

### 11.8 Horizontal Distribution:

#### Rural:

The horizontal distribution of funds allotted to Village Panchayats and Panchayat Unions will be as follows:

(in percentage)		
	Village Panchayats	Panchayat Union
Population	60	60
SC/ST Population	10	10
Agricultural labourers	10	10
Area	10	10
Asset Maintenance	10	-
Resource gap on inverse per capita land revenue	-	10
Total	100	100

For Village Panchayats, proportionate higher responsibility towards assets maintenance has been given weightage. Panchayat Unions are categorized based on their average per capita land revenue earnings. Hence, resource gap on inverse per capita land revenue has been considered as a financial criterion. The lower category will thus be compensated with higher weight for their lower earnings under land revenue.



**Urban:**

The following will be the inter-se distribution formula:

Criteria	(in percentage)		
	Corporations	Municipalities	Town Panchayats
Population	50	50	50
SC/ST population / Slum population	10 (slum population)	10 (SC/ST Population)	10 (SC/ST Population)
Per Capita own income	20	20	20
Asset Maintenance	10	10	20
Salary and Pension expenditure restricted to Corporations /Municipalities with 49% or less of total revenue income	10	10	
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

11.9. In the Chapter on "Issues germane to TOR", the basis for adoption of population as an element has been discussed in detail. As discussed in the relevant para, 2001 census is recommended for adoption while considering population as a criterion for devolution.

11.10. At present, deductions have been effected from the devolution liable to local bodies in an adhoc manner. In fact, this issue has been focussed during the district sittings of the Commission. In order to ensure that net devolution is sizeable, the **Commission recommends that upto 25% deduction from devolution towards debt liability would be reasonable and a maximum of another 20% may to towards non-debt liabilities.**

11.11. All the mutual liabilities dealt with illustratively in para 9.1 and 9.1.1 above need to be updated as on 31.3.2002 and settled in two year period viz. 2002-03 and 2003-04.

## **12. Periodicity of release of funds by the Government to the Local Bodies:**

The issue of delayed distribution of devolution has been brought to the notice of the Commission by the elected representatives and the concerned functionaries. The issue has been analyzed with the various functionaries and the Commission has come to the conclusion that the devolution is invariably ordered in the last quarter of the month resulting in resource crunch to the State Government. With a view to make the devolution distribution non-problematic, phasing of distribution is analyzed and suggested as below:

- Up to 1996-97, one time grants in the form of revenue grants viz. surcharge on sales tax, motor vehicles tax and W&M advances, and non-statutory / capital grants (local roads grant, water supply grant, education grant, maternity centre grant, etc.) were sanctioned to the local bodies every year on adhoc basis based on the proposals received from them. Generally, this was in January to March period.
- During the interaction held by this Commission, concerned functionaries brought to our notice about the belated release of funds by the Government to the local bodies. It may be seen from the annexure -12 that in the first two years of First State Finance Commission award period, i.e. 1997-98 and 1998-99, releases were more or less regular while in the subsequent two years erratic releases have affected any possible financial planning by the local bodies. Devolution indeed has become discretionary with several local bodies finding it difficult even to pay salary to their employees.
- Hence, this Commission considers that the best solution to this problem is retaining the present quarterly release for each class of local bodies but spreading the same over all three months of each quarter to reduce the financial strain on the Government in one-time

releases. Generally in the first of each quarter there may be ways and means problem for the Government while the cash position would improve as months go by.

- d. As the State Finance Commission devolution is essentially meant for salary, O&M and recurring items of expenditure, this Commission recommends steady release of funds to the local bodies by the Government. To ensure that the release is evenly spread the following illustrative staggering release of funds for 2001-2002 is recommended which may help both the Government and the local bodies.
- e. The even spread of release of funds indicated below is based on the provision of Rs.1018.06 crores made in the interim budget 2001-02 towards lumpsum provision for devolution to be apportioned to the Local Bodies.

**Table - 2**

**Periodicity of release of funds by Government to the Local Bodies – Suggested Model**  
B.E. 2001-02 = Rs.1018.06 Crores

Period	Municipalities & Corporations	Village Panchayats and District Panchayats	Town Panchayats and Panchayat Unions
	(Rs. in Crores)		
<b>I Quarter</b>			
April	73.00	-	-
May	-	87.00	-
June	-	-	97.00
<b>II Quarter</b>			
July	72.00	-	-
August	-	87.00	-
September	-	-	97.00
<b>III Quarter</b>			
October	72.00	-	-
November	-	87.00	-
December	-	-	97.00
<b>IV Quarter</b>			
January	67.34	-	-
February	-	85.10	-
March	-	-	96.62
<b>Total</b>	<b>284.34</b>	<b>346.10</b>	<b>387.62</b>
<b>Grand Total: Rs.1018.06 Crores</b>			

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



### **13. Reserve, Equalization and Incentive Funds**

13.1. The First State Finance Commission classified the assigned revenue as Pool A. The rest of the tax revenue, which do not form part of Pool A, has been classified as Pool B. From out of Pool B devolution, 15% was reserved by the First State Finance Commission as equalization / incentive fund.

#### **13.2. Why Equalization**

Equalization as a concept has been introduced to make up shortfalls, which may arise in the implementation of the principle distribution. This is quite possible as any formula, designed with the best of intention, may not meet the needs of all local bodies in each category. For instance, the distribution devised for Municipal Corporations might not meet the needs of Tirunelveli Municipal Corporation when compared to Chennai Corporation. Similarly, the needs of Usilampatti cannot be met while the formula would satisfy Erode Municipality. The same situation prevails in other classes of local bodies too. The level of service and needs in each category of local bodies has to be set right by way of small additional funding, as balancing or equalizing mechanism.

#### **13.3. Incentive Fund:**

The First State Finance Commission suggested continuance of the incentive grants provided statutorily to rural local bodies. Further, it has recommended extension of the grants to Urban Local Bodies to improve their own source of income.

#### **13.4. Utilization of the Fund:**

The utilization of the equalization / incentive fund during the award period of First State Finance Commission is available in the annexure 15 (a), (b) (c) and (d). While the incentive fund was primarily utilized for higher tax collection, there was varied application of equalization fund. The inter-se allocation between the two funds has also been varied from year to year. In Panchayat Raj Institutions, this has been primarily utilized for creation of assets in core civic sectors not based on needs arranged in any rational basis but on discretionary nature. In fact well placed and viable Village Panchayats have obtained amount from this fund while genuinely needy ones did not get anything. In Urban Local Bodies too this was used partly for improving temple / tourist Town Panchayats / Municipalities, while the rest was utilized for clearing debt and non-debt liabilities. In the case of Municipal Corporation too, this has not been rationally allocated.

13.5. In the case of incentive fund, the First State Finance Commission had suggested utilizing the fund for House Tax matching grant and Local Cess Surcharge matching grant etc. It had also given suitable formula by which the distribution can be ensured equitably and rationally. But the Government have altogether done away with the L.C.S matching grant. Further, house tax matching grant as implemented till 1999-2000 did not have differential element.

#### **13.6. Scope and orientation of the fund during the award period of Second State Finance Commission**

Application of equalization and incentive fund from 1997-98 till 2000-01 has given a lead for Second State Finance Commission to frame rational principles for creation and utilization of funds with reasonably defined scope. These have been renamed as reserve, equalization and incentive funds. The total allocation for these funds will be 13% of the total devolution. However, out of this, 3% will be for reserve fund, 5% for equalization and the balance 5% will be for incentive purposes.

##### **Incentive Fund:**

13.6.1. In the case of House-Tax Matching grant met from incentive Fund, the Second State Finance Commission discussed the issue threadbare in its meeting held in April 2000, took certain views and conveyed the same to Rural Development department in Government. Although the Government did not go by the slabs proposed by the Commission, it has issued an order with three slabs. This has also been brought out and analysed in the Task Force Committee appointed for Panchayat Raj Institutions. As per



the projections made by it the average house tax income of Panchayat Raj Institutions during 2002-07 will be of the order of Rs.50 crores to Rs.70 crores. Hence, the present type of House Tax matching grant may not be sustainable. Further, it does not distinguish between Village Panchayats, which have effected House Tax revision, and those Village Panchayats, which have not. Also, provision has been given in the Chapter on Civic Needs and Finances, that the best Village Panchayats and Panchayat Unions will be given funds based on the Report Card System as set out for Urban Local Bodies. Taking these factors, the Commission recommends the following pattern of matching grants:-

Table-3.

Collection 49% and below	50% matching grant
Collection 50% to 74%	75% matching grant
Collection 75% to 90%	100% matching grant
Collection 91% and above	125% matching grant

For the year 2002-03, the slabs may be on the lines mooted above, provided the village panchayats have effected House Tax revision during 1998 to 2001. For those Village Panchayats, which have not raised house tax in the period 1998-2001 the matching grant will be 50% irrespective of collection level. The parameters on which incentives can be given to Village Panchayats may be seen from a couple of case studies enclosed as Annexure 16 to this chapter. Besides this Commission recommends for payment of incentive based on Report Card as under:-

Panchayat Unions	Rs. 10 lakhs
Village Panchayats	Rs. 5 lakhs

Further the Incentive Fund made available from granite lease revenue may also be pooled under incentive fund and distributed towards House Tax matching grant.

13.6.2. In the case of incentive to Town Panchayats, this is now given to those Town Panchayats, which are collecting property tax collection above 85%. This minimum needs to be increased to 90%. Further taking note of the wide disparity in the property stock and other factors, the Commission recommends that the following slabs of matching grants (incentive) may be adopted for the level of collection mentioned above.

Table-4

Grade II Town Panchayats	25%
Grade I Town Panchayats	20%
Selection Grade Town Panchayats	15%
Special Grade Town Panchayats	10%

Further the commission recommends payment of incentive based on report card as under :

Town Panchayats : Rs.30 Lakhs

The remaining portion of the available incentive fund may be utilized for prompt clearance of debt and non-debt liabilities.

13.6.3. In the case of Corporations and Municipalities, the Commission recommends that the incentive may be on the basis of Report card System suggested in the Chapter on Civic Needs and Finances.

Table -5

Best Municipal Corporation	Rs.1 crore
Best Special Grade Municipality	Rs.30 lakhs
Selection and I Grade Municipality	Rs.25 lakhs
Second Grade Municipality	Rs.20 lakhs

Besides, the Supreme Court has directed the Central / State Governments to provide funds for improving the transport and disposal of solid wastes. Based on the direction the Commission has suggested for



allocation of funds in the Chapter on Civic Needs and Finances for Municipal Corporations and Municipalities exceeding one lakh population. Accordingly, the following shall be the distribution pattern for solid waste management:-

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

After apportioning the funds as explained above, **this commission recommends that the balance amount may be apportioned for better tax and non-tax collection and prompt payment of debt and non-debt dues as detailed below:**

<b>Tax Collection Level</b>		<b>25%</b>
<b>Current (Minimum)</b>	<b>90%</b>	
<b>Arrears (Minimum)</b>	<b>75%</b>	
<b>Per Capita Collection</b>		<b>25%</b>
<b>Prompt clearance of debt repayment</b>		<b>50%</b>

**13.6.4** Further this Commission recommends that if any lease revenue from granite is made available to Urban Local Bodies, the same may be assigned to the concerned Urban Local Bodies as like any other minor minerals.

### **13.7. Reserve Fund:**

**13.7.1** Under this, the following items of expenditure can be met.

- a. Disaster Management
- b. Training needs
- c. Rain Water Harvesting
- d. Collector's Development Fund

The details of funding relating to all the above schemes except item(d) above have been discussed in the report elsewhere. The release of funds may be done as illustrated in the respective paras.

### **13.7.2. Collectors' Development fund**

The District Decentralised Plan Fund was launched in 1992-93. Under this Plan funds were routed through District Rural Development Agency by the State Planning Commission and Collectors were empowered in allocation of resources depending upon the local needs. This scheme was found useful to fulfill multivarious felt-needs and was operative till 1998-99. It was merged with MLACAD programme subsequently. As such, most of the Collectors / Ex. Collectors during District sittings and Panchayat Raj Institutions seminar conducted by this Commission pleaded that certain amount may be earmarked and placed at their disposal in order to redress the grievances of the public and for providing amenities to the needy areas. In the chapter on Issues germane to Terms of Reference, we have dealt with the need to strengthen the institutions of Collectors based on Justice Rathinavel Pandian Commission's report and our own findings.. **This Commission therefore recommends that out of 3% set apart under reserve funds from State Finance Commission devolution, 1% may be placed at the disposal of the Collectors in the name "District Collector's Development Fund."** In respect of local bodies viz Village Panchayats, Town Panchayats, Municipalities and other Corporations, except Chennai Corporation, the above fund has to be apportioned to the Collectors as detailed below:-

- Districts having more than 15 lakhs population - Rs. 60 lakhs
- Districts having less than 15 lakhs population - Rs. 40 lakhs

The Collectors have to apportion the above funds to the local bodies as detailed below:-

Panchayats	: 60%
Town Panchayats	: 15%
Municipalities & Other Corporations	: 25%

Further the Commission recommends that the Government may appoint a Committee with Member- Secretary, State Planning Commission, Commissioner of Rural Development, Commissioner of Municipal Administration, Director of Town Panchayats and a Collector : based on the experience in implementing DDP till 1998-99 and the present type of felt needs, the Committee may give its report with suitable guidelines for implementation of the fund.

The Collectors have to draw annual action plan for utilizing the above fund and shall get approval from the Heads of Departments concerned before according sanction to schemes from the above fund earmarked to them and the fund will be operated by Collector by opening a separate PD account. This is primarily meant for **capital** assets.

Unspent amount if any, under the above fund should be pooled in the fourth quarter and taken to the general devolution and distributed.

### **13.8. Equalization Fund:**

#### **Panchayat Raj Institutions**

Funding of needy Village Panchayats and Panchayat Unions.

#### **Urban Local Bodies**

- a. Election Fund
- b. Urban Development Fund
- c. Self-financing projects like sewerage, drainage and over-bridge  
(Alandur and Valasaravakkam like models.

Illustrative models are made available in Annexure -14.

### **13.9. Funding of Needy Panchayats :**

#### **Village Panchayats**

13.9.1. The State average per capita of own tax in Village Panchayats comes to Rs.17. Any Village Panchayats with per capita own revenue less than Rs.17 is considered a weak Village Panchayat deserving this fund. Hence, to make the shortfall amount from equalization fund can be given to those Village Panchayats having less than Rs.17 per capita of own tax. **Hence, the Commission recommends that the equalization funds may be placed at the disposal of Collectors and may be distributed to Village Panchayats with the per capita less than Rs.17 of own tax revenue. This primarily meant to meet the debt and non-debt dues including electricity current consumption charges, water supply maintenance charges of the concerned Village Panchayats. The Commission further recommends that the eligible per capita limit may be fixed annually by Government based on Commissioner of Rural Development's analysis.**

#### **Panchayat Unions:**

13.9.2. In para 3 of the Chapter on classification of local bodies, we have given recommendation on reorganizing Panchayat Unions. Even after reorganization of Panchayat Unions and restricting the staff as per norms suggested, **the Commission recommends that the needy Panchayat Unions such as those indicated in Annexure-17 may be considered for release of equalization fund to meet out general administration cost. This component of equalization fund can be operated by Commissioner of Rural Development.**

### **13.10. Urban Local Bodies**

13.10.1. While (b) and (c) in para 13.8 have been discussed in the report elsewhere, the funding of election is discussed hereunder:



In respect of funding of election to Urban Local Bodies, the State Election Commission sought our commission views. This commission felt that the funds required for Urban Local Bodies' elections may be pooled by deducting every year by way of deduction from devolution. All six municipal corporations in the state may be asked to fund their local body elections on their own. As regards Municipalities and Town Panchayats, a portion of their election expenses may be met by earmarking a portion from the elections before the devolution is distributed. This could be 50% for Town Panchayats and 30% for municipalities. **For the 2006 election, the Commission recommends that 20% of the anticipated expenses can be deducted every year from 2002-2003 and 2006-07 and the same may be kept in a separate account operated by Commissioner of Municipal Administration and Director of Town Panchayats. In respect of 2001 local body elections, the election expenditure may be met from equalization fund in full.**

**13.10.2.** Taking a holistic view on the needs, the Commission recommends setting apart 13% from the devolution as noted below to take care of the needs and for utilization only for the purposes indicated in the paras 13.6, to 13.10 above:

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

**13.10.3** Further, the Commission recommends that the distribution pattern for the Reserve, Equalization and Incentive Fund should be unless specified to be different, at 58% for Panchayat Raj Institutions and 42% for Urban Local Bodies.

The Commission also recommends that the balance 87% after deducting 13% towards Reserve, Equalization and Incentive funds constitutes general devolution which may be apportioned at the ratio of 58:42 for PRI /Urban Local Bodies respectively. On acceptance of the recommendations relating to reclassification this would be 59: 41 respectively.

**13.10.4** The funds envisaged in this section have emerged after careful appraisal of various needs of local bodies. These can be deemed as earmarked funds for distinct purposes. Hence the Commission does not envisage diversion from one fund to another. **The Commission therefore recommends that the unutilized funds, if any , have to be added to general devolution for formula based distribution. This can be decided by Government in Finance Department in the last quarter of each financial year.**

#### **14. Conclusion**

This chapter has meticulously dealt with the issue of devolution mechanism. This commission has taken into account various indicators like O&M gap, capital needs, debt and inverse of per property / house tax and inverse of assigned revenue to render justice and equity.

Another significant feature of the recommendations relating to devolution is a small apportionment of central grants, which many of the elected representatives pleaded during the State Level Seminar and District sittings. Thirdly, and more significantly, codification has been attempted in the allocation of Reserve, Equalization and Incentive Funds. The 'raison detre' in our approach is that the amount allocated for local bodies should be made use of judiciously to improve the needs of the people living in both urban and rural areas. More so, this is born out of a desire that the fund should not be an entirely discretionary tool in the hands of the executive authorities. While evolving the principles, care has been taken to provide funds for disaster management, training needs, rainwater harvesting, urban local bodies election and self-financing projects.

Finally, while allocating devolution to local bodies due care has been taken to see that the State exchequer is not put to great hardships and difficulties. In fact formula based transfers may amply prove that this Commission is conscious of the resource – crunch and also the needs and expectations of the people.

**“இயற்றலும் ஈட்டலும் காத்தலும் காத்த  
வகுத்தலும் வல்ல தரசு”**

**(குறள்:385)**



## CHAPTER-XIV SUMMARY OF FINDINGS AND RECOMMENDATIONS

### Introduction

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

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

#### Coverage Of Terms Of References

Para number and the clause in TOR	CHAPTER in which term of reference is covered.
2. The Commission shall review the financial position of the local bodies.	CHAPTER-IV CHAPTER-V
3. In reviewing the financial position of the local bodies, the Commission shall assess the financial position of each of the local bodies as on 31 <sup>st</sup> March 2000.	-do-
2(a)(i) The Commission shall make distribution between the State and the said local bodies of the net proceeds of the taxes, duties tolls and fees leviable by Government, which may be divided between them and allocation between the said local bodies of their respective shares of such proceeds.	CHAPTER-XIII
2(a)(ii) Determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the said local bodies.	CHAPTER-IV
2(a)(iii) Grants-in-aid to the local bodies from the Consolidated Fund of the State.	CHAPTER-XIII
2(b) The measures needed to improve the financial position of the local bodies taking into account inter alia, their level of debt and their ability to service the debt.	CHAPTER-VI CHAPTER-VII
4. In making its recommendations, the Commission shall have regard to the resources of the State Government the demand thereon, in particular the expenditure of the State on debt servicing including the debt servicing on behalf of local bodies/other committed expenditure or liabilities of the State Government and the need to generate adequate surplus on revenue account for State's commitments on capital account.	CHAPTER-VII CHAPTER-XIII
5. The Commission shall have regard to existing level of devolution and other resources transfer.	CHAPTER-XIII
5(i) Recommendations of XI CFC.	CHAPTER-XI
5(ii) Requirement of the local bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the need for generating surplus for capital investment.	CHAPTER-V
5(iii) Revenue resources of the local bodies for the five years commencing from 1 <sup>st</sup> April 2002 on the basis of level of taxation reached on 1999-2000 and the potential for increase in revenue.	CHAPTER-IV
5(iv) The status of implementation of the recommendations of the First State Finance Commission and utilization by the local bodies of the resources transferred.	CHAPTER-III CHAPTER-V CHAPTER-XIII



5(v) The scope for better fiscal management consistent with efficiency and economy in major components of recurring; and non-recurring items of expenditure.	CHAPTER-VI
6. The Commission shall review the present system for assessing the accountability of the local bodies in utilizing the resources raised or received from the State and Central Governments and other agencies.	CHAPTER-VIII
7. The Commission may suggest changes, if any, on the basis of classification of local bodies as rural and urban.	CHAPTER-IX
8. The Commission shall also make suitable recommendations on the changes, if any, needed in the system for payment to pension to the retired employees of local bodies.	CHAPTER-X
9. The Commission can also make suitable recommendations regarding any other issues having bearing on the terms of reference above.	CHAPTER-XII

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

### **Resource Base**

#### **Property Tax**

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

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

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

(IV – 2.13)

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

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

(IV – 2.13)

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

(IV – 2.13)

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

(IV – 2.13)



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

(IV – 2.13)

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

(IV – 2.13)

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

(IV – 2.13)

#### 5. Vacant Land Tax:

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

(IV – 2.13)

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

(IV – 2.11 and 2.12)

#### 7. House Tax

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

(IV – 3.4 to 3.8)

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

(IV – 3.4 to 3.8)

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

(IV – 3.4 to 3.8)

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

#### 8. Development Cess:

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

(IV – 3.4 to 3.8)

#### 9. Profession Tax

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

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

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



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

(IV – 4.8)

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

##### **a. Advertisement Tax**

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

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

(IV – 5)

##### **b Pilgrim Tax**

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

(IV 6-3.2)

##### **c. Cable Television:**

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

(IV – 6.5)

##### **d. Bus stand fees:**

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

(IV – 9.2 (e))

### **PANCHAYAT RAJ INSTITUTIONS**

#### **11. Surcharge component in Motor Vehicles Tax:**

i) The Commission recommends the amount entitled for apportionment and the actual amount adjusted may be reconciled and the dues at least for the period 1997-2002 may be adjusted in the financial years 2002-2003 and 2003-2004 and used for road development schemes in rural areas.

(IV – 6.4)

##### **ii. D& O Licence Fees**

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

(IV – 8.3)

##### **iii. 2C Patta trees**

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

(IV – 8.4)

##### **iv. Water Tax**

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

(IV – 8.5)

##### **v. Fisheries**

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

(IV – 8.6.2)

**v. Social Forestry:**

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

(IV – 8.7)

**12. Local Cess And Local Cess Surcharge**

i) The Commission recommends that whenever land revenue is waived or ordered for remission by State Government, the Panchayats and Panchayat Unions may be fully compensated for the loss of LC/LCS and that the fixing of LC/LCs with reference to the LR rounded to the nearest hundred rupee from April 2002, its collection and its apportioning may be implemented as explained in relevant paras.

(IV – 13.2.3)

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

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

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

(IV - 13.2.4)

**URBAN LOCAL BODIES**

**13. Congestion Tax in Chennai**

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

(IV – 9.2(b))

**14. Measures applicable to all Urban Local Bodies**

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

(IV - 9.2)

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

(IV – 9.3)

**iii) Library Cess:**

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

(IV – 9.4)

**iv. Construction Workers Welfare Fund:**

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

(IV – 9.5)

**v. Lease Revenue:**

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

(IV – 9.6.1)



**vi. Marketing Committee:**

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

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

(IV – 9.6.2)

**vii. Unused Shopping Complex Constructed by TAHDCO:**

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

(IV – 9.6 .3)

**viii. Unapproved Lay Outs:**

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

(IV-9.7.3)

## **ASSIGNED REVENUE**

**15. Entertainment Tax:**

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

(IV-10.4)

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

(IV –10.5)

**16. Surcharge on Stamp Duty:**

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

(IV-11.2)

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

(IV-11.5.1)

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

(IV-11.5.2)

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

(IV – 11.5.1)

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

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

(IV –11.9 to11.11)

**17. Mines And Minerals:**

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

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

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

(IV-12)

#### 18. Self reliance index

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

(IV – 15.2)

### ASSESSMENT OF CIVIC NEEDS AND FINANCES

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

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

(V-7.2)

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

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

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

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

(V-12.1)

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

(V.12.2)

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

(V-13)

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

(V-16.3)

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

(V-19)



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

(V-18.3)

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

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

(V-18.1)

## **25. Municipalities:**

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

(V-29.31)

### **26. a) Corporations other than Chennai:**

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

(V-39-40)

### **b) Chennai Corporation:**

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

(V-41)

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

(V-21.5)

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

(V-22)

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

(V-23)

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

(V-33 and 43)

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

(V-37.3)

30. a) The Commission recommends that Urban Local Bodies should duly organise road digging before every re-laying so that haphazard digging will be avoided. In Chennai city the co-ordination committee as suggested in the relevant para shall pursue and implement the procedure evolved.

(V-46)

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

(V-47)

### 31. Water Supply

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

(V-8)

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

(V-49.3)

### 33. Rainwater Harvesting

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

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

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

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

(V-50)

### 34. Solid Waste Management

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

(V-27.2)

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

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



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

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

(V-52.1)

### 36. Report Cards

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

(V-53.1& 53.2)

37. The Commission recommends that a coordination committee may be constituted including both the Tamil Nadu Housing Board officials and officials from Heads of Departments concerned with local body administration which may review the already completed schemes and measures needed for time-bound takeover.

(V-55.3)

### Role of local bodies in infrastructure and other investments

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

(V-57)

### BETTER FISCAL MANAGEMENT

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

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

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

(VI - 6 and Chapter X – 16.4)

Further this Commission recommends that;

- (i) Productivity norms may be prescribed for all categories of staff to achieve rightsizing of establishment keeping in view the overall staff norms as recommended in para 6.4 and
- (ii) Illustratively assessments for each collection staff may be prescribed at 2400.

(VI-6.4, VI - 11.2)

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

(VI-6.6)

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

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

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

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

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

(VI - 7.6)

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

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

(VI-8.4)

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

(VI-9.2)

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

(VI-9.8)

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

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

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

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



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

(VI - 9.19)

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

(VI - 9.21)

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

(VI - 9.25)

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

(VI-12.3.)

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

- i) Defaulters' list may be published through mass media such as local newspapers, cable T.V., cinema slide etc.
- ii) Legal proceedings and criminal prosecution may be pursued to their logical conclusion and revenue realized.

(VI - 13.1)

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

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

(VI - 13.1)

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

VI-13.1), (VI -15.2)

#### **Maintenance of Provident Fund Accounts:**

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

(VI-17.2&3)

#### **DEBT MANAGEMENT**

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

(VII-7)

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

Corporations	: 20%
Municipalities	: 25%
Town Panchayats	: 30%

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

(VII-8)

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

(VII-9)

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

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

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

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

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

(VII-10.1)

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

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

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

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

(VII-10.2.)

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

(VII - 10.4)



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

(VII - 10.5)

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

(VII - 11.2)

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

(VII - 13-14.4)

62. a) The State Finance Commission recommends that the incentives may be sanctioned to both Urban Local Bodies which have successfully launched the public health project through public participatory approach and through private sector involvement. This approach will keep debt of such local bodies within manageable levels.

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

(VII - 17)

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

(VII-19)

#### **ACCOUNTABILITY AND AUDIT**

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

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

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

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

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

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

(VIII - Para 3.7(a))

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

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

66. The Commission recommends that the time frame as indicated in Para 3.8. may be followed. To ensure the above annual calendar of events the two exclusive committees as amplified in Para 3.8 may be set-up to monitor the schedule and they may meet once in a quarter.

(VIII-Para 3.8)

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

(VIII-Para 3.9)

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

(VIII-Para 4.2.)

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

(VIII – Para 6.5 and 6.6)

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

(VIII-Para 11.6 Para 15 and Para 17)

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

- a. Filing of property return as mandatory for elected representatives as contemplated in G.O. Ms.No.858 RD & LA Dept. dated 25.4.73 at the time of assuming office and also annually during the term of office for which Tamil Nadu Panchayat Act 1994 and Tamil Nadu Urban Local Bodies Act 1998 may be amended suitably (vide Annexure VIII 2)
- b. The Local Body representatives have to be declared as public servants so as to enable invoking the provision of Prevention of Corruption Act, 1988 and Benami Act.
- c. Ombudsman type of institution may be set up for Local Body representatives with six months time frame to complete the enquiry and give findings.
- d. Debarring the functionary concerned from election in the event of conviction by court as envisaged in Section 8 of the Representation of Peoples Act, 1951.
- e. Issuance of detailed guidelines to prevent Benami Transaction by Local Body representatives.



- f. The elected representatives against whom RILS proceedings are issued and also for proven irregularities may be debarred from contesting election for six years for which the relevant Act may be amended.

(VIII-Para 7.2)

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

(VIII-Para 8.1)

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

(VIII-Para 8.2)

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

(VIII-Para-9)

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

(VIII-10-5)

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

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

(VIII - Para 15.4.)

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

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

(VIII-Para 16).

#### **BASIS OF CLASSIFICATION**

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

- i) Government may accept in principle to reconstitute Village Panchayats based on a minimum population of 3000 as per 1991 census. (As per 2001 census, this could be 3200).

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

(IX -2.11 and 4.12)

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

(IX -3.3)

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

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

(X-3.7)

**80. In regard to Town Panchayats the Commission recommends:**

- i) Regrouping or merger of 26 Town Panchayats as mentioned in para.4.4 with nearby Town Panchayats
- ii) Downgrading of 178 Town Panchayats as mentioned in para.4.5 as Village Panchayats or merging with nearby Town Panchayats wherever possible to make them viable.
- iii) Based on yet another approach, the Commission recommends that merger of Town Panchayats adjoining Municipalities such as Inam Karur with Karur and Chitlapakkam near Tambaram with Tambaram may be considered so long as there are no intervening Village Panchayats.
- iv) Upgrading 18 Village Panchayats called census Towns in Chennai Metropolitan area as mentioned in para.4.7 as independent Town Panchayats or they be merged with nearby Town Panchayats, which are contiguous geographically to bring the entire Metropolitan area under urban character. This upgradation may be done provided the reclassifications in recommendations (i) to (iii) above are given effect to first.
- v) Resource allocation procedure as indicated in para.4.10 above may be adopted to ensure that on downgradation, 178 Town Panchayats do not lose out in devolution.

(IX -4.12)

**81. Municipalities:**

i) The Commission recommends that eligibility for upgrading from the status of Town Panchayat to Municipality of Grade-II shall be minimum population of 30,000 and minimum average annual income for the last three consecutive years should be of Rs. 2 crores and above.

(IX- 5.6)

ii) We recommend that the 11 Municipalities mentioned in para 5-7 may be downgraded as Town Panchayats for the reasons given in the relevant paragraphs.

(IX - 5.7)

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

(IX-5.7)



**82. Revised limits:**

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

(IX-5.8)

**TOWN PANCHAYATS**

Grade	Annual Income (***)
II	Above Rs.30 lakhs but below Rs.40 lakhs
I	Above Rs.40 lakhs but below Rs.60 lakhs
Selection grade	Above Rs.60 lakhs but below Rs.1 crore
Special grade	Above Rs.1 crore but below 2 crores

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

**MUNICIPALITIES:**

GRADE	INCOME
II	Rs.2 crores and above but below Rs.4 crores
I	Above Rs.4 crores but below Rs.6 crores
Selection grade	Above Rs.6 crores but below Rs.10 crores
Special Grade	Above Rs.10 crores but below Rs.50 crores

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

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

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

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

(IX -6.2, 6.3)

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

(IX - 6.4)

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

(IX - 7)

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

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

(IX – 8.1, 8.2)

#### **PAYMENT OF PENSION**

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

(X-16-1)

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

(X-16-2)

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

(X-16-3)

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

- a) Gratuity & Commutation - Director of Local Fund Audit
- b) Regular monthly pension - Professional agencies like LIC, Banks or other competent agencies.

(X-16-5)

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

(X-16-7)

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

(X-16-8)

#### **92. Other issues**

- a) Death gratuity shall be on par with superannuation gratuity.
- b) A person who is in receipt of one civil / family pension he/she need not be sanctioned another family pension. But this condition will not apply to those who are in receipt of military pension.
- c) Having become infructuous owing to non-amendment of rules, G.O.Ms.No.600, MA&WS Department, dated 14.9.1989 may be formally cancelled.
- d) Pension payment need not be transferred to Treasuries/Sub-Treasuries.
- e) The CRD/DTP/CMA need to organize release of the withheld gratuity immediately on settlement of audit objections.
- f) A database may be set up for personnel matters to avoid delay in settlement of claims and that DLFA may be requested to scrutinize the service particulars one year prior to retirement.
- g) The Rural Development Department shall make full payment to DLFA based on his demand, so as to ensure timely payment for which the relevant rule may be suitably amended.

(X-16-9)

#### **ELEVENTH CENTRAL FINANCE COMMISSION RECOMMENDATIONS**

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

(Ref: Recommendation 8.11d of ECFC)



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

(Ref: Recommendation 8.18 of ECFC)

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

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

(Ref: Recommendation 8.19 and 8.19d of ECFC)

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

(Recommendation 8.21 of ECFC)

## **ISSUES GERMANE TO TERMS OF REFERENCE**

### **Population**

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

(XII -2)

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

c) The other recommendations may also be implemented.

(XII-2.7.1 & 2.7.2)

### **98. Setting up of State-Local bodies Council.**

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

(XII - 3.6, 3.7)

### **99. Training needs of urban local bodies.**

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

(XII - 4.3)

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

(XII - 4.4)

#### **100. Training needs of Panchayat Raj institutions.**

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

(X11 – 5.2)

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

(XII – 5.2)

The other three recommendations may also be implemented.

(XII – 5.2)

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

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

(XII-6.5)

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

(XII – 6.7.1)

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

(XII – 6.7.2, 6-10.1, 6-10.2, 6.11)

#### **102. Chennai Metropolitan Water Supply & Sewerage Board.**

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

(XII – 7.6.1)

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

(XII – 7.6.2, 7.6.3)

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

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

(XII – 8.6)

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

(XII-8.6)

iii) The other two recommendations may also be implemented.

(XII – 8.6)

#### **104. Constitution of Metropolitan Planning Committee.**

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

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

(XII – 9.4)



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

(XII – 9.5, 9.6, 9.7)

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

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

(XII – 10.4)

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

(XII – 10.3, 10.4, 10.6)

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

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

(XII - 11.3)

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

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

(XII-12.3)

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

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

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

(XII-13.5)

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

(XII-13.6, 13.7.1, 13.7.2.)

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

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

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

(XII 14.3, 14.4.2)

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

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

(XII-15.5)

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

**111. District Planning Committee.**

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

(XII-16.7.1.)

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

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

(XII-16.7.2)

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

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

(XII-17.6)

**113. Primary Education in Panchayat Unions.**

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

(XII-18.5)

**114. Data Base:**

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

(XII – 19.1, 19.11, 19.12)

**115. Funding of disaster Management.**

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

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

(XII – 20.4)

**116. Monitoring Mechanism for local bodies fiscal reforms.**

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

(XII – 21.6)

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



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

(XII-21-7)

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

(XII-24-33)

## DEVOLUTION MECHANISM

118. The following resource distribution device is designed.

### Pool A:

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

(XIII-9.3)

### Pool B:

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

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

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

(XIII-9.5)

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

(XIII-9.7)

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

(XIII-10.2)

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

(XIII-10.1)

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

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

(XIII-11.1 (e))

122. The Commission, on assessing the needs and functions of various tiers of PRIs recommends that after allocating the proposed salary requirements of District Panchayats, the balance funds shall be distributed between Village Panchayats and Panchayat Unions in the ratio of 60:40 respectively.

(XIII-11.3)

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

(XIII-11.4)

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

(XIII-11.5)

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

(XIII-11.6)

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

(XIII-11.8, 11.9)

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

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

(XIII-12.d)

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

(XIII-12.f)

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

(XIII-13.10)

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

The balance 87% will be devolution for general purpose.

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

(XIII-13.10)

**129. Incentive Fund:**

**Panchayat Raj Institutions:**

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

(XIII-13.6.1)



**Urban Local Bodies:**

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

(XIII.13.6.2)

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

(XIII-13.6.3)

**130. Reserve fund:**

**Collector's development fund:**

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

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

(XIII-13.7.2)

**131. Equalization fund:**

**Panchayat Raj Institutions:**

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

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

(XIII-13.9)

**Urban Local Bodies:**

c) The Commission recommends that the distribution of equalization fund may be done as narrated in para 13-10.1.

(XIII-13.10.1)

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

**CONCLUSION:**

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

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

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

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

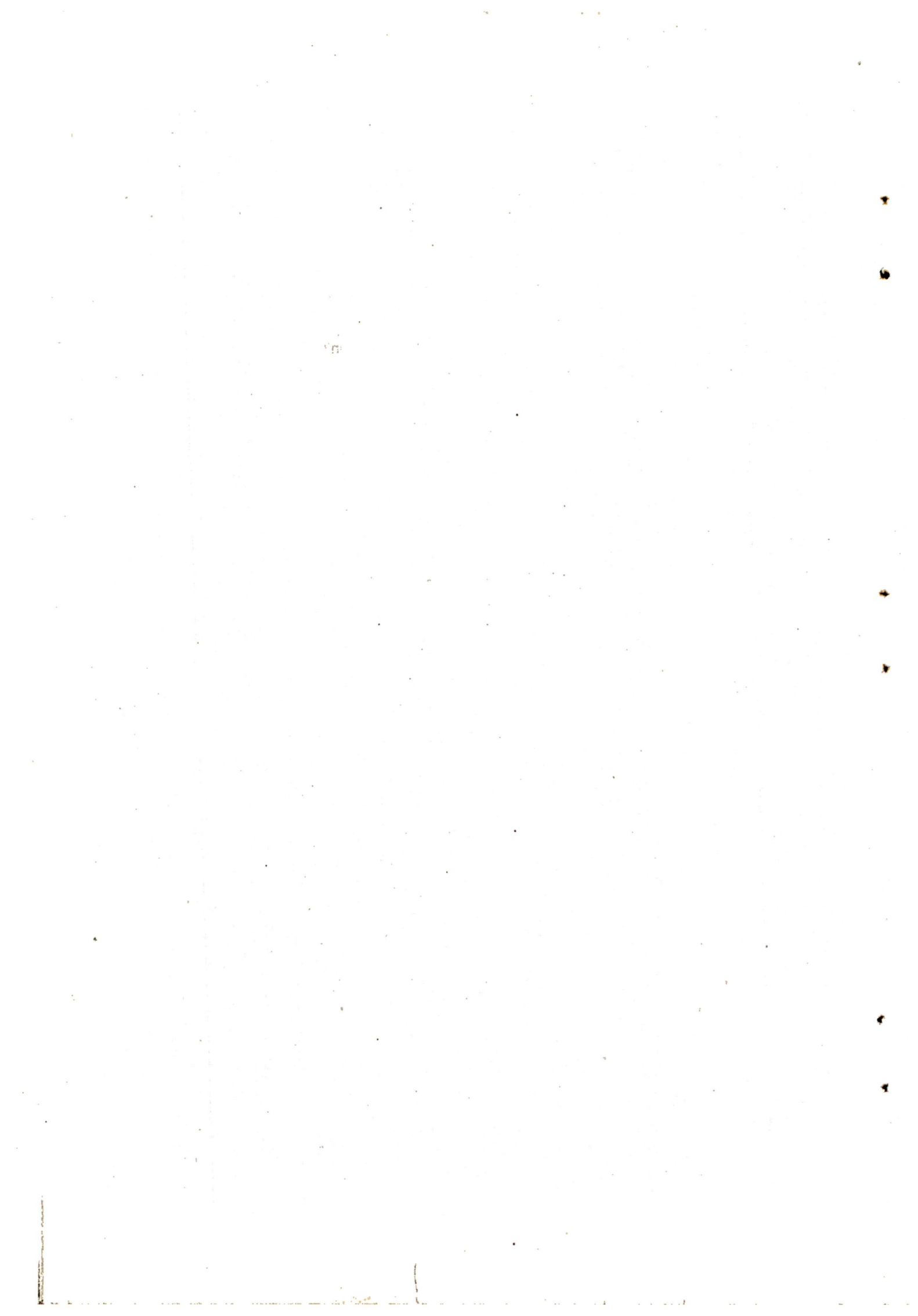
A reflection over the gamut of recommendations would confirm the policy framework set forth by us in Chapter-II. The operative chapters began with resource base of local bodies and measures for strengthening the same. After traversing the ground relating to civic amenities and services we have dealt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

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

“ஆகாறு அளவிட்ட தாயினும் கேடில்லை  
போகாறு அகலாக் கடை”

(குறள்:478)





# ANNEXURES

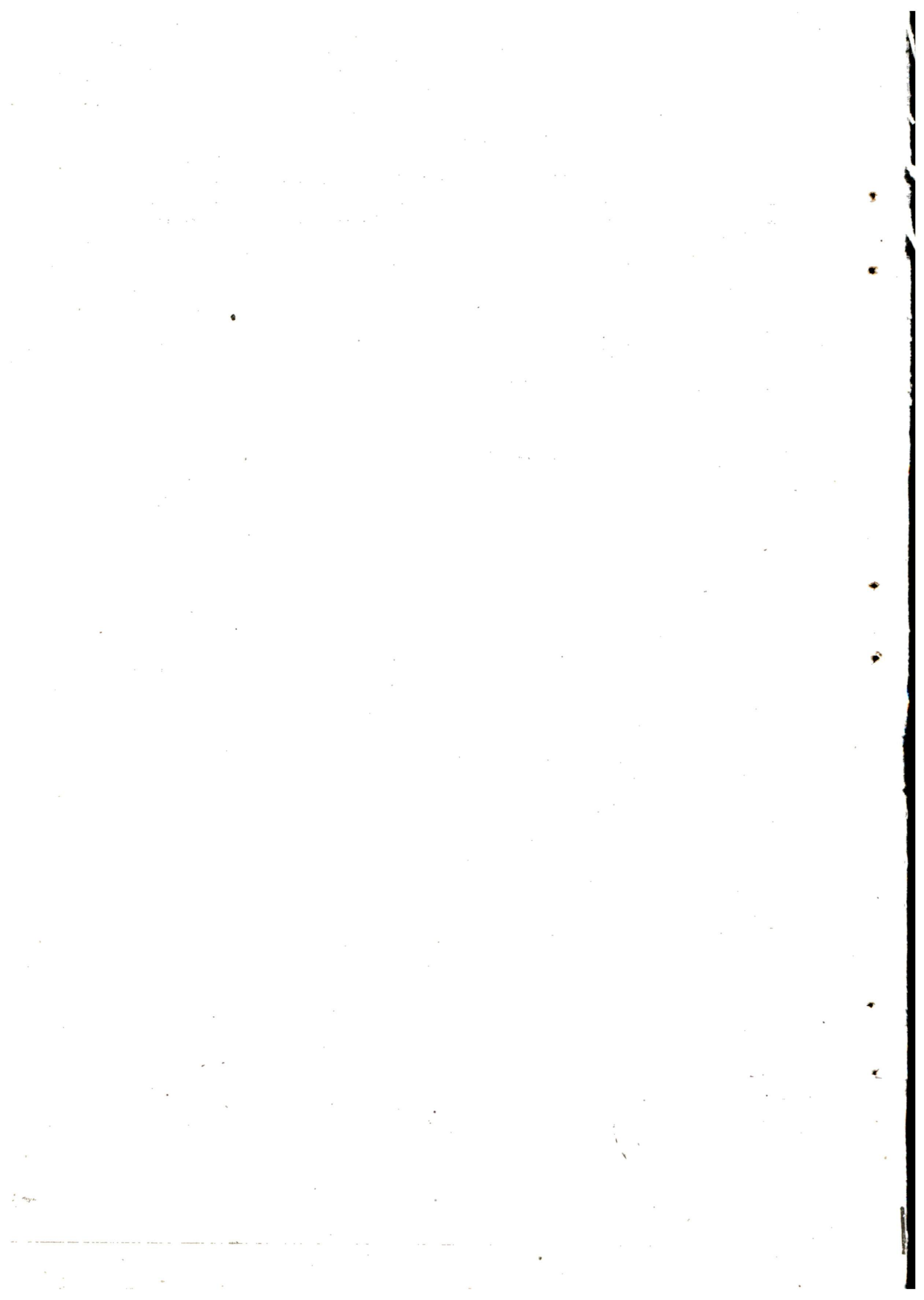




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**ANNEXURE I -1**  
(Ref - Para 2)  
**THE STRUCTURE OF SUBNATIONAL GOVERNMENTS IN LARGE DEMOCRACIES**

Country	Intermediate	Local
<b>Industrial Countries</b>		
Canada	10 provinces, 2 territories	4,507 municipalities
France	22 regions, 96 departments	36,772 communes
Germany	13 states, 3 city-states	329 counties, 115 county-free cities, 14,915 municipalities
Italy	22 regions, 93 provinces	8,100 municipalities
Japan	47 prefectures	655 cities, 2,586 towns
Spain	17 autonomous communities	50 provinces, 8,097 municipalities
United Kingdom	Counties	540 rural districts, metropolitan districts, and London boroughs
United States	50 States, F.D.	39,000 counties and municipalities, 44,000 special-purpose local authorities
<b>Other countries</b>		
Argentina	23 provinces	1,617 municipios
Bangladesh	-	4 city corporations, 129 pourashavas (smaller municipalities), 4,500 union parishads (which group 85,500 villages)
Brazil	27 states, F.D.	4,974 municipios
Colombia	32 departments, F.D.	1,068 municipalities
Ethiopia	9 regions, plus 2 special city administration, 66 zones	550 woredas
India	25 states, 7 union territories	3,586 urban local bodies (95 municipal corporations, 1,436 municipal councils, 2,055 nagar panchayats), 234,078 rural local bodies
Iran, Islamic Republic of	25 provinces	720 districts and municipalities
Kenya	39 county councils	52 municipal, town and urban councils
Korea, Rep. of	6 special cities, 9 provinces	67 cities, 137 counties
Malaysia	13 states	143 city, municipal, and district councils
Mexico	31 states, F.D.	2,412 municipios
Mozambique	10 provinces	33 municipalities
Nepal	75 districts and town panchayats	4,022 village panchayats
Pakistan	4 provinces	15 municipal corporations, 457 municipal and town committees, 40 cantonment boards, 4,683 union and district councils.
Philippines	76 provinces	64 cities, 1,541 municipalities, 41,924 barangays
Poland	16 provinces, 307 poviats	2,489 gminas
Russian Federation	21 republics, 17 territories or autonomous areas, 49 provinces (oblasts), 2 cities of federal status	1,868 raions, 650 first-tier cities, 26,766 secondary cities, townships, and villages
South Africa	9 provinces	850 local authorities
Thailand	75 changwats, Bangkok	6,397 districts, 148 municipalities and cities
Turkey	74 provinces	2,074 municipalities
Uganda	45 districts, 13 municipalities	950 subcounties, 39 municipal divisions, 51 town councils
Ukraine	24 regions (oblasts), 1 autonomous republic, 2 municipalities	619 districts
Venezuela	23 states, F.D.	282 municipalities
--Not applicable		
F.D. Federal district		
Source: World Development Report 1999/2000		



**ANNEXURE I - 2**  
**(Ref - Para 7)**

Government of Tamil Nadu

1999



MANUSCRIPT SERIES

**FINANCE (RESOURCES) DEPARTMENT**

G.O.No. 518, Dated 1<sup>st</sup> December, 1999  
(Pramathi, Karthigai 15, Thiruvalluvar Aandu 2030)

COMMISSION - Finance Commission - To study the financial position of Municipal Corporations, Municipalities, Town Panchayats and Panchayats - Constitution of Second State Finance Commission - Orders - Issued.

READ:

1. G.O.Ms. No. 350, Finance (Resources) Department, dated 23-4-1994.
2. G.O.Ms. No. 971, Finance (Resources) Department, dated 6-12-1994.

ORDER:

The appended Notification will be published in an Extraordinary issue of Tamil Nadu Government Gazette, dated 2<sup>nd</sup> December, 1999.  
(BY ORDER OF THE GOVERNOR)

**A.P. MUTHUSWAMI,**  
*Chief Secretary to Government*

**APPENDIX**  
**NOTIFICATION**

In exercise of the powers conferred by Article 243-I of the Constitution and in pursuance of Sub-section (1) of Section 198 of the Tamil Nadu Panchayats Act, 1994 (Tamil Nadu Act 21 of 1994), Sub-section (1) of Section 162-A of the Madras City Municipal Corporation Act, 1919 (Tamil Nadu Act IV of 1919), Sub-section (1) of Section 124-B of the Tamil Nadu District Municipalities Act, 1920 (Tamil Nadu Act V of 1920), Sub-section (1) of Section 193-A of the Madurai City Municipal Corporation Act, 1971 (Tamil Nadu Act 15 of 1971), Sub-section (1) of Section 193-A of the Coimbatore City Municipal Corporation Act, 1981 (Tamil Nadu Act 25 of 1981), read with Section 8 of the Tiruchirappalli City Municipal Corporation Act, 1994 (Tamil Nadu Act 27 of 1994), Section 8 of the Tirunelveli City Municipal Corporations Act, 1994 (Tamil Nadu Act 28 of 1994) and Section 8 of the Salem Municipal Corporation Act, 1994 (Tamil Nadu Act 29 of 1994), the Governor of Tamil Nadu hereby constitutes the Second State Finance Commission with a Chairman and four other Members: -

- |   |   |                     |
|---|---|---------------------|
| 1. Thiru. Sukavaneshvar, I.A.S.,            | - | Chairman            |
| 2. Thiru. Ma. Vea. Narayanaswamy            | - | Non-official Member |
| 3. Director of Rural Development            | - | Ex-officio Member   |
| 4. Commissioner of Municipal Administration | - | Ex-officio Member   |
| 5. Thiru. B. Anand, I.A.S.,                 | - | Member Secretary    |

- 2) Notification regarding the terms of reference of the Commission will be issued separately.

**A.P. MUTHUSWAMI,**  
*Chief Secretary to Government*

-/True Copy/-

**ANNEXURE I-3**  
**(Ref – Para 8)**

Government of Tamil Nadu

2000



MANUSCRIPT SERIES

**FINANCE (RESOURCES) DEPARTMENT**

G.O.No. 103, Dated 3<sup>rd</sup> March, 2000  
(Pramathi, Masi 20, Thiruvalluvar Aandu 2031)

COMMISSION - Second State Finance Commission - Constituted - To study the financial position of Municipal Corporations, Municipalities, Town Panchayats and Panchayats - Terms of Reference - Notified.

READ:

G.O.Ms. No. 518, Finance (Resources) Department, dated 01-12-1999.

\*\*\*\*\*

ORDER:

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

2. The appended Notification containing terms of reference will be published in an Extraordinary issue of Tamil Nadu Government Gazette, dated 3<sup>rd</sup> March 2000.

(BY ORDER OF THE GOVERNOR)

**P.V. RAJARAMAN,**  
SECRETARY TO GOVERNMENT

**NOTIFICATION**

In exercise of the powers conferred by Sub-clause (a) of Clause (1) of Article 243-I and Sub-clause (a) of Clause (1) of Article 243-Y of the Constitution and in pursuance of Sub-section (1) of Section 198 of the Tamil Nadu Panchayats Act, 1994 (Tamil Nadu Act 21 of 1994), read with Rule 6 of the Tamil Nadu State Finance Commission (Chairman and other members etc.) Rules, 1994, Sub-section (1) of Section 162-A of the Madras City Municipal Corporation Act, 1919 (Tamil Nadu Act IV of 1919), Sub-section (1) of Section 124-B of the Tamil Nadu District Municipalities Act, 1920 (Tamil Nadu Act V of 1920), Sub-section (1) of Section 193-A of the Madurai City Municipal Corporation Act, 1971 (Tamil Nadu Act 15 of 1971), Sub-section (1) of Section 193-A of the Coimbatore City Municipal Corporation Act, 1981 (Tamil Nadu Act 25 of 1981), read with Section 8 of the Tiruchirappalli City Municipal Corporation Act, 1994 (Tamil Nadu Act 27 of 1994), Section 8 of the Tirunelveli City Municipal Corporation Act, 1994 (Tamil Nadu Act 28 of 1994) and Section 8 of the Salem City Municipal Corporation Act, 1994 (Tamil Nadu Act 29 of 1994), the Governor of Tamil Nadu hereby direct that: -

the period of office of the Chairman and other Members of the Second State Finance Commission, constituted with Finance Department Notification No.II (1)/FIN/112(a)/99, dated the 1<sup>st</sup> December 1999 published at page 1 of Part II -- Section 1 of the Tamil Nadu Government Gazette Extraordinary, dated the 2<sup>nd</sup> December 1999, shall be upto the 31<sup>st</sup> day of October 2001, from the date on which they respectively assumed charges.

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

(a) the principles which should govern,-

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

(b) the measures needed to improve the financial position of the local bodies taking into account interalia, their level of debt and their ability to service the debt.

3. In reviewing the financial position of the local bodies, the Commission shall assess the financial position of each of the local bodies as on 31<sup>st</sup> March 2000.

4. In making its recommendations, the Commission shall have regard, to the resources of the State Government, the demand thereon, in particular the expenditure of the State on debt servicing including the debt servicing on behalf of local bodies / other committed



expenditure or liabilities of the State Government and the need to generate adequate surplus on revenue account for State's commitments on capital account.

5. The Commission shall also have regard to: -
  - (i) The existing level of devolution and other resource transfer from the State and Central Governments and other agencies, including the award and recommendations of the Eleventh Finance Commission to the local bodies and their adequacy;
  - (ii) the requirement of the local bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the need for generating surplus for capital investment;
  - (iii) revenue resources of the local bodies for the five years commencing from 1<sup>st</sup> April 2002 on the basis of level of taxation reached in 1999-2000 and the potential for increase in revenue;
  - (iv) the status of implementation of the recommendations of the First State Finance Commission and the utilisation by the local bodies of the resources transferred;
  - (v) The scope for better fiscal management consistent with efficiency and economy in major components of recurring and non-recurring items of expenditure.
6. The Commission shall review the present system for assessing the accountability of the local bodies in utilising the resources raised or received from the State and Central Governments and other agencies.
7. The Commission may suggest changes, if any, on the basis of classification of local bodies as rural and urban.
8. The Commission shall also make suitable recommendations on the changes, if any, needed in the system for payment of pension to the retired employees of local bodies.
9. The Commission can also make suitable recommendations regarding any other issues having bearing on the terms of reference above in paras 2 to 8.
10. The Commission shall make its report available by 31<sup>st</sup> October 2001, covering the period of five years commencing on 1<sup>st</sup> April 2002.

February 18, 2000  
Chennai.

Sd/-

(M. FATHIMA BEEVI)  
GOVERNOR OF TAMIL NADU

**ANNEXURE II -1**  
**(Ref - Para 1)**  
**RULES OF PROCEDURE OF THE TAMIL NADU SECOND STATE FINANCE COMMISSION**

1. For the Commission:

Tamil Nadu Second State Finance Commission has been constituted vide State Government's Notification issued in G.O.Ms.NO.518, Finance (Resources) Department, dated 1.12.1999, under the provisions of Section 243 (I) and 243 (Y) of the Constitution and in pursuance of the provisions in the relevant Tamil Nadu Acts.

Section 243 of the Indian Constitution states that the Commission will decide its own procedure. Tamil Nadu Second State Finance Commission has accordingly devised its procedure, taking due note of the Terms of Reference, vide G.O.Ms.NO.103, Finance (Resources), dated 03.3.2000. Rules for the conduct of the Tamil Nadu Second State Finance Commission are as follows:

- i. Formal meetings of the Commission shall be held as and when necessary for hearing the evidence or for meeting the representatives of the State Government and Rural and Urban Local Bodies. The time and place of such meeting shall be fixed by the Chairman.
- ii. Internal meetings of the Commission shall be informal.
- iii. All meetings of the Commission shall be held in private session.
- iv. Meeting shall ordinarily be so arranged that all members are present. But, if for any unavoidable reason any member is unable to be present, meetings may still be held if at least three members including the Chairman are present. However, if for any reason, the Chairman is unable to join, he may designate the senior most member to chair the meeting.
- v. Such officers of the Commission shall be present at the meetings of the Commission as permitted by the Chairman.
- vi. Background notes for the informal meetings will be sent in advance wherever possible. No verbatim record shall be kept of the proceedings of the informal meetings of the Commission. But, if any decisions are taken at such a meeting, a record of the decisions shall be duly prepared by the Member Secretary and after approval by the Chairman, circulated to the Members of the Commission.
- vii. No verbatim record of the proceedings of the formal meetings of the Commission shall ordinarily be kept, but the Commission may direct that such a record be kept of the proceedings of any particular meeting or meetings. When no verbatim record is kept, minutes of the proceedings of the meeting shall be prepared as soon as possible by Member Secretary under the direction of the Chairman and circulated to the Members of the Commission including any member who may have been absent from such a meeting.
- viii. Minutes of the meetings with representatives of State Government, Rural and Urban Local Bodies, et al shall be prepared as soon as possible by Member Secretary under the direction of Chairman.
- ix. It shall be the endeavor of the Commission to evolve consensus. However, in exceptional cases, a member may, if he disagrees in respect of any decision, give a dissent note if he so desires. In such cases, the majority opinion will prevail.
- x. No information relating to the meetings or the work of the Commission shall be furnished to the press by any member except under the direction of Chairman.
- xi. Press conferences will be held by the Commission as a whole. In exceptional / emergent cases, the Chairman may hold such conference.
- xii. The Member Secretary, under the direction of Chairman, shall keep the Commission informed from time to time, of all-important matters involving the Commission.

- xiii. The Commission will hold its meeting at least once in two months to review the progress of work. If any proposal is so urgent that it cannot wait till the Commission's meeting, it can be approved by the Chairman, followed by an ex-facto approval of the Commission.
- xiv. The Commission shall call for relevant information and views pertaining to Terms of Reference from the various Secretariat departments of State Government, Heads of departments, line agencies, local bodies, elected representatives and reputed Non-Governmental Organisations.
- xv. All communications / orders and decisions of the Commission other than the final report will be signed by the Chairman / Member Secretary or by any officer authorized by the Chairman / Member Secretary. Any communication or interim report containing the views of the Commission shall be signed only after the views of all the members including the approval by Chairman are obtained. In emergent cases, the Chairman and Member Secretary may take a view and express their opinion.
- xvi. The Commission represented by Chairman and / or Member Secretary will conduct / participate in various state level as well as national level meetings, workshops, seminars, conference, etc.
- xvii. The Commission may engage suitable expert organizations / financial institutions, preference being given to those under the control of the Government, to study the various financial and functional aspects of local bodies and to give their reports to the Commission, within stipulated periods.
- xviii. The Commission will visit within the State so as to discuss and review the financial and functional devolution to the Rural and Urban Local Bodies with the concerned executive authorities / elected representatives.
- xix. The Commission may also visit other States in the country to study the extent and pattern of financial and functional devolution to local bodies.

## 2. For State Finance Commission's Secretariat:

- i. The Secretariat of Tamil Nadu Second State Finance Commission is headed by the Chairman, working under the immediate control of Member Secretary and assisted by Joint Secretary, Deputy Secretary, Officer on Special Duty, Senior Computer Programmer and five sections.
- ii. All the rules and procedure prescribed by the State Government will be generally followed, with suitable modifications and variations whenever and wherever necessary, in transacting the business and administration of the Commission's Secretariat.
- iii. All appointments to the gazetted posts of the Commission shall be made by the Chairman or on his behalf by Member Secretary including those made by transfer from other Government Departments, except those where the approval of the Government is required.
- iv. Appointment of staff other than those referred to above including staff obtained on transfer from other Government Departments shall be made by the Member Secretary or by an officer not below the rank of Joint Secretary duly authorized by him.
- v. The Chairman will grant leave, whether regular or casual, to a Gazetted Officer in the Commission. As regards the non-gazetted staff, the leave may be sanctioned by Member Secretary. On emergent occasions, the staff shall obtain prior permission of Member Secretary before proceeding on leave. In the case of personal staff of Chairman, he will be duly consulted before granting any leave.
- vi. The budget and the revised estimates of the Commission will be prepared by Member Secretary under directions of the Chairman and sent to Finance Department for making necessary provisions in the Budget of the State.
- vii. No information relating to the meetings / works of the Commission shall be furnished to the press or any outside persons by any staff except under the direction of Chairman.

Date: 27.6.2000

Chairman  
Second State Finance Commission

## ANNEXURE II-2(a) (Ref Para-5)

- 1 Accountant General, Chennai.
- 2 All District Collectors.
- 3 All Tahsildars through all Collectors
- 4 Chennai Corporation, Chennai 3.
- 5 Commissioner of Agricultural Marketing, Chennai 5.
- 6 Commissioner of Commercial Taxes, Chennai.
- 7 Commissioner of Municipal Administration, Chennai 5.
- 8 Commissioner of Revenue Administration, Chennai 5.
- 9 Commissioner of Town & Country Planning, Chennai 2.
- 10 Commissioner of Transport, Chennai.
- 11 Director of Adi Dravidar / Tribal Welfare Department, Chennai 5.
- 12 Director of Local Fund Audit, Chennai 108.
- 13 Director of Rural Development Department, Chennai 15.
- 14 Director of Town Panchayats, Chennai 108.
- 15 Ex-Collectors



- 16 Energy Development Agency, Chennai.
- 17 Inspector General of Registration, Santhome High Road, Chennai 28.
- 18 Institute of Engineers & Valuers Association, Chennai.
- 19 Madras Institute of Development Studies / MSE / Universities
- 20 MPs / MLAs (vide list enclosed)
- 21 New Tiruppur Area Development Corporation Ltd., Tiruppur.
- 22 Nodal Officers – All Districts
- 23 Non-Governmental Organizations
- 24 Regional Political Parties
- 25 Retired IAS Officers Association, Chennai.
- 26 Secretary to Government, Finance Department, Chennai 9.
- 27 Secretary, Education Department, Chennai 9.
- 28 Secretary, Labour Department, Chennai 9.
- 29 Secretary, MAWS Department, Chennai 9.
- 30 Secretary, Rural Development Department, Chennai 9.
- 31 Secretary, Transport Department, Chennai 9.
- 32 State Planning Commission, Chennai.
- 33 Tamil Nadu Chartered Institute of Public Auditors of India, Chennai.
- 34 Tamil Nadu Electricity Board, Chennai 2.
- 35 Tamil Nadu Energy Development Agency, Chennai.
- 36 Tamil Nadu Housing Board, Chennai 35.
- 37 Tamil Nadu Slum Clearance Board, Chennai 5.
- 38 Tamil Nadu Urban Finance and Infrastructure Development Corporation, Chennai.
- 39 Tamil Nadu Urban Infrastructure Financial Services Ltd., Chennai.
- 40 The Chief Engineer, Highways & Rural Projects, Chennai 25.
- 41 The Director, Geology & Mining, Guindy, Chennai 32.
- 42 The Managing Director, Chennai Metropolitan Water Supply & Sewerage Board, Chennai.
- 43 The Managing Director, Tamil Nadu Water Supply & Drainage Board, Chennai 5.
- 44 The Member Secretary, Chennai Metropolitan Development Authority, Chennai 8.
- 45 The President, Tamil Nadu Chartered Institute of Public Auditors of India.
- 46 The Principal Conservator of Forests, Chennai 15.

## ANNEXURE II - 2 (b)

(Ref Para – 5)

List of Members of Parliament / Members of Legislative Assembly who have responded to our Questionnaire

SI. NO.	Member of Parliament	Constituency
1.	Dr. A.D.K. Jeyaseelan, M.A.B.G.L., Ph.D.,	Tiruchendur
2.	Dr. C. Krishnan, MBBS.,	Pollachi
3.	Prof. M. Sankaralingam, M.A.,	Rajyasabha

SI. NO.	Member of Legislative Assembly	Constituency
1.	Thiru N.R. Alagaraja	Theni
2.	Thiru. Era. Bernard	Colachel
3.	Thiru. K. Duraichandrasekaran	Thiruvaiyaru
4.	Thiru. C. Gnanasekaran B.A. B.L.,	Vellore
5.	Thiru. P. Gopal B.Sc.,	Mettur
6.	Thiru. V. Govindan	Pernambut (SC)
7.	Thiru. K. Karupanna Odayar	Papanasam
8.	Thiru. Kulandhai Thamizharasan, M.A.B.L.,	Virudhachalam
9.	Thiru. S.S. Mani	Thiruvallur

10.	Thiru. D. Moni	Vilavancode
11.	Thiru. M.G.K. Nizamuddin, L.L.B.,	Nagoor
12.	Thiru. M. Ramachandran B.A.B.L.,	Thiruvonam
13.	Thiru. M.P. Saminathan, B.A.,	Vellakoil
14.	Thiru. S. Sivaraj	Rishivandiyam
15.	Thiru. K. Subbarayan	Tiruppur
16.	Tmt. Subbhulakshmi Jagadeesan	Modakkurichi
17.	Thiru. A. Sudalai Muthu	Bodinaickanur
18.	Thiru. K. Sundar	Uthiramerur
19.	Thiru. K. Velsamy	Namakkal (S.C.)

**ANNEXURE II- 2 (c)**

(Ref Para - 5)

**POLITICAL PARTIES WHICH RESPONDED TO QUESTIONNAIRE SENT TO THEM**

- 1) Bharathiya Janatha Party.

**ANNEXURE II-2(d)**

(Ref Para - 5)

**DETAILS OF REPLIES TO QUESTIONNAIRES RECEIVED FROM THE CHAIRPERSONS OF LOCAL BODIES**

Sl.No.	Local Body	Total number of Local bodies	Total number of Questionnaire sent	Total number of reply received from the Chairpersons
1.	Panchayat Unions	385	385	272
2.	Town Panchayats	611	611	522
3.	Municipalities	102	102	102
4.	Corporations	6	6	5

**ANNEXURE II - 3**

(Ref Para 11).

**DETAILS OF STATE LEVEL SEMINAR ON TOWN PANCHAYATS  
HELD ON 12.5.2000**

Working Group	Subject	Chairperson
I	Devolution of Resources	Thiru.L. Krishnan, I.A.S., Spl.Secretary to Government, Finance Department, Chennai-9
II	Grants and Measures to improve Finance	Thiru. K.N. Vekataramanan, I.A.S., Project Director, Tamil Nadu Urban Development Project-II, Chepauk, Chennai-5.
III	Functions	Thiru D. Jothi Jagarajan, I.A.S., Managing Director, TANSI, Chennai-32.
IV	Better Fiscal Management	Thiru S. Krishnan, I.A.S., Joint Secretary to Government, Finance Department, Chennai 600 009.
V	Assessing the system of Accountability	Thiru B. Anand, I.A.S., Member Secretary, Second State Finance Commission, Chennai 600 0015.
VI	Social Security for Employees	Thiru S. Ramachandran, Consultant, Second State Finance Commission, Chennai 600 0015.



**ANNEXURE II - 4**  
(Ref Para - 11)

**DETAILS OF STATE LEVEL SEMINAR ON MUNICIPAL CORPORATIONS AND MUNICIPALITIES HELD ON  
23.6.2000**

Working Group	Subject	Chairperson
I	Devolution package and Capital Grants adequacy and utilization of debt servicing	Thiru S. Jayaraman, B.A., Additional Director, Municipal Administration Chepauk, Chennai 600 005.
II	Functions and Core Civic Services	Thiru K. Allaudin, I.A.S., Commissioner of Sugars, Chennai 600 035.
III	Augmenting the Tax and Non-Tax bases and better Fiscal Management	Thiru Rajesh Lakhani, I.A.S., Additional Commissioner, Chennai Corporation, Chennai 600 003.
IV	Accounting, Auditing and Accountability	Thiru D. Jothi Jagarajan, I.A.S., Managing Director, TANSI, Chennai-32
V	People Participatory Projects, terminal benefits to employees and other issues.	Thiru. K.N. Vekataramanan, I.A.S., Project Director, Tamil Nadu Urban Development Project -II, Chepauk, Chennai-5.

**ANNEXURE II- 5**  
(Ref Para - 11)

**DETAILS OF STATE LEVEL SEMINAR ON PANJAYAT RAJ INSTITUTIONS  
HELD ON 10.8.2000**

Working Group	Subject	Chairperson
I	Financial Devolution on PRIs.	Thiru K. Rajaraman, I.A.S., Executive Director, Corporation for Development of Women Ltd., Chennai 600 032.
II	Powers, Functions and Responsibilities.	Thiru C. Muthukumarasamy, I.A.S., Joint Secretary to Government, Rural Development Department, Chennai 600 009.
III	Fiscal Management	Dr. C. Chandramohan, I.E.S., Director of Evaluation and Applied Research, Chennai 600 108.
IV	Account / Audit / Accountability	Thiru Apurva Varma, I.A.S., Executive Director, Chennai Metro Water Supply & Sewerage Board, Chennai 600 002.

**ANNEXURE II -7**

(Ref : Para - 11)

**SSFC / MIDS Seminar on September 22-23, 2000****Venue: Adiseshiah Auditorium, MIDS,****79, II Main Road, Gandhi Nagar, Adyar, Chennai 600 020****List of Participants**

Sl No	Name of the delegate / Official Address	Sl No	Name of the delegate / Official Address
1.	Thiru. Sukavaneshvar, I.A.S., Chairman Second State Finance Commission	21.	Thiru. V. Krishnaswamy Deputy Director of Evaluation and Applied Research Dept.
2.	Dr. Ramesh Chandra Panda, I.A.S., Secretary to Government, Rural Development Department.	22.	Dr. M.A. Kalam Professor, Dept. of Anthropology University of Madras
3.	Ms. S. Malathi, I.A.S., Secretary to Government, Municipal Administration & Water Supply Department.	23.	Dr. G. Koteswara Prasad, Professor, Dept. of Politics & Public Admn. University of Madras
4.	Thiru. K. Shanmugam, I.A.S., Commissioner of Rural Development	24.	Dr. M. Kennedy Stephenson Vaseekaran, Part-time Lecturer Dept. of Politics & Public Administration University of Madras
5.	Thiru. B. Anand, I.A.S., Member Secretary, Second State Finance Commission	25.	Prof. C.T. Kurian Chairman, Madras Institute of Development Studies.
6.	Prof. V.K. Natraj Director, Madras Institute of Development Studies	26.	Thiru. S. Mahadevan Chairman, Valasaravakkam Town Panchayat
7.	Thiru. R. Balachandran Officer on Special Duty Second State Finance Commission	27.	Thiru. N.S. Chidambaram (Retd) Additional Director of Rural Development,
8.	Dr. C. Chandramouli, I.A.S., Director of Census Operations.	28.	Dr. Manabi Majumdar Research Associate Madras Institute of Development Studies.
9.	Dr. C. Chandramohan, I.E.S., Director of Evaluation and Applied Research Dept.	29.	Thiru. C.V. Mohanarangan Joint Director of Evaluation and Applied Research Dept.,
10.	Dr. V. Chandrasekara Naidu, Fellow, Madras Institute of Development Studies.	30.	Ms. R. Mala Research Officer Dept. of Evaluation and Applied Research
11.	Thiru. Chandrakanth B. Kamble, I.A.S., District Collector, Pudukkottai	31.	Prof. K. Nagaraj Madras Institute of Development Studies.
12.	Dr. M. Devendra Babu, ISEC, Nagarbhavi PO (Bangalore)	32.	Prof. A.M. Nalla Goundan Pallipet, Chennai 113.
13.	Thiru. R. Elango President, Kuthambakkam Village Panchayat	33.	Thiru. K. Nageswara Rao Officer, Management Services Dept. Indian Overseas Bank.
14.	Dr. V. Jacob John Madras Institute of Development Studies	34.	Thiru. V. Bharath, Reporter, Reach Velachery, Fortnightly Journal.
15.	Dr. S. Janakarajan Fellow, Madras Institute of Development Studies .	35.	Prof. M.A. Oommen Sr. Fellow, Institute of Social Sciences.
16.	Dr. D. Jayaraj Fellow, Madras Institute of Development Studies.	36.	Prof. Padmini Swaminathan, Madras Institute of Development Studies.
17.	Thiru. G. Jothi Project Assistant, Madras Institute of Development Studies.	37.	Dr. M.S.S. Pandian, Madras Institute of Development Studies.
18.	Thiru. G.S. Ganesh Prasad Research Scholar, Institute of Development Studies, University of Mysore.	38.	Thiru. Parthasarathi Shome, RBI Professor, New Delhi 110 003.
19.	Thiru. S. Jayaraman, Addl. Director of Municipal Administration.	39.	Thiru. K.V. Palanidurai, Member, State Planning Commission,
20.	Thiru. K. Jothi Sivagnanam, Reader, Planning Commission Chair, Dept. of Economics, University of Madras.	40.	Thiru. Paul Pandiyan, Project Assistant, Madras Institute of Development Studies



S.No	Name of the delegate / Official Address	S.No	Name of the delegate / Official Address
41.	Ms. Pushpa Narayanan, Reporter, The New Indian Express	58.	Dr. R. Srinivasan Lecturer in Economics, Presidency College
42.	Thiru. S.K. Prabakar, I.A.S., District Collector, Thiruvallure.	59.	Thiru. C. Shankara Murthy, Officer In charge of Rural Development, University of Mysore, Mysore 6.
43.	Dr. G. Palanidurai Prof. In Rajiv Gandhi Chair, Gandhigram Rural Inst.	60.	Dr. K. Sivasubrahmanyam Director State Finance Commission Cell, NIRD, Hyderabad 30.
44.	Thiru. Kottathur. Ra. Ramaraju, Chairman, District Panchayat, Trichy.	61.	Dr. K. Sivasubramanian, Project Associate, Madras Institute of Development Studies
45.	Dr. P.Arumugan, Dept. of Economics, Bharathiar University	62.	Dr. R. Shanmugasamy Dept. of Politics & Public Administration University of Madras
46.	Thiru. L. Raju, Head of Division, District Planning, State Planning Commission	63.	Thiru. S. Sivaprasad Research Officer Director of Evaluation and Applied Research,
47.	Dr. V. Rengarajan, Sr. Economist, Management Services Dept. Indian Overseas Bank.	64.	Ms. K.U. Archana, Data Analyst, Madras Institute of Development Studies.
48.	Thiru. K.Rajeevan Krishnaswami Chief Executive Officer, Tamil Nadu Urban Development Fund.	65.	Dr. V.B. Athreya, Professor & Head , Dept. of Economics, Bharathidasan University
49.	Dr. M.V. Ramu, Chairman, Kattankolathur Panchayat Union.	66.	Thiru. A. Subbaraja Chairman Rajapalayam Municipality.
50.	Ms. Radha Vasudevan Dept. of Politics and Public Administration , University of Madras	67.	Dr. M.Thangaraj Madras Institute of Development Studies,
51.	Dr.V. Saravanan Project Associate, Madras Institute of Development Studies	68.	Thiru. C. Ulagnathan Dy. Director of Evaluation and Applied Research Dept. Kuralagam, Chennai 108
52.	Ms. P. Shaheena Research scholar, Centre for Development Studies, Kerala 695 011.	69.	Thiru. G. Vithyanathan, Dy. Secretary to Government, Finance Department.
53.	Prof. S. Sivakumar, Dept. of Econometrics, University of Madras.	70.	Thiru. K. Venkataraman, Chairman, Public Expenditure Round Table Trust (PERT), Chennai 41.
54.	Dr. P. Senthil Kumar, I.A.S., Dy. Commissioner (R&F), Corporation of Chennai.	71.	Thiru. S. Vaidhyanathan, Spl. Correspondent, The Hindu .
55.	Dr. K.V. Sundram, Chairman, Bhoovigyan Vikas Foundation, New Delhi 110070.	72.	Prof. A. Vaidhyanathan, Madras Institute of Development Studies.
56.	Prof. S. Subramanian, Madras Institute of Development Studies.	73.	Prof. BPR Vithal IAS (Retd), Banjara Hills, Hyderabad.
57.	Ms. P. Shobana, Research Scholar, Dept. of Politics & Public Administration, University of Madras.		



## Recommendations arrived at the Seminar on "Devolution of Finances to Local Bodies" held at MIDS on 22<sup>nd</sup> and 23<sup>rd</sup> September, 2000.

The following constitute the recommendations of the seminar on "Devolution of Finances to Local Bodies". They are presented in two parts: Rural and Urban, in that order.

Regarding the general issues pertaining to the local bodies, Prof. Vaidhyathan noted the following:

- Though much effort has been spent in clarifying the issues of financial devolution to local bodies, it was not so with regard to the responsibilities of local bodies and their autonomy to dispose of the devolved funds. It should be recognised that financial devolution by itself will not accomplish much unless it is accompanied by transfer of functions and the effective authority to plan and implement their own programmes. L.C. Jain Committee report on decentralization can provide the broad framework for this.
- Devolution of funds is done scheme-wise and with different conditionalities. This restricts the autonomy of the local bodies to expend the funds in the lights of local circumstances. In this context the right move should be one of consolidated transfer of funds to local bodies both to meet the administrative costs and to carry out development activities. There could be guidelines indicating the allocations between broadly defined functions and also limits within which these could be changed.
- When the bulk of the financial transfers go to meet the salaries of the employees of local bodies, the state deciding and revising 'the terms of employment' on its own adversely affects the resources available with the local bodies for development activities. Given the resource constraint, pay and allowances of local body staff need to be delinked from those of the central and state Government staff. The revision of pay and allowances of PRI staff should be entrusted to a separate committee. If this is not possible, the state Government should compensate local bodies, fully and automatically, the extra cost of pay revision without waiting for the next SFC.
- PRIs should have the flexibility in the deployment of staff assigned to them and for making fresh appointments to specific needs through contract and other means keeping in mind that these should not lead to unnecessary cost escalation.
- The devolution of resources should be based on rational principles. Population is an inadequate basis for this. Differences in standards and costs of providing public services and the potential for cost recovery must be taken into account in determining the transfers to rural and urban areas.
- The devolution should try for greater equality in inter-tier and intra-tier distribution of funds based on the 'gap in services', the degree of backwardness, and the potential for resource mobilization.
- Division of resources between different tiers must be based on the estimated expenditure of each tier in performing the functions assigned to it. The SFC may adopt the recommendations of Jain committee as the normative basis for its exercise.
- Intra-tier distribution of devolved resources can be done in one of the following ways:
  1. distribute the total between districts and then between and within tiers in each district;
  2. decide the rural-urban and inter tier distribution for the state as a whole and then distribute the total for each tier between different units constituting that tier. The SFC may adopt what in its judgement is feasible at present.
- Areas situated in the periphery of cities but are not notified as urban local bodies have special problems and ways to tackle them need to be examined.
- Mechanical replication of audit procedures all across the local bodies would be expensive and counter productive. Given this, accounts of sample local bodies can be audited on a rotational basis. Elections themselves ensure the accountability of local bodies. However, if there are specific complaints about the integrity of local bodies, one needs to have mechanisms that will ensure independent audit.
- Most often the conditionalities attached to project-specific transfer of funds make the accounting at the level of local bodies troublesome. In this context, the local functionaries, needs to be trained in book-keeping.
- Additional resource mobilization does not depend on new and increased taxes. Plugging the leakages and increasing the efficacy of fund utilisation would give the local bodies increased funds. In raising additional funds, the following measures can be pursued: 1.reintroduction of agricultural holding taxes; 2.taxes on non-agricultural holdings; 3.enabling the exploitation of common property resources; 4.cess on the produce leaving the villages; 5.mobilizing local labour on gratis for developmental works. None of these should be mandated but left to the judgement of the local bodies based on the local conditions.
- Conventions should be evolved so that the recommendations of the State Finance Committee would be treated as mandatory.

Summarising the key suggestions that emerged during the deliberations of the group on urban local bodies, Prof. Shome noted the following:

- The recommendations of the State Finance Commission should be placed before the state assembly, discussed and voted - so that the accepted recommendations are not tampered with by the executive orders.
- When the interventions by the state and central governments lead to the revenue loss of the local bodies, such loss should be compensated by the Government in question.
- A representative forum of the members of the local bodies should be constituted and consulted by the state Government whenever it wants to intervene in the affairs of local bodies. This forum can be a forum for dispute-settlement between the local bodies and the state government. The forum should be given legal validity.
- Population is an inadequate basis for devolution. Given this, the following additional bases can be taken into account; extent use of urban services (as often temporary rural migrants make use of the urban services); taxable capacity; distance from grade A town.
- Property tax should be the main source of own revenue of the local bodies. Efforts should be made to refine the base and structure of property tax. The state government should not set a ceiling on such tax. Revision of property tax should be done once in every five years.
- In addition, a tax on the industries and the urban rich to form a special fund for slum improvement; and higher fees and cess on vehicles to form a special fund for the expansion of public transport can be brought into force.
- Privatisation of urban services cannot succeed unless the urban bodies have a surplus of resources. This is so because the private sector expects a guaranteed rate of return which is often high. It was felt by a section of the participants that the current labour laws come in the way of privatizing urban services.
- The distribution of grants-in-aid should take into account the structurally non-viable local bodies who despite their best efforts cannot carry out their basic functions.



- Credit rating of the local bodies may not be a viable proposition given the lack of knowledge and bias against such bodies by the credit-rating agencies. In issuing municipal bonds, a number of municipalities should come together so that such issue of bonds become viable. A municipal finance Corporation would also be of immense help in this regard.

## PRINCIPAL ISSUES DISCUSSED IN THE WORKING GROUP ON URBAN LOCAL BODIES.

Chairman:  
Rapporteur:

Prof. Parthasarathy Shome  
Thiru. C. Sankara Murthy

The working group on Urban Local Bodies met on 22<sup>nd</sup> and 23<sup>rd</sup> September, 2000 and discussed the following issues relating to Urban Local Bodies and Devolution of finances.

The major issues around which the discussions were held are:

1. Who controls the budget? What is the mechanism of decentralization and devolution of autonomy? Presently though so much is talked about it control seems to be at the State level.
2. The urban bodies are mostly neglected and ignored.
3. Rural urban linkages are quite strong. Some kind of mechanism to keep this linkage in good shape is to resort to area / regional planning.
4. All urban areas are not alike. There are spatial differences. Small, medium and large towns have their own typical issues which need to be attended to.
5. Taxable potential / capacity of urban local bodies are much greater and there is scope to expand the tax base;
  - by reducing the tax rate on various items, it is possible to collect more tax revenue and by rationalizing the system and through effective collection.
6. Other possible sources of taxation in urban areas.
  - Home based industries in the urban areas which make use of the urban facilities can be tapped to generate revenue.
  - Facilities like Cable T.V. / other modes of entertainment which are presently not tapped could be considered for taxing.
  - Industries, take no responsibility for providing housing for their workers, and only the Government has to provide for the provision of shelter to this section of population.
  - In relation to the services provided by the urban local bodies, the taxes levied are too low and therefore a rational system of tax assessment, particularly for property tax based on various considerations like area, quality of construction material and the like should be made.
  - Efficiency in tax collection is yet another factor which will help improve the tax revenue.
  - Transparency in taxation is essential.
  - SFCs should conduct / carry out some studies on the methodology for the assessment of the real value of the property.
  - The SFCs recommendations should be discussed on the floor of the State Assembly and action be taken on the recommendations in accordance with Art.243I & 243Y.
7. Funding mechanism for Urban - Rural linkage.
  - Can there be a body at the State level as we have one at the national level in the form of NDC or Inter-State Council?
8. In classifying the Urban areas distance from the specific Urban Centres should be an index for classification.
9. The question of privatization was discussed at length. Though unanimity could not be achieved in the group on all points, generally it was agreed that in certain areas of civic services it could be done without attracting the enforcement of labour laws / without leading to the retrenchment of the staff of the urban local bodies.
10. Cost effective methods of providing civic amenities through the development of private management was also discussed.
11. Local bodies which do not have structural viability in terms of population, revenue collection, etc., need to be identified and provided with special grants in-aid to help them to bridge the gap between current income and expenditure.
12. The issues relating to the floating of Municipal Bonds and Credit rating was also discussed and it was felt that for this purpose pooling a few local bodies would be desirable.
13. It was also suggested that the feasibility of having a Municipal Finance Corporation on the lines of Agricultural Finance Corporation, be investigated.

**ANNEXURE II- 7**  
**(Ref Para - 12)**  
**Government of Tamil Nadu**  
**Tamil Nadu Second State Finance Commission, Chennai 15**

B. ANAND, I.A.S.,  
Member Secretary

Second State Finance Commission,  
Panagal Building,  
Saidapet, Chennai-15  
Fax No. 044 - 4311759

D.O. LR. NO.209/Ms/IISFC/2000, dated 10.4.2000

Dear Thiru. Rajivan,

Sub: IISFC - Study of Financial Status and Civic Amenities in Urban Local Bodies -  
Acceptance of your terms of proposal - Communicated.  
Ref: 1. Your Note dated 20.3.2000  
2. Your personal discussions on 11.4.2000.

\*\*\*\*\*

I am to convey the concurrence of the Chairman of the Second State Finance Commission to the proposal sent in your not above for taking up the study on Financial status and Civic Amenities in Urban Local Bodies at a cost not exceeding Rs.4,50,000/- (Rupees four lakhs and fifty thousand only) and presentation of your report within four months, i.e., before 11.9.2000.

2. The Terms of Reference issued for the study are as follows:-

Reviewing the financial position of each one of the Urban Local Bodies, Town Panchayats, Municipalities and Municipal Corporations.

(a) While reviewing the financial position of the Urban Local Bodies you shall have regard to:-

- i. the existing level of devolution and other fund flow from the State and Central Governments and other agencies including the award and recommendations of the Eleventh Finance Commission to the Urban Local Bodies and their adequacy.
- ii. the requirement of the Urban Local Bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the needs for generating surplus for capital investment.
- iii. the revenue resources of the Urban Local Bodies for five years commencing from 1.4.2002 on the basis of level of taxation reached in 1999-2000 and the potential for increase in revenue.
- iv. the status of implementation of the recommendations of the First State Finance Commission and the utilisation by the Urban Local Bodies of the resources transferred.
- v. brief analysis of recurring / non-recurring expenditure ratios and suggestions if any on better fiscal management.
- vi. suggested debt relief package for Urban Local Bodies taking into account the debt servicing now being done by Government on behalf of Urban Local Bodies.

(b) Review the present system for assessing the utilisation of resources raised or received from the State and Central Governments and other agencies.

(c) Suggest changes for the classification of the Urban Local Bodies to ensure their viability.

(d) Any other suggestions having direct bearing on the above mentioned Terms of Reference including the role of line agencies having a relationship with Urban Local Bodies.

3. While your study will cover all six Municipal Corporations, 102 Municipalities, and 636 Town Panchayats, you will have to undertake a sample field study of 1 Municipal Corporation, 7 Municipalities and 50 Town Panchayats. Based on detailed questionnaire we shall furnish the raw data for your study.

4. The funds will be granted directly to you, which may be operated through S.B. Account. I would however wish to add that the above amount would be released in five instalments as shown under:-

- |        |   |                                |
|--------|---|--------------------------------|
| a. 10% | - | Advance on signing of contract |
| b. 25% | - | Draft inception report         |
| c. 25% | - | Draft interim report           |
| d. 30% | - | Draft final report             |
| e. 10% | - | Final report                   |

No. of copies will be in 7 standard format A-4 size paper and a set of floppier copy and a soft copy submitted in Microsoft word for the report and data in Excel format.

5. Your organization is free to engage the service of any consultant as it may deem fit for conducting this study. I would request you to prioritise your study plan suitably and arrange to send monthly expenditure statement together with the progress of work. I shall be grateful if you could send final expenditure statement after submission of your final report.

6. You have to liaise with the Member Secretary, Second State Finance Commission and Joint Secretary and Officer on Special Duty, Second State Finance Commission at each stage of study and there will be a review of your work on a monthly basis by a committee consisting of Commissioner of Municipal Administration, Director of Town Panchayats and Member Secretary, Second State Finance Commission, Vice-President (Finance), Tamil Nadu Urban Development Fund and the suggestions of the said committee will have to be suitably incorporated in your study.

S/d.

Member Secretary

To  
Dr. Krishnaswamy Rajivan,  
Chief Executive Officer,  
Tamil Nadu Urban Infrastructure Financial Services Ltd.  
Chennai 600 017.



**ANNEXURE II-8**

(Ref : Para - 13)



**B. ANAND, I.A.S.,  
MEMBER SECRETARY**

Second State Finance Commission  
Panagal Building  
Saidapet,  
Chennai 600 015.

Tele-Fax: 044 - 4311 759

**D.O. Letter No.209/MS/SSFC/2000-01, dated 04.04.2000**

Dear Dr. Chandramohan,

Sub: Second State Finance Commission - Study on Financial Status and Civic Amenities in Rural Local Bodies - Acceptance of your terms of proposal - Communicated.

Ref: Your Note date 01.4.2000.

\*\*\*\*\*

I am to convey the concurrence of the Chairman of the Second State Finance Commission to the proposal sent in your note above for taking up the study on Financial status and Civic Amenities in Rural Local Bodies at a cost not exceeding Rs.4.50 lakhs (Rupees four lakhs and fifty thousand only) and presentation of your report within five months i.e., before 05.9.2000.

2. The Terms of Reference issued for the study are as follows: To make recommendations as to the principle, which should govern -

- 2 (A)
- (i) the distribution between the State and the Rural Local Bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them and allocation between the said Panchayat Raj Institutions of their respective shares of such proceeds.
  - (ii) the determination of the taxes, duties, tolls and fees, which may be assigned to or appropriated by the said Rural Local Bodies.
  - (iii) the grants-in-aid to the Rural Local Bodies from the consolidated fund of the State, the measures needed to improve the financial position of the Rural Local Bodies, taking into account interalia, their level of debt and liabilities and their ability to service the debt.

In reviewing the financial position of the Rural Local Bodies, the Evaluation and Applied Research Department shall assess the financial position of the Rural Local Bodies, i.e., Village Panchayats, Panchayat Union Council, District Panchayats as on 31<sup>st</sup> March 2000.

2 (B). While reviewing the financial position of the Rural Local Bodies, you shall have regard to:

- (i) the existing level of devolution and other fund flow from the State, Central Government and other agencies including the award and recommendations of the Eleventh Finance Commission to the Local Bodies and their adequacy.
- (ii) the requirement of the Rural Local Bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the need for generating surplus for capital investment.
- (iii) revenue resources of the Rural Local Bodies for 5 years commencing from 01.4.2002 on the basis of level of taxation reached in 1999-00 and the potential for increase in revenue.
- (iv) the status and implementation of the recommendations of the First State Finance Commission and the utilisation by the Rural Local Bodies of the resources transferred.
- (v) the scope for better fiscal management consistent with efficiency and economy in major components of recurring and non-recurring items of expenditure, including staff cost.

(C). Review the present system for assessing the accountability of the Rural Local Bodies in utilising the resource raised or received from the State, Centre and other agencies.

(D). Suggestion on the changes, if any, needed in the system of payment of pension to the retired employees of Rural Local Bodies.

3. Your methodology of selecting all the Districts of the State except Chennai, 50 sample Panchayat Unions out of 385 Panchayat Unions and 1000 Village Panchayats out of 12584 Village Panchayats on stratified sampling technique is accepted.

4. The funds will be granted direct to you, which may be operated through S.B. Account. I would however wish to add that the above amount would be released in four instalments as shown under: -

- a. 30% - at the time of entrustment
- b. 30% - after 2 months
- c. 30% - after 4 months (i.e. when the report is getting ready)
- d. 10%- after handing over of report to SFC.

5. I would request you to prioritize your study plan suitably and arrange to send monthly expenditure statement together with the progress of work. I shall be grateful if you could send final expenditure statement after submission of your final report.

6. You have to liaise with the Member Secretary, Second State Finance Commission and Deputy Secretary, Second State Finance Commission at each stage of study and there will be a review of your work on a monthly basis and the suggestions of the State Finance Commission will have to be suitably incorporated in your study.

Sd.  
Member Secretary

To  
Dr. C. Chandramohan,  
Director of Evaluation and Applied Research,  
Kuralagam, Chennai 600 108.

**ANNEXURE II-9**  
**(Ref. Para 14)**  
**Proceedings of the Chairman of Tamil Nadu Second State Finance Commission,**  
**Chennai 600 015.**

Present: Thiru. Sukavaneshvar, I.A.S.,

Proc. NO.280/2000/E/SSFC

Dated:2.5.2000

Sub: SSFC - Local Body employees pension - Local Body Pensioners / Family pension - suggestions  
to improve the system - Committee - Constituted.

\*\*\*\*\*

The Second State Finance Commission as part of its Terms of Reference is expected to make suitable recommendations on the changes, if any, needed in the system for payment of pension to the retired employees of Local bodies. Further, forecasts relating to retirement benefits and pension payments for State Government servants and local body employees after giving effect to revision of pay, dearness allowance, etc., reveal significant trends. Such forecasts have important lessons for pension commitments for local bodies, in view of the substantial payment of arrears of retirement benefits and payment of monthly pension to the local body pensioners. The present position of pension contribution received from the local bodies and disbursement of pensions to eligible local body pensioners may be reviewed besides seeking the views of the Local Body Pensioners' Associations.

2. The Second State Finance Commission is currently engaged in the projection of pension commitments to local body employees between now and 2015 and to study in depth the issues envisaged in para 5(ii) and 5(v) of Terms of Reference. The Tamil Nadu Second State Finance Commission considers that a Committee needs to be constituted to study various issues relating to the pension payments in both Urban & Rural Local Bodies. Accordingly, the Second State Finance Commission constitutes a Committee consisting of the following officers to go in to the various issues relating to the local body pension payment:-

- |      |  |   |           |
|------|--|---|-----------|
| i.   | Thiru. L. Krishnan, I.A.S.,<br>Special Secretary, Finance Department,<br>Chennai - 9.                | - | Convenor  |
| ii.  | Dr. C. Chandramohan, I.E.S.,<br>Director of Evaluation and Applied Research Dept.,<br>Chennai - 108. | - | Member    |
| iii. | Thiru. R.B.S. Monie, M.A.,<br>Director of Local Fund Audit,<br>Chennai - 108.                        | - | Member    |
| iv.  | Thiru. R. Balachandran,<br>Officer on Special Duty, Second State Finance Commission                  | - | Secretary |

3. The Terms of Reference of the above Committee are as follows:

- (i) Forecasting of pension commitments for the period upto 2015 and implications thereof.
- (ii) Ramifications of present system of pension and retirement entitlements in the medium and long term and its sustainability.
- (iii) In the light of (ii) above, alternatives to present system such as creation of pension fund and its administration.
- (iv) Whether changes are necessary in the present system of payment of pension to the retired employees of local bodies.
- (v) Whether D.A. arrears on pension are paid within a reasonable period to the local body pensioners.
- (vi) To study computerization of local body employees pension system.
- (vii) Implications of main demands of local body pensioners' associations.
- (viii) Any other aspect having bearing on the above Terms of Reference.

4) The Committee shall submit its report in three months' time. The Committee is free to co-opt any permanent invitee(s) to facilitate its working.

Sd/ Sukavaneshvar  
Chairman



**ANNEXURE II - 10**

**(Ref. Para 15)**

**Proceedings of the Chairman, Tamil Nadu Second State Finance Commission,  
Chennai 15.**

**Present : Thiru. Sukavaneshvar, I.A.S.,**

Proc. No.656/SSFC/B/2000

Dated:05.07.2000

Sub: Urban Local Bodies - Study of certain core issues- Constitution of Urban Review Committee - Ordered.

\*\*\*\*\*

In continuation of the recommendations arising out of Seminar on Urban Local Bodies' finances held by Second State Finance Commission and Commissioner of Municipal Administration in June 2000, it is felt necessary to have clear and unambiguous solutions to the following issues by examination by a committee for consideration.

**1. DEBT MANAGEMENT:**

- a. Outstanding debt: - Purpose wise, Government and other agencies
- b. Overdue principal and interest as on 1.4.2000
- c. Receipt - debt service ratio-range; fixing lending limits
- d. New statutory provision prioritizing payment from Municipal funds over all other commitments
- e. What can be the relief option? How has consolidation of loans helped?
- f. Further lending option - Concessional interest rate for urban infrastructure lending. Is it possible for subsidized lending structure for Urban Local Bodies with support from Government of India and Government of Tamil Nadu.
- g. Setting up Urban Development Fund

**2. PROPERTY TAX REFORMS**

**3. FISCAL RESPONSIBILITY AND MONITORING FISCAL REFORMS**

**4. CREDIT RATING AND TAPPING MARKET**

**5. SCORE CARD FOR GENERAL PERFORMANCE AND INCENTIVE BASED ON SCORE CARD**

**6. DEMARCATION OF FUNCTIONS**

**7. PRIVATISATION - REVIEW OF PRESENT STATUS AND BLUEPRINT FOR THE FUTURE**

**8. LOCAL BODIES REFORMS PACKAGE (AS OUTLINED IN THE INAUGURAL ADDRESS IN THE SEMINAR ON URBAN LOCAL BODIES' FINANCES).**

**9. OTHER ISSUES DIRECTLY RELATED TO THE ABOVE.**

2. The Chairman, Second State Finance Commission accordingly sets up Urban Review Committee and appoints the following officers to the above committee.

- |      |   |          |   |         |
|------|---|----------|---|---------|
| i.   | Thiru. S. Rajesh Lakhani, I.A.S.,<br>Additional Commissioner of Chennai Corporation -     | Convenor | } | Members |
| ii.  | Thiru. S. Jayaraman,<br>Additional Director of Municipal Administration                   |          |   |         |
| iii. | Thiru. V. Shanmughanathan,<br>Joint Secretary, Tamil Nadu Second State Finance Commission |          |   |         |
| iv.  | Thiru. K.A.Balakrishnan,<br>Joint Director of Local Fund Audit                            |          |   |         |

3. Thiru. R.S. Bharathi, Municipal Chairman, Alandur Municipality will be special invitee to the Committee.

4. The above Committee is required to give its specific recommendations on the above issues within a period of two months viz., on or before 5.9.2000. The Committee is requested to have its first meeting next week.

Sukavaneshvar  
Chairman

**ANNEXURE II - 11**

**(Ref. Para 16)**

**Proceedings of the Chairman, Tamil Nadu Second State Finance Commission,  
Chennai 15.**

**Present: Thiru. Sukavaneshvar, I.A.S.,**

Proc. No.946/SSFC/D/2000

Dated:14.8.2000

Sub: Panchayat Raj Institutions - Study of certain core Issues - Constitution of Rural Review Committee - Ordered.

\*\*\*\*\*

Order: -

In continuation of the suggestions and recommendations arising out of Seminar on Rural Local Bodies' held jointly by the Second State Finance Commission and Director of Rural Development on 10<sup>th</sup> August, 2000, it is felt necessary to have clear and unambiguous solutions to the following issues by examination by a committee for consideration.

- i. Augmenting own sources of Revenue of Rural Local Bodies - including revision of House Tax, percentage of increase coverage, present system of House Tax incentive and its impact.

- ii. Adjustment of Assigned Revenue to Rural Local Bodies and their monitoring
- iii. Viability of Panchayat Unions and Village Panchayats with reference to their population, income and other factors and reclassification if necessary, issues relating to habitations
- iv. Clear demarcation of 29 functions now assigned to Rural Local Bodies as State List, District Panchayats List, Panchayat Unions List, Village Panchayats List and Concurrent List.
- v. Recommendations of the Eleventh Central Finance Commission relating to Panchayat Raj Institutions with particular reference to the enhanced role contemplated for Comptroller & Auditor General of India for auditing all Rural Local Bodies and earmarking funds separately for this purpose - Its practicability and implications in the context of Director of Local Fund Audit's role and other factors.
- vi. Borrowing eligibility and borrowing limits for Panchayat Raj Institutions with suggested procedure.
- vii. Setting up Rural Development fund.
- viii. Other issues directly related to the above.

2. The Chairman, Second State Finance Commission accordingly sets up Rural Review committee and appoints the following officers to the above Committee;

- |       |  |   |          |
|-------|--|---|----------|
| (i)   | Thiru. B. Anand, I.A.S.,<br>Member Secretary,<br>Second State Finance Commission,<br>Chennai 15.   | - | Convenor |
| (ii)  | Dr. C. Chandramohan, I.E.S.,<br>Director of Evaluation and Applied Research Dept.,<br>Chennai 108. | - | Member   |
| (iii) | Thiru. S.K. Prabhakar, I.A.S.,<br>Collector, Thiruvellore District                                 | - | Member   |
| (iv)  | Thiru. K. Ramamurthy,<br>Additional Director, O/o. D.R.D.  | - | Member   |

3. Thiru. S. Ramachandran, Consultant, SSFC will be special invitee to the Committee.

4. The above Committee is required to give its specific recommendations on the above issues within a period of two months, viz., on or before 14.10.2000. The Committee is requested to have its first meeting next week.

Sd/- Sukavaneshvar  
Chairman

## **ANNEXURE II -12**

**(Ref. Para 17)**

**Proceedings of the Chairman, Tamil Nadu Second State Finance Commission, Chennai 15.**

**Present: Thiru. Sukavaneshvar, I.A.S.,**

O.P. NO.135/SSFC/B/2000

Dated:04.5.2000

Sub: Water Harvesting - Appraisal of cost and the present Status and role of local bodies in rain harvesting -  
Constitution of Committee - Orders issued.

\*\*\*\*\*

Tamil Nadu is less endowed with water resources and the position will aggravate with increasing population as the years pass-by. Thus, water is becoming a priority area in the eyes of the Government. In days of scarcity of water, resorting to transportation of water will become a great expensive factor, which is likely to drain substantial resources of the State and Local Bodies. Besides, obtaining water from other States, which is an awesome task, it is considered that some meaningful efforts need to be organized in "rain harvesting" -- which has become a relevant theme for more emphasis, as distribution and operation and maintenance of drinking water supply is a Core Service to be rendered by local bodies. In order to thrash out the various issues on "rain harvesting" and suggest suitable course of action, it is proposed to constitute a committee to go into this matter in depth. Accordingly, the following Committee is constituted.

- |       |  |           |
|-------|--|-----------|
| (i)   | Member Secretary, Second State Finance Commission                                    | -Convenor |
| (ii)  | Superintending Engineer in the office of the<br>Director of Rural Development<br>and | - Member  |
| (iii) | Thiru. K.R. Gopinath, Consultant, Water Harvesting                                   | - Member  |

The above Committee shall have the following Terms of Reference:

- a. A broad appraisal of the cost of water supply in the budget of Local Bodies both on capital & operation and maintenance side.
- b. Review present status of rain water harvesting viz., investment in the past five years, coverage and spread in the State, efficacy of rain water harvesting, operation and maintenance and related issues. Role of rain water in drinking water supply as of now.
- c. Role of Local Bodies in rain harvesting
- d. Measures needed to make rain water harvesting a significant source of drinking water and making it a mass movement in Tamil Nadu.
- e. Developing other localized sources of water supply and storage to the maximum.
- f. Other measures and issues having bearing on the above.

2) The above Committee shall submit its report before 31<sup>st</sup> August 2000.

Sd/-  
Sukavaneshvar,  
Chairman



**ANNEXURE II-13**  
**(Ref. Para 18)**  
**PROCEEDINGS OF THE CHAIRMAN,**  
**SECOND STATE FINANCE COMMISSION, CHENNAI-15.**  
**Present: THIRU. SUKAVANESHVAR, I.A.S.**

Proc.No.1060/2000/TNSSFC/E2

Dated:12.10.2000.

Sub: TNSRFC – Training needs for Urban Local Bodies – Upgrading the infrastructure facilities  
at Coimbatore Institute of Urban Studies – Sub-committee – Constituted.

Ref: D.O.Lr.Rc.No.54532/Fin/FC.IV/2000-1, dated 28.8.2000.

In the reference cited, the Secretary to Government, Finance Department has requested the Second State Finance Commission to consider setting apart a special fund from out of the devolution to the local bodies for the upgradation of Tamil Nadu Institute of Urban Studies at Coimbatore. While giving concrete shape to the above proposal, there is need for a wider debate on the nature and quantum of assistance needed.

2) In order to get a detailed report, a Sub-committee for Training needs of Urban Local Bodies is constituted with the following members:

- |   |            |
|---|------------|
| i) Thiru K.N. Venkataramanan, IAS,<br>Project Director, TNUDP, Chennai-5. | - Convenor |
| ii) Dr. T. Nagasundaram,<br>Executive Adviser, SSFC.                      | - Member   |

3) The Sub-committee will take into account the present situation of training with reference to Government policy on Training issued in July 1995 vide GO.Ms.No.239 P&AR (Tr,III) dated 17.7.1995. The Terms of Reference for the committee shall be the following:-

- i) Induction courses, refresher courses, skill upgradation courses and other aspects of training needs in the wake of 73<sup>rd</sup> and 74<sup>th</sup> amendment for administrative and technical officials at all levels of urban local bodies including Town Panchayats as also orientation courses to elected representatives.
- ii) Evaluation of the present facilities and performance of the existing training institute at Coimbatore since 1996.
- iii) Justification for upgradation – what are the courses which need to be held at Coimbatore.
- iv) Plan for restructuring.
- v) Sources of funding with scope for 50% contribution by Urban local bodies.
- vi) Awarding of Diploma Certificates to trainees and examining whether such diplomas could be part of qualification for promotion.

4) The Sub-committee can co-opt any officer for the detailed study. The first meeting of the Committee shall be held in the week beginning from 23.10.2000. The Sub-committee is requested to submit its report to the Chairman, Second State Finance Commission on or before 20.11.2000.

Chairman,  
Second State Finance Commission.

**ANNEXURE II-14**  
**(Ref: Para 18)**  
**PROCEEDINGS OF THE CHAIRMAN,**  
**SECOND STATE FINANCE COMMISSION, CHENNAI-15.**  
**Present: THIRU SUKAVANESHVAR, I.A.S.**

Proc. Roc.No.158/D/SSFC /2001

Dated:30.01.2001

Sub: TNSRFC – Training needs of Rural Local Bodies – Upgrading the infrastructure facilities Sub-committee –  
Constituted.

In respect of Rural Local Bodies, there are five Rural Extension Training Centres and one State Institute of Rural Development for imparting training to staff of Panchayat Raj Institutions and Rural Local Body Representatives. In order to examine the scope for upgradation of the quality of training to the Representatives of Local Bodies and staff of Panchayat Raj Institutions, a Sub committee for training needs of rural local bodies is constituted with the following members.

- 1) Thiru Y. Wilson, Director, SIRD
- 2) Thiru R.Thiagarajan, Principal, RETC, S.V. Nagaram

- 3) Thiru B. Thiagarajan, Deputy Secretary  
Second State Finance Commission Member & Convener.

The Sub Committee will take into account the present system of training being imparted to the Local Body Representatives and staff of Panchayat Raj Institutions of all tiers. The Terms of Reference for the Sub Committee shall be the following.

2. Induction courses, refresher courses, skill upgradation courses and other aspects of training needs in the wake of 73<sup>rd</sup> amendment for administrative and technical officials at all levels of rural local bodies and also orientation and other appropriate training courses to representatives of rural local bodies.
3. Evaluation of the present training facilities and performance of the existing training centers including integration of SIRD with RETCs
4. Need for the upgradation of training Institutes
5. Prescribing modules to impart training to staff of Panchayat Raj Institutions and representatives of local bodies for all three tiers
6. Sources of funding
7. Award of certificate to trainees and examining whether such certificates could be fixed as a part of additional qualification for promotion

The Sub Committee can co-opt any officer for the detailed study. The Sub Committee is requested to submit its report to the Chairman, Second State Finance Commission on or before 15.02.2001.

CHAIRMAN  
SECOND STATE FINANCE COMMISSION

To  
All the Sub Committee Members  
Copy to Member Secretary, Second State Finance Commission, Chennai-15.  
Copy to Joint Secretary, Second State Finance Commission, Chennai-15.  
Copy to the Director of Rural Development, Chennai-15.  
Copy to the Commissioner of Rural Development (Training), Chennai-15  
Copy to All Sections  
Spare/Stock File

**ANNEXURE III - 1**  
**(Ref: Para 8)**  
**GOVERNMENT OF TAMIL NADU**  
**FINANCE DEPARTMENT**

**EXPLANATORY MEMORANDUM ON THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE  
STATE FINANCE COMMISSION IN ITS REPORT SUBMITTED TO THE GOVERNOR ON NOVEMBER 29, 1996.**

The report of the State Finance Commission constituted vide Government gazette notification No.219, dated: 25<sup>th</sup> April 1994 together with the Explanatory Memorandum on the action taken on the recommendations of the State Finance Commission is being laid on the table of the House in pursuance of Article 243 I (4) and Article 243 Y (2) of the Constitution of India. The decisions of the Government on the recommendations of the State Finance Commission are indicated in the following paragraphs.

**Fiscal Devolution from the State Government to the local bodies (5.5.20) :**

Government has accepted the recommendations and has decided that revenue from all State taxes excluding entertainment tax would be pooled and 8% of it would be shared with the local bodies from 1997-98.

**Creation of Equalisation and Incentive Fund : (5.5.21)**

Government has accepted the recommendation.

**Distribution of Funds between rural and urban local bodies : (5.6.12)**

State Finance Commission had recommended the distribution of funds between rural and urban local bodies in the ratio of 60 : 40. Government has decided to allocate the funds to the rural and urban local bodies in the ratio of 55 : 45.

**Release of funds from the State Government to the local bodies : (5.6.21)**

The amount to be devolved to the local bodies will be released in 4 equal quarterly instalments.

**Entertainment Tax (2.2.100, 2.3.29 (i), 2.4.22, 2.5.26, 2.5.27 and 2.6.29)**

The State Government has accepted the recommendations of State Finance Commission to transfer 90% of the Entertainment Tax collection to the local bodies. State Government has also decided that Entertainment Tax will continue to be passed on to the local bodies as an



item of revenue expenditure though the State Finance Commission had recommended that it should be transferred as deduct refund entry. Government has accepted sharing principle as recommended in 2.5.27. 1 and 2.5.27. 2

**Distribution of funds between different tiers of rural and urban local bodies : (5.6.18)**

Government has accepted the recommendations of State Finance Commission.

**Interse distribution of funds within Panchayat Union and Village Panchayats: 5.6.14, 5.6.15, 5.6.16:**

The Government has accepted the recommendation of State Finance Commission regarding weightage given to various criteria for distribution of funds. For the first year due to administrative reasons it has been decided to implement these recommendations with slight modifications. In the case of Panchayat Unions, the weightage for financial viability of Panchayat Unions based on average per capita land revenue will be transferred to weightage on total population and weightage on SC/ST population. Similarly in the case of Village Panchayats the criteria of per capita house tax collection and weightage of core civic services infrastructure maintenance deficiency will be transferred to weightage on total population and weightage on SC/ST population.

**Interse distribution amongst various tiers of urban local bodies: (5.6.19)**

The recommendations of State Finance Commission have been accepted by the Government. For the first year, due to administrative reasons, the weightage to financial indicators and services indicators would be transferred to the total population and the total SC/ST population of the Urban Local Bodies.

**Chapter 7 – Principle for distribution of allocation made by the Tenth Finance Commission.**

Government has decided that the formula for distribution of capital grants to the local bodies based on Tenth Central Finance Commission's recommendations would be decided by the State Government every year.

**Various grants on revenue account : 2.2.207, 2.3.36, 2.6.56, 2.6.57, 2.4.34, 2.4.32, 2.4.34, 2.5.46, 2.5.50, 2.5.53 and 2.5.54**

Government has accepted the recommendations of State Finance Commission and the maintenance grants for maternity centres, dispensaries and irrigation would be continued. Accepting the recommendations of State Finance Commission, the grants for maintenance of street lights, water supply, dustless surfacing and local road grants would be subsumed in the overall devolution. In view of the substantial additional devolution of funds to the local bodies, no D.A reimbursement grant would be released to the local bodies.

**Pension Contribution : (2.8.31)**

The Government has decided that the present system of maintenance of pension funds for local body employees will be continued and if local bodies default in making the pension contribution on behalf of their employees or there is a gap in this fund, then the shortfall will be adjusted against funds to be released to the local bodies by the Government.

**Provident Fund : (2.8.32)**

The present system of maintenance of Provident Fund accounts of local body employees will be continued and in case the local bodies fail to credit the subscription amount into the Provident Fund Account, the amount will be adjusted with interest out of the releases to be made by the Government.

**Mines and Minerals : (2.5.33)**

Accepting the recommendations of State Finance Commission, the State Government has decided that the revenue from minor minerals will be credited directly into the local body account and the revenue received from the black granite will also be shared with the local bodies. Royalty from major minerals will not be shared with the local bodies.

The recommendations on the following have also been accepted in principle by the Government:

- Property Tax (2.2.40, 2.3.19, 2.4.13)
- Profession Tax (2.2.53, 2.3.21, 2.4.16)
- Toll Compension (2.2.109)
- Advertisement Tax(2.2.114)
- User Charges (2.2.147, 2.2.153)
- Specific Service Charges from Private Markets, Additional Charges for Water Supply (2.2.196)
- Licence fees & Other Charges (2.2.161)
- Improvement & Income from Properties (2.2.169)
- Development Charges under Town Planning (2.2.179)
- Land Use with respect to Urban Local Bodies (2.2.184)
- Parking Fees (2.2.198)

Penalties & Fines (2.2.208, 2.3.40)  
 Local Cess Surcharge (2.5.16.1, 2.5.16.5)  
 Local Cess (2.5.25.1, 2.5.25.2, 2.5.25.3)  
 House Tax (2.6.16.1, 2.6.16.9)  
 Remunerative Schemes (2.6.61.1)  
 Development Grant (2.6.59.1)  
 Distribution and Credit of Surcharge on Stamp Duty (2.6.35.2, 2.6.35.4)

Recommendations on the following were not accepted by the Government:

Vehicle Tax (2.2.56)  
 Tax on Timber (2.2.61)  
 Cable T.V. (2.2.117)  
 Surcharge on Bus Tickets on Floating Population (2.2.134)  
 Calculation of LCS based on average Land Revenue (2.5.16.2)  
 Reduction in LC and LCS based on remission and waiver in Land Revenue (2.5.16.3, 2.5.16.4)  
 House Tax (2.6.16.2, 2.6.16.3, 2.6.16.4, 2.6.16.5, 2.6.16.6, 2.6.16.7, 2.6.16.8)  
 Tax on Agricultural Land for specific purposes (2.6.23)  
 Water Tax (2.6.27.2, 2.6.27.3)  
 Fairs and Festivals (2.6.48.1, 2.6.48.2)

Decisions about Municipal Corporations would also be applicable to Town Panchayats and Municipalities in respect of relevant recommendations.

Others recommendations of the State Finance Commission are being examined separately by the Government.

April 28, 1997  
 Chennai-600 009

**M. Karunanidhi,**  
 Chief Minister.

**GOVERNMENT OF TAMIL NADU  
 FINANCE DEPARTMENT**

EXPLANATORY MEMORANDUM ON THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE STATE FINANCE COMMISSION IN ITS REPORT SUBMITTED TO THE GOVERNOR ON NOVEMBER 29, 1996.

Placed before the Assembly on 28.4.97  
 /ERRATA/

Page No.	Lines	Error	Please read as
2	28 to 31	For the first year, due to administrative reasons, the weightage to financial indicators and services indicators would be transferred to the total population and the total SC/ST population of the Urban Local Bodies	For the first year, due to administrative reasons, the weightage to services indicators would be transferred to the total population and the total SC/ST population of the Urban Local Bodies.

Chennai - 9

**M. Karunanidhi,**  
 Chief Minister.



**ANNEXURE IV-1(a)**  
(Ref: Para 2.5.)  
**CORPORATIONS**

(Property Tax 1999-2000)

SI No	PARTICULARS		Chennai	Coimbatore	Madurai	Trichy	Tirunelveli	Salem
1	No.of Assessments	Nos	4,49,737	1,70,663	1,17,824	1,13,621	1,07,430	1,35,912
2	Population 1991	(In Lakh)	38.41	8.16	9.41	6.69	3.74	5.94
3	Population 2001	)	46.39	9.86	11.36	8.08	4.52	7.17
4	Area in sq.km.	Sq. km.	174	106	52	147	109	91
5.	Annual demand 99-2000	Rs.in crore	153.16	31.04	23.20	14.95	7.03	11.53
6.	Percentage of Collections	%						
	a.Arrears		49	43	22	32	23	15
	b.Current		66	72	69	77	70	62
7.	Tax per Property	Rs.	3406	1819	1969	1316	654	848
8.	Persons per Asst.	Nos	10.14	5.68	9.48	6.99	4.13	5.19
9	Property Tax per Capita	Rs.	336	320	207	188	158	163
10	Asst. growth per annum	%	4.92	9.71	2.04	6.01	9.56	6.34
11	Non-Res.Assts.	%	17	11	19	11	15	9
12	Outstanding Loan As on 1.4.2000	Rs. in crore	262.02	84.58	136.40	39.26	19.09	42.01
13	Outstanding loan as Ratio Property Tax Demand							
	a. Current		1.75	2.72	6.08	2.73	2.63	5.20

**ANNEXURE IV-1(b)**

(Ref: Para 2.5.)

**MUNICIPALITIES****Property Tax 1999 -2000**

Sl. No	Particulars		Unit	Special Grade	Selection Grade	Grade-I	Grade-II	Total	Average
1.	No. of Municipalities		No.	13	28	36	25	102	-
2.	Population	a. 1991 Census	Persons in lakhs	19.69	24.25	19.84	7.98	71.76	0.70
		b. 2001 Projected		22.85	28.25	23.03	9.27	83.39	0.82
3.	Area		Sq.km	239.32	385.21	468.89	338.39	1431.81	14.04
4.	No. of Assessments	a. Residential & approved	Nos.	336139	443124	386850	179073	1345186	13188
		b. Non-Residential	Nos.	91297	96599	87812	28090	303798	2978
		c. Total	Nos.	427436	539723	474662	207163	1648984	16167
5.	Annual Demand		Rs. in lakhs	6007.54	5235.32	3046.17	891.36	15180.39	148.83
6.	Average Collection Performance	a. Current	%	66.76	73.92	78.34	75.74	-	75.01
		b. Arrears	%	32.41	34.18	32.31	30.58	-	32.41
7.	Tax per property		Rs.	1651	1092	687	486	-	872
8.	Persons per assessment (2001)		No.	5.81	5.79	5.16	4.94	-	5.36
9.	Assessments Per collection staff		Nos.	1674	1795	1743	1663	-	1719
10.	Tax Demand Per capita -	a. current	Rs.	286	202	136	101	-	165
		b. Total Collection	Rs.	953	354	151	58	-	286
11.	Growth in Assessments		%	0.66	3.33	3.45	3.40	-	3.05
12.	Non-residential assessments		%	22	18	19	15	-	18
13.	Outstanding loan as on 1.4.2000		In lakhs	12492.58	12723.96	8103.22	3311.62	36631.39	359.13
14.	Outstanding loan ratio to Property tax demand	a. Current	Ratio	2.18	2.73	3.20	4.12	-	3.17
		b. Total Collection	Ratio	5.98	2.82	3.30	4.24	-	3.74



**ANNEXURE - IV - 1 ( c )**

(Ref: Para 2.5.)

**TOWN PANCHAYATS  
Property Tax - 1999-2000**

S.No.	Particulars	Unit	Spl. Grade	Sl. Gr.	Grade I	Grade II	Total	Average
1.	No. of Town Panchayats	No.	28	278	223	82	611	-
2.	Population 1991	Lakhs	8.05	44.96	23.51	7.40	83.82	0.13
	Estimated 2001	Lakhs	9.14	51.01	26.68	8.40	95.22	0.16
3.	Area	Sq.Km.	564	3905	2671	985	8125	13.3
4.	No. of assessments							
	Residential	Nos.	239019	1062164	567075	205253	2073511	-
	Non-Residential	Nos.	151985	407321	166891	81744	807941	-
5.	Annual Demand	Lakhs	582	2425	1335	975	5317	-
6.	Average Collection							
	Performance Current	%	66	70	73	69	-	71
	Arrear	%	43	52	57	59	-	54
7.	Tax per property	Rs.	686	215	129	132	-	194
8.	Persons per assessment	-	3	3	4	4	-	4
9.	Assessments per collection staff	-	2353	2415	2185	1833	-	2263
10.	Tax demand per capita	-	64	49	50	97	260	65
11.	Growth in assessments	%	4.39	4.07	3.59	4.00	-	3.90
12.	Non-residential assessments	%	29	29	28	26	-	28
13.	Outstanding loan as on 31.3.2000	Lakhs	1085	6411	1268	270	9035	-
14.	Loan ratio to Property Tax demand	-	1.8	2.6	0.9	0.3	-	-

\* Many Town Panchayats have not availed loans.

**ANNEXURE IV - 1(d)**

(Ref: Para 2.11.)

**Critique on Property Tax Administration in Municipal Corporations**

The Property Tax is the most important tax source of revenue to Urban Local Bodies, particularly in non-Octroi State like Tamil Nadu. The yield of property tax in terms of per capita income could be much more than the present share.

It may be noted that the increases during the property tax revisions made by Corporations and Municipalities are rather modest. Though these Urban Local Bodies may tend to trace it to ceilings imposed by Governments that does not give the whole picture. The critique below attempts to take a holistic view of property tax administration in Corporations.

2. The property tax administration of Municipal Corporations is often subjected to public criticism and adverse judicial pronouncements pointing out several weak links in the chain of tax administration like absence of guiding principles, transparency, complicated procedures adopted for the levy of property tax and above all the loss of confidence by the public.

3. The property tax mapping exercise is not evolved as mass appraisal system of properties. There is no surety that all those assesseees who are liable to pay property tax are borne on the books of the concerned tax officials. ARV is defined as the rental value which the property would fetch. In practice, however, the rental value is estimated not through market mechanism but through administrative procedures using the discretion of field staff. Large scale omissions, variations and under assessments are noticed in the levy of property tax for want of guidelines or norms. It is observed that in many instances, the rates have been deliberately kept either high or low for obvious reasons. The assessments system of property tax needs to be governed by strict regulations and guidelines.

4. The primary analysis of Data furnished by Urban Review Committee reflects the following indicators which bears testimony to the fact that the property tax is not being exploited to its full potential.

- i) Inexact / improper valuation
- ii) Inequitable rate structures
- iii) Discretionary exemptions and rebates ; and
- iv) Absence of regular updating of assessments

## A. CHENNAI CORPORATION

5.1. The expectation is that as a metropolitan area, property tax administration in Chennai would be better and be role model for other Urban Local Bodies. But this is not so.

### 5.2. Property stock

The total property tax assessment as on 31.3.2000 is stated to be 4,49,737, based on the data furnished by the Chennai Municipal Corporation.

The categories of properties are detailed hereunder:

1.	Residential	368813
2.	Commercial	67161
3.	Industrial	4813
4.	State Government	1815
5.	Public Undertakings	2817
6.	Exempted properties	4218
Total		449737

### 5.3. Collection

The collection performance is poor over a period of years as detailed in the following statement. The arrear collections are badly neglected.

YEAR	DEMAND	COLLECTION	% OF COLLECTION
1995-96	109.14 crores	69.06 crores	63.27
1996-97	127.74 crores	75.13 crores	58.81
1997-98	166.48 crores	104.76 crores	62.92
1998-99	184.67 crores	112.95 crores	61.16
1999-2000	224.88 crores	129.00 crores	57.36
2000-2001	262.00 crores	135.60 crores	51.75

It is clearly evident that the trend of collection is declining over the period of years and the level of collection is lowest in the year 2000-2001 even though the revision was completed in the year 1998-99. Nearly one third of the tax demand is kept pending every year.

### 5.4. Property Tax Arrears:

a.	Arrears as % of 1999-2000 demand	:	42
b.	Amount of arrears below 5 years	:	Rs.68.45 crores
c.	Assesses defaulted below 5 years	:	225182
d.	Amount of arrears over 5 years	:	Rs.24.27 crores
e.	Assesses defaulted over 5 years	:	71907

It is reported that the Collection of Property tax during the financial year ending 31.3.2001 is Rs.135.60 crores as against the target of Rs.150 Crores. The shortfall in collection is mainly attributed to absence of provisions for levy penalty on defaulters.

### 5.5. Comparisons

5.5.1. The Chennai Metropolitan Water Supply & Sewerage Board has reported the number of property tax assessments covering residential, commercial and industrial to be 4,74,411 for which primary source is corporation itself, as against 4,49,737 property tax assessments shown in TUIFSL report showing up a glaring omissions in assessments.

5.5.2. If the census house listing and renumbering operations had been more transparent enlisting the cooperation of property tax owners, that could have provided a good opportunity for cross-check. This was not availed.

### 6. Procedure adopted for General Revision Survey:

Property tax revision in 1993 took almost five years. No lessons were drawn thereon. The procedure adopted for conducting revision with effect from 1.10.1998 was equally complicated.

In Chennai 50% of the property owners chose to file returns voluntarily. The processing and finalising the returns(work sheet preparation) have not completed even after the lapse of more than 2 years. The remaining properties for which returns are not presented are being subjected to fixing the revised assessment mostly at the discretion of the field staff.



Computerization of property tax at Chennai Municipal Corporation was started as early as 1990. The First Revision(General Survey) was done with effect from 1.4.1993 and second revision(General Survey) was done with effect from 1.10.1998.

The data pertaining to the total number of assessments and the revenue growth concerning the revisions were not fed to the computer. Information on levy and collection of property tax is not collected properly and projected correctly.

The database maintained by the Corporation of Chennai is not complete and the facility is underutilized. The functions of raising demand and collection of Property tax are separately done in two different sections of the Corporation. One section has stored the data in **FOXPRO** database and another dealing with collection has stored the data in the **ORACLE**. Thus there is no way of reconciling demand and collection of property tax.

#### **B - ALL CORPORATIONS**

##### **7. Revision of Property tax:**

The general revision was done in 1.4.1993 and the next survey was done with effect from 1.10.1998. The procedures adopted for revision are cumbersome. The details of increase in demand after the General Revision Survey are furnished in the following table.

Sl.No.	Corporations	Demand		% increase
		1997-98	1999-2000	
		(Rs. in lakhs)		
1	Chennai	11387.07	15316.23	34.50
2	Coimbatore	2084.75	3702.00	77.57
3	Madurai	1415.43	2320.33	63.93
4	Salem	701.07	1153.10	64.47
5	Tiruchirapalli	1056.11	1495.05	41.56
6	Tirunelveli	454.49	702.85	54.64

Increase in demand is combined effect of tax revision and growth in property stock.

##### **8. Demand Growth:**

There is no indication about the coverage of all properties for the levy of property tax during the general revision survey done with effect from 1.10.98. The demand growth is not significant after the general revision in Chennai, Tiruchirapalli and Tirunelveli Corporations. Number of assessments handled by collection staff varies among all the Corporations. The number is very high in Tirunelveli and very low in Madurai Corporation.

Growth rate in property tax for all Municipal Corporations.

1996-97	1997-98	1998-99	1999-00
7.6	31.4	11.8	24.4

The demand growth is not uniform.

The variations in growth rate leads to the surmise of large scale omissions and under assessments besides evasion. Property methodology is not adopted for revision. The overall impression on number of assessments and tax demand is that there is a high probability for under assessments and omissions in assessments and there is lot of scope to increase the number of assessments. The tax demand for all the Corporations ought to be much higher if the assessments are done accurately.

##### **9. Collection Performance:**

The Property tax collected for the years 1995-96 to 1999-2000 as against the target projection for the period from 2000-2001 to 2005-2006 are given below.

(Rs. in lakhs)					
Year	1995-96	1996-97	1997-98	1998-99	1999-00
Actual	10914.80	11747.20	15440.60	17253.70	21464.60
Target	10042.96	12703.57	15364.18	18024.79	20685.40

##### **10. Appeal Petitions:**

A large number of appeal petitions presented to the Tax Appeal Tribunal after remitting the property as per the rules are kept pending without disposal for an indefinite period. No time limit has been fixed to dispose of the appeal petitions.

##### **11. Overall impression:**

It may be noted that overall target is lower than even the current demand. The target of 90% collection of current demand for each year is considered to be reasonable. Further, collection of arrear demand should be cleared within a year or at the most in two years. If these norms

are followed, there will be no arrears demand from the year 2003-04. Collection performance indicates the heavy accumulation of arrears leading to pecuniary loss of revenue to the Corporations.

The collection of tax is the real indicator for revenue receipts of the Corporations. Nearly one-third to one-fourth of the total demand is not collected every year. The burden of accumulation of arrears is increasing year by year. Only one-sixth to half of the arrear demand is collected in the succeeding years. The long pending arrears are subjected to limitation of time ultimately reaching the stage of "write off" as uncollectable legally. The above gives the impression that collectable tax is perhaps deliberately allowed to become uncollectable.

## 12. C - REFORMS FOR PROPERTY TAX ADMINISTRATION:

1. Define procedure for the levy of property tax.
2. Introduce objectivity, transparency and simplicity and become citizen friendly by comprehensive computerization within the parameters cutting red-tapism for the levy of property tax for all categories of properties.
3. Self-Declaration returns may be presented by property owners according to norms prescribed separately for residential properties and non-residential properties along with payments.
4. A Property Tax Guidelines Committee should be separately constituted to fix rates for different classes / zones factoring several criteria like the location, type of construction, built up area, use of property and the age of the building.
5. Fix strict time frame for settlement of assessments and disposal of Revision and Appeal Petition at the appropriate levels of official hierarchy.
6. Transparency in the procedure for calculating the property tax is a vital requirement by making all the relevant information made available on tap and in public all the time.
7. The concept of single window clearance can be introduced for the levy of property tax.
8. A system of updating the list of assessees by adding new buildings and deleting demolished buildings should be created.
9. Master Demand Register for Property Tax Assessments should match with tax mapping duly ensuring coverage of all eligible properties.
10. The annual Demand growth rate should be achieved at reasonable level particularly after the general revision.
11. Current Demand Collection and arrear demand collection should be either completely collected or legal actions initiated before they become barred by limitation of time. The long pending arrears are subjected to limitation of time ultimately reaching the stage of "write off" as uncollectable legally. This pecuniary loss caused to Urban Local Bodies should be prevented.
12. The town planning process should ensure that the levy of Property Tax is made before closing the file connected with the enforcement of the provisions of the approved plans.
13. A system should be created by correlating all new buildings for which plan sanctions are accorded in town planning wing with the processing of the levy of property tax for such buildings in revenue wing of the same local body.
14. All new buildings should be brought to assessment with effect from the period of their completion or occupation whichever is earlier and power, water supply and drainage connection should be given only after the levy of property tax.
15. The revision petitions and appeal petitions presented as a sequel to revision should be disposed off within a specified time frame. The credibility and image of the Corporations will be badly damaged on this score of indefinite wait for justice.
16. Door to Door Tax Collection by Tax Collector / Bill Collector / Assessor may be dispensed with. Instead, tax Collection Centres may be opened in each ward.
17. Steps should be taken to integrate the entire data pertaining to the levy of tax and collection into the single database so that on line updation of Property tax can be done in an efficient manner.
18. Computerised Pass Books should be used. It should be updated with entries of all payments as is being done in banks.
19. Property Tax Pass Book can be made as a symbol of pride like Passport for every citizen in a par with Income Tax Assessment.

### ANNEXURE IV-2 (a) (Ref: Para 2.13.)

#### Property Owners who file returns voluntarily

Sl. No.	Stage	Time frame
1.	Notification in the newspaper, internet, etc. with format	Notification of qualifying date for presenting self-declaration
2.	a. Response time b. Receipt of returns	a. 2 months from notification b. No. of returns received.
3.	Processing in computer and verification and printing of revised tax.	Despatch of order of confirmation fixing revised tax within 2 months from the date of receipt of application.
4.	Despatch of revised tax	15 days
5.	Appeal to Commissioner	1 month from the date of receipt of order of confirmation
6.	Disposal of appeals	45 days
7.	Incorporation of revised tax in pass book	At the time of payment.
8.	Where the rate is contested in appeal to tribunal disposal of the same.	One month.
9.	Incorporation of tribunal's order in passbook.	One month.
10.	Collection of arrears.	3 months
Total Period 9 months		



**ANNEXURE IV-2(b)**

(Ref: Para 2.13.)

**Property Owners who do not file returns Voluntarily**

Sl. No.	Stage	Time frame
1.	Notification in the newspaper, internet, etc. with format	Notification of qualifying date by Urban Local Bodies.
2.	Identifying properties for which returns were not filed	One and a half months
3.	Inspection of 20% or 25% above properties by a team (from Revenue, T.P. and Engineering Departments)	2 months from the date of notification
4.	Fixing property tax based on existing records and inspection	2 months
5.	Despatch of revised tax	1 month
6.	Appeal to Commissioner	One and a half months.
7.	Disposal of appeals	One and a half months
8.	Incorporation of revised tax in pass book.	One month.
9.	Where the rate is contested in appeal to tribunal disposal of the same.	One and a half months.
10.	Incorporation of tribunals order in passbook.	One month.
11.	Collection of arrears	3 months.
<b>Total Period : 12 Months.</b>		

**ANNEXURE IV-3**

(Ref: Para 4.6)

**KARNATAKA ACT ON PROFESSION**

Rates of tax on professions, trades, callings and employments

Sl No	Class of persons	Rate of tax
1	Salary or wage earners whose salary or wage or both, as the case may be, for a month is –	
a)	Not less than Rs.3,000 But less than Rs.5,000	Rs.25 per month
b)	Not less than Rs.5,000 But less than Rs.8,000	Rs.50 per month
c)	Not less than Rs.8,000 But less than Rs.10,000	Rs.75 per month
d)	Not less than Rs.10,000 But less than Rs.15,000	Rs.100 per month
e)	Not less than Rs.15,000 But less than Rs.20,000	Rs.150 per month
f)	Rs.20,000 and above	Rs.200 per month
2.	a) Legal practitioners including Solicitors and Notaries public:-	
(A)	In the Bangalore Urban Agglomeration or within the Municipal limits of District Headquarters town, where standing in the profession is:-	
i.	less than 10 years	Nil
ii.	10 years or more but less than 15 years	Rs.600 per annum
iii.	15 years or more	Rs.900 per annum
(B)	In any other area in the State is:-	
i.	less than 10 years	Nil
ii.	10 years or more but less than 15 years	Rs.300 per annum
iii.	15 years or more	Rs.600 per annum
	b) Technical and Professional Consultants other than those mentioned elsewhere in the Schedule but including plumbing and Tax Consultants:-	
(A)	In the Bangalore Urban Agglomeration or within the Municipal limits of District Headquarters town where standing in the profession is:-	

	i.	less than 2 years	Nil
	ii.	2 years or more but less than 10 years	Rs.600 per annum
	iii.	10 years or more but less than 15 years	Rs.1,200 per annum
	iv.	15 years or more	Rs.2,500 per annum
(B)	In any other area in the State is -		
	i.	less than 2 years	Nil
	ii.	2 years or more but less than 10 years	Rs.300 per annum
	iii.	10 years or more but less than 15 years	Rs.600 per annum
	iv.	15 years or more	Rs.1,200 per annum
2-A	Chief Agents, Principal Agents, Special Agents, Insurance Agents and Surveyors or Loss Assessors registered or licensed under the Insurance Act, 1938 ( Central Act IV of 1938) whose annual income is not less than Rs.36,000		
	Rs. 600 per annum		
	Pigmy Agents or UTI Agents whose annual income is not less than Rs.36,000		
	Rs.300 per annum		
	Explanation – For the purpose of this item income shall be deemed to be the commission or any other remuneration by whatever name called, earned by the person as such Chief Agent, Principal Agent, Special Agent, Insurance Agent, Surveyor or Loss-Assessor (or Pigmy Agents or UTI Agents).		
2-B	Chartered Accountants and Actuaries where the standing in the profession is:-		
	i.	Less than 2 years	Nil
	ii.	Not less than 2 years but less than 5 years	Rs.600 per annum
	iii.	Not less than 5 years but less than 10 years	Rs.1,500 per annum
	iv.	10 years or more	Rs.2,500 per annum
2C.	Medical Practitioners, including Medical Consultants (other than practitioners of Ayurvedic, Homeopathic and Unani systems of Medicines), Dentists, Radiologists, Pathologists and persons engaged in other similar professions or callings of a para-medical nature:-		
	In Bangalore Urban Agglomeration or within the Municipal limits of a District Headquarters towns, where standing in the profession is-		
	i.	Less than 2 years	Nil
	ii.	2 years or more but less than 5 years	Rs.600 per annum
	iii.	5 years or more but less than 10 years	Rs.1,500 per annum
	iv.	10 years or more	Rs.2,500 per annum
	In any other area in the State		
	i.	Less than 2 years	Nil
	ii.	2 years or more but less than 5 years	Rs.600 per annum
	iii.	5 years or more but less than 10 years	Rs.900 per annum
	iv.	10 years or more	Rs.1,800 per annum
2D	Engineers, R.C.C. Consultants, Architects and Management Consultants:-		
A)	In the Bangalore Urban Agglomeration or within the Municipal limits of the District Headquarters town, where standing in the profession is:-		
	i.	Less than 5 years	Nil
	ii.	5 years or more but less than 10 years	Rs.600 per annum
	iii.	10 years or more but less than 15 years	Rs.1,500 per annum
	iv.	15 years or more	Rs.2,500 per annum
B)	In any other area in the State is:-		
	i.	Less than 5 years	Nil
	ii.	5 years or more but less than 10 years	Rs.300 per annum
	iii.	10 years or more but less than 15 years	Rs.900 per annum
	iv.	15 years or more	Rs.1,500 per annum



**ANNEXURE IV-4**  
(Ref: Para 5.2)  
**Advertisement Tax**

Sl. NO.		A Grade		B Grade		C Grade		D Grade	
		(Tax for a period of six months for 10 Square Foot and part thereof)							
		Min. Rs.	Max. Rs.	Min. Rs.	Max. Rs.	Min. Rs.	Max. Rs.	Min. Rs.	Max. Rs.
1.	Main road and Commercial Area	180	360	150	300	100	200	75	150
2.	Other Roads	120	250	100	200	75	150	50	125
3.	Wall Paintings	120	250	75	150	60	125	50	100
4.	Neon Light Boards	250	500	200	400	150	300	100	200
TAX FOR EVERY MONTH									
5.	Advertisements for a week the amount shall in proportionate displayed in Vehicles								
	4 Wheelers	150	300	75	150	50	100	30	75
	3 Wheelers	80	160	60	120	40	75	25	50
	2 Wheelers (per vehicle)	50	100	25	60	20	50	15	35
6.	Slides in the theatre (each)	50	100	25	100	20	75	15	50
	Roll film display for 300 metres (each)	150	300	50	100	25	75	20	50

**ANNEXURE IV-4 (a)**  
(Ref: Para 6.4.2)

**Allocation of funds to Tamil Nadu Rural Road Development Fund**

(Rs. in crores)

Year	Amount of Motor Vehicle Tax collected	Amount due to be credited to TNRRDF	Amount actually allocated to TNRRDF	Balance to be credited to TNRRDF
1995-96	392.20	39.22	Nil	39.22
1996-97	425.42	42.54	25.22	17.32
1997-98	469.68	46.97	25.22	21.75
1998-99	518.14	51.81	25.22	26.59
1999-2000	582.12	58.21	25.22	32.99
<b>Total</b>	<b>2387.56</b>	<b>238.75</b>	<b>100.88</b>	<b>137.87</b>

**ANNEXURE IV-5**  
(Ref: Para 9.2.a)

The total OSR collected by CMDA against it's the grant released to the Town Panchayats from 1995-96 to 1999-2000 is noted below:-

Rs. in lakhs

District	Name of the Town Panchayat	OSR are collected by CMDA	Grants released / received from CMDA
<b>Kancheepuram</b>	Nanthampakkam	18.62	Nil
	Perunkalathur	32.81	2.00
	Pammal	2.87	3.78
	Madampakkam	22.61	Nil
	Peerankaranai	3.62	3.00
	<b>Total</b>	<b>80.53</b>	<b>8.78</b>
<b>Thiruvallur</b>	Poonamallee	10.45	Nil
	Valasaravakkam	168.70	Nil
	Puzhal	2.23	10.21
	Thirunitravur	14.72	Nil
	Maduravoyal	36.65	16.03
	<b>Total</b>	<b>232.75</b>	<b>26.24</b>
	<b>Grand Total</b>	<b>313.28</b>	<b>35.02</b>

**ANNEXURE IV- 6**  
**(Ref: Para 9.2.d)**

The National Institute of Rural Development has identified the taxes leviable by Village Panchayats as under:

1. House Tax / Building Tax
2. Tax on Buildings and / or lands / Property Tax
3. Surcharge on House / Building Tax
4. Tax on Cultivable land lying fallow
5. Tax on Agricultural land for specific purpose
6. Land cess / surcharge / cess on land revenue / local rate on lands
7. Land conversion cess
8. Betterment levy on lands
9. Tax on commercial crops
10. Surtax on Additional Stamp Duty
11. Tax on Professions, Trades, Calling etc.
12. Entertainment Tax / Additional Entertainment Tax
13. Show Tax
14. Pilgrim Tax
15. Octroi
16. Tax on Advertisements
17. Kolagaram Tax
18. Tolls
19. Tax on sale of firewood and thatch, conservance & slaughter houses
20. Tax on Private Hat and Private Fisheries
21. Tax on goods sold in a market, hat etc.,
22. Vehicle Tax
23. Animal Tax
24. Conservancy Rate
25. Lighting Rate
26. Water Rate
27. Drainage Rate
28. Sol. Tax for Community Services Civic purposes / public utility works
29. Tax on shops and services

II. Likewise in respect of Panchayat Unions some 14 items identified are as follows:

1. Surcharge / Cess on Land Revenue / Land cess / Local Rate / Local Cess surcharge
2. Development Tax on Agricultural land
3. Additional Stamp Duty
4. Tax on Theatres or public entertainments
5. Tax on professions, trades, calling etc.,
6. Tolls on persons, vehicles, animals and ferries
7. Minor irrigation cess
8. Lighting Rate / tax
9. Water rate / tax
10. Road
11. Public works cess
12. Education cess
13. Surcharge on any tax imposed
14. Tax on fairs

III. In case of District Panchayats in States like Tamil Nadu they are practically advisory bodies. However, following 13 items have been identified by the national level body.

1. Tax on circumstances and property
2. Special tax on lands and buildings
3. Additional Stamp duty
4. Tax on lands and buildings
5. Tax on professions, trades, callings etc.,
6. Tolls on persons, vehicles, animals and ferries
7. Pilgrim tax
8. Tax on fairs, meals and other entertainments
9. Water rate
10. Lighting rate
11. Conservancy tax
12. Road cess
13. Tax / Additional Tax on GP Taxes.



**ANNEXURE IV – 7**  
(Ref: Para 11.2)  
**THE INDIAN STAMP ACT, 1899**  
**STAMP DUTY ON INSTRUMENTS**

Sl. No.	Description of Instrument	Proper Stamp duty
1.	Agreement or Memorandum of an Agreement When the land is situated within the cities of Chennai, Madurai and Coimbatore and Municipal Towns of Salem and Tiruchirappalli	Thirteen rupees for every Rs.100
2.	Award Where the amount or value of the property to which the award relates, as set forth in such award, does not exceed Rs.1000.	The same duty as a Bottomry Bond for such amount
3.	Conveyance a) Of immovable property situated within the Chennai Metropolitan Planning Area and the Urban agglomeration of Madurai, Coimbatore, Salem and Tiruchirappalli and the City of Tirunelveli b) Of any other property	Eight rupees for every Rs.100 or part thereof of the market value of the property which is the subject matter of conveyance.  Seven rupees for every Rs.100 or part thereof of the market value of the property which is the subject matter of conveyance.
4.	Exchange of Property	The same duty as Conveyance (no.23) for a market value equal to the market value of the property of greater value which is the subject matter of exchange.
5.	Gift	The same duty as a Conveyance (No.23) for a market value equal to the market value of the property which is the subject matter of gift.
6.	Lease Where the lease purports to be for a term exceeding five years but not exceeding fifty years	The same duty as a Conveyance (No.23) for a market value equal to fifty per cent of the market value of the property which is the subject matter of lease.
7.	Mortgage Deed When possession of the property or any part of the property comprised in such deed is given by the mortgagor or agreed to be given.	The same duty as a Conveyance (No.23) for a market value equal to the amount secured by such deed.
8.	Power of Attorney When given for consideration and authorizing the attorney to sell any immovable property	The same duty as a conveyance (No.23) for the market value equal to the amount of the consideration.
9.	Reconveyance of Mortgaged Property If the consideration for which the property was mortgaged does not exceed Rs.1000	The same duty as a Conveyance (No.23) for a market value equal to the amount of such consideration as set forth in the re-conveyance.
10.	Release of Benami Right Of immovable property situated within the Chennai Metropolitan Planning Area and the Urban agglomeration of Madurai, Coimbatore, Salem and Tiruchirappalli and the City of Tirunelveli.	Thirteen rupees for every Rs.100 or part thereof of the market value of the property which is the subject matter of release.
11.	Release of right in favour of Partner When such release is between partners who are not family members	a) Rs.13 for every Rs.100 or part thereof of the market value of the immovable property which is situated within the Chennai Metropolitan Planning Area and the Urban agglomeration of Madurai, Coimbatore, Salem and Tiruchirappalli and the City of Tirunelveli b) Twelve rupees for every Rs.100 which is situated in other areas.
12.	Security Bond or Mortgage Deed a) When the amount secured, does not exceed Rs.1000 b) In any other case.	The same duty as a Bottomry Bond (No.16) for the amount secured.  Forty rupees.

13. Settlement  
If the instrument of settlement is in favour of a member or member of a family
- The same duty as a Bottomry Bond (No.16) for such amount or value as set forth in the settlement.
14. Surrender of lease  
a) When the duty with which the lease is chargeable does not exceed thirty rupees  
b) In any other case
- The duty with which such lease is chargeable  
Forty rupees
15. Transfer  
Of any property under the Administrator General's Act 1913 (Central Act iii of 1913), Section 25
- Fifty rupees
16. Transfer of Lease
- The same duty as a Conveyance (No.23) for a market value equal to the amount of the consideration for the transfer.
17. Trust  
a) Declaration of -- of, or concerning, any property when made by any writing not being a Will;  
b) Revocation of -- of, or concerning, any property when made by any instrument other than a Will
- The same duty as a Bottomry Bond (No.16) for a sum equal to the amount or value of property concerned, as set forth in the instrument but not exceeding ninety rupees.  
The same duty as a Bottomry Bond (No.16) for a sum equal to the amount or value of property concerned, as set forth in the instrument but not exceeding sixty rupees.

ANNEXURE IV - 8 (a)  
(Ref: Para 14)

MUNICIPAL CORPORATIONS  
Revenue Receipts from Own Sources- Taxes

Item	2002-03	2003-04	2004-05	2005-2006	2006-07
	(Rs. in lakhs)				
Property Tax	27586.95	37076.83	38650.30	40076.59	41471.17
Professional Tax	3892.64	4281.91	4710.10	5181.11	5699.22
Other Taxes	135.68	142.46	149.58	157.06	164.91
<b>Total Taxes</b>	<b>31615.27</b>	<b>41501.20</b>	<b>43509.98</b>	<b>45414.76</b>	<b>47335.30</b>

Revenue Receipts from own Sources – Non-Taxes

Item	2002-03	2003-04	2004-05	2005-2006	2006-07
	(Rs. in lakhs)				
Income from Special Services	30.21	31.72	33.31	34.98	36.73
Income from Properties	1160.79	1349.40	1551.81	1784.58	2052.27
Income from Investments	6181.61	6923.41	7754.22	8684.72	9726.89
Interest on Investments	0.04	0.05	0.05	0.05	0.05
Income from fees	4520.18	4972.20	5469.42	6016.36	6618.00
Misc. Income	4042.01	4648.32	5345.56	6147.40	7069.51
Total Non-taxes	15934.84	17925.10	20154.37	22668.09	25503.45
<b>Total own sources</b>	<b>47550.11</b>	<b>59426.30</b>	<b>63664.35</b>	<b>68082.85</b>	<b>72838.75</b>



**ANNEXURE -IV- 8(b)**  
(Ref: Para 14)  
**MUNICIPALITIES**

**Revenue Receipts from own Sources – Taxes**

S. No	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
<b>A. Tax –Own Sources</b>		(Rs. in Lakhs)				
1.	Property Tax	16813.63	21845.99	22359.14	22865.01	23377.43
2.	Professional Tax	2503.37	2803.78	3140.23	3517.06	3939.10
3.	Other Taxes	1.57	1.69	1.83	1.97	2.13
<b>Sub Total - A</b>		<b>19318.57</b>	<b>24651.46</b>	<b>25501.20</b>	<b>26384.04</b>	<b>27318.66</b>
<b>B. Non Tax –Own Sources</b>						
1.	Income from Special Services	78.57	82.50	86.63	90.96	95.51
2.	Income from Properties	2230.76	2565.37	2950.18	3392.71	3901.61
3.	Income from Investments (Excl. Interest)	2392.80	2512.44	2638.06	2769.96	2906.46
4.	Interest on Investments	35.90	37.69	39.58	41.56	43.63
5.	Income from Fees	3794.22	4173.64	4591.01	5050.11	5555.12
6.	Miscellaneous Income	1363.46	1636.15	1963.38	2356.06	2827.27
<b>Sub Total -B</b>		<b>9895.71</b>	<b>11007.79</b>	<b>12268.84</b>	<b>13701.36</b>	<b>15329.60</b>
<b>Total Own Sources</b>		<b>29214.28</b>	<b>35659.25</b>	<b>37770.04</b>	<b>40085.40</b>	<b>42650.26</b>

**ANNEXURE IV - 8 (c)**  
(Ref Para 14.)  
**TOWN PANCHAYATS**

**Revenue Receipts from own Sources – Taxes and Non-Tax (Projected)**  
**For the period 2002-07 (Rs. in Lakhs)**

S. No	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
<b>A. Tax - Own Sources</b>						
1.	Property Tax	4893.10	6241.75	6378.46	6506.96	6631.42
2.	Professional Tax	1823.80	2006.18	2206.79	2427.47	2670.22
3.	Other Taxes	887.21	931.57	978.15	1027.05	1078.41
<b>Sub Total - A</b>		<b>7604.11</b>	<b>9179.50</b>	<b>9563.40</b>	<b>9961.48</b>	<b>10380.05</b>
<b>B. Non-Tax Own Sources</b>						
1.	Income from Special Services	472.20	495.81	520.60	546.63	573.96
2.	Income from Properties	2436.46	2801.93	3222.21	3705.55	4261.38
3.	Income from Investments (Excl. Interest)	241.16	253.22	265.88	279.17	293.13
4.	Income from Fees	1272.25	1335.86	1402.66	1472.79	1546.43
5.	Miscellaneous Income	2471.14	2841.81	3268.08	3758.30	4322.04
<b>Sub Total -B</b>		<b>6893.21</b>	<b>7728.63</b>	<b>8679.44</b>	<b>9762.44</b>	<b>10996.94</b>

**ANNEXURE IV- 8 (d)**  
(Ref Para 14.)  
**Village Panchayat Growth of Income**

(Rs. in crores)

Head	2002-03	2003-04	2004-05	2005-06	2006-07
Own Tax	71.25	79.30	88.30	97.30	107.30
Assigned Revenue	89.00	97.00	105.00	113.00	122.00
Non Tax	104.20	100.50	109.00	119.00	128.50
<b>Total</b>	<b>264.45</b>	<b>276.80</b>	<b>302.30</b>	<b>329.30</b>	<b>357.80</b>

**ANNEXURE IV- 8 (e)**  
**Panchayat Union Growth in income**

(Rs. in crores)

Head	2002-03	2003-04	2004-05	2005-06	2006-07
Own Tax	25.00	25.00	25.00	25.00	25.00
Assigned Revenue	2.05	2.15	2.30	2.40	2.50
Non Tax	50.00	52.50	55.00	57.50	60.00
<b>Total</b>	<b>77.05</b>	<b>79.65</b>	<b>82.30</b>	<b>84.90</b>	<b>87.50</b>

**ANNEXURE IV- 9**  
(Ref Para 10.5)  
**E.T. as reported and transferred to Local Bodies**

(Rs. in crores)

Year	Total revenue collected from E.T.	Share of E.T. due to be transferred to LBs	Amount actually transferred to LBs (as furnished by the concerned LBs)	Accountant General's accounts
As per the figures furnished by the Government				
1995-96	99.99	64.99	51.89	65.96
1996-97	117.16	76.15	55.40	70.48
1997-98	119.24	107.32	59.21	65.59
As per the figures furnished by the Commercial Taxes Department				
1995-96	98.32	63.91	65.51	
1996-97	107.82	70.08	66.35	
1997-98	108.55	97.70	64.26	
1998-99	90.95	81.86	91.78*	
1999-00	86.01	77.41	90.70*	

\* Amount pertaining to previous years have been assigned during the years.



**ANNEXURE V -1 (a)**  
**(Para 5- 13)**  
**Panchayat Raj Institutions**

**Capital Needs- Sectorwise**

**1. Water supply**

Water supply is one of the core services rendered by Village Panchayats. The Capital works connected with water supply in rural areas has been entirely created by TWAD in accordance with the policy of State Government both for coverage and minimum per capita supply. Tamil Nadu has very limited ground water source and schemes to tap ground water is costlier, which PRIs can ill afford. Necessary funding is therefore entirely met by the State Government. TWAD has claimed that the target of 40 LPCD suggested by First SFC has been achieved in 80% of the habitations in the State and the average coverage is 20 lpcd. This is also being highlighted by State Government through the media. TWAD has also indicated that programmes have been drawn up for achieving the target of 40 LPCD in the remaining 20% habitations and also to upgrade supply at 55 LPCD before the end of 2007. Though the Plan and funding for water supply has been done by TWAD Board, the need for the award period has been assumed based on past performance of TWAD. **We recommend that funds for water supply will have to be routed through Commissioner of Rural Development and not directly given to TWAD.**

**2) Roads**

**Status norms proposed:**

	Percentage to total length		
	B.T	WBM	Gravel and Earthen
Panchayat Union	50	35	15
Village Panchayat	37.5	32.5	30

**Cost of Capital Investment needed**

Unit cost for upgradation of WBM to B.T.	Rs. 7.00 lakhs
Unit cost for upgradation of Gravel to WBM	Rs. 3.00 lakhs

**Capital investment required for upgradation of Roads**

**Village Panchayats**

Upgradation Gravel to WBM	15564 (in KMs)
WBM to BT	4455 "

**Panchayat Union**

Gravel to WBM	1218 "
WBM to BT	1520 "

The amount needed at 2000-01 price level is

Panchayat Raj Institutions-Tier	Amount (Rs. in crores)
Village Panchayats	778.77
Panchayat Unions	142.94
<b>Total</b>	<b>921.71</b>

The phasing of investment for the award period is in Table No.3 in main Chapter, updating for current costs.

**Formation of New Link Roads**

This Commission has not taken into account new formation as State Government, through the line departments, outside the devolution has been periodically allocating funds for linking villages on population basis in phased manner. Recently Central Government has launched an ambitious road connectivity scheme called Pradhan Mantri Gram Sabha Yojana (PMGSY).

**Street Lighting**

There has been a veritable light revolution in Tamil Nadu in the recent past. While this is indeed commendable it imposes an additional financial strain on the local bodies, who have to pay current consumption charges on electricity guzzlers like sodium vapour lamps. Recognizing this extra burden on PRIs, we propose sodium vapour lamps only in public thoroughfares and decrease in spacing between two lamp posts from the existing 121m to 100m., as against the 80m norm recommended by First State Finance Commission.

Norms proposed for street lights are as below:-

	Ordinary bulb	Tube light	Sodium Vapour
In percentage to total lights	5	90	5

**CAPITAL INVESTMENT NEED:-**

- 1) Upgradation of 45091 ordinary bulbs as tube lights @ Rs. 600/- per light As per TNEB norms
- 2) Additional lights
  - 4000 Ordinary bulbs @ Rs. 4000/- per light - @ Rs.3500 per lamp post+ Rs.500 deposit
  - 72,000 Tube lights @ Rs. 8000/- per light - @ Rs.7500 per lamp post+Rs.500 deposit
  - 4000 Sodium Vapour lights @ Rs. 9000/- per light- @ Rs.7000 per lamp post+Rs.2000 deposit

The capital investments needs have been worked out as follows at 2000-01 price level.

Amount - Rs. in Crores.			
	Conversion	Additional lights	Total
Village Panchayats	2.71	62.80	65.51

The capital investment has been phased out for award period in Table above.

The PRIs should strictly adhere to the norms and conversions and provision of additional lights should be monitored by the Inspectors.

#### **Solid Waste Management and drainage**

Our Finance Commission reiterates the norms of First State Finance Commission which proposed norms for Solid Waste Management and Sanitation in Village Panchayats in the vicinity of cities as below: -

	LCS	Public Toilets	Uncovered
1) Sewerage and Sanitation coverage in % of population	10	10	80
2) Solid waste management	a) Collection once in a week b) Clearance two trips per vehicle a day c) One vehicle at Panchayat Union level d) Collection performance 15% of waste generation		

Priority has been given for water supply, roads and lighting in rural areas. We do not recommend specific allocation for provision of drainage or for public convenience, which are taken up through various Plan Schemes.

#### **Capital needs of Other Service Sectors**

The capital needs for School buildings, Anganwadis, Veterinary hospital and Sub Centres and Library buildings have not been taken for assessment because, construction of these buildings are undertaken from out of allocations of funds made by the line Departments concerned.

**Village Panchayats**  
**Table No-1 Water Supply**

Sl. No.	Sources	Nos.	Nos. in use	Percentage
1	Hand Pumps	175912	161692	92.0
2	Power Pumps	47262	42392	89.7
3	Public Fountains	537958	509673	94.7
4	House Service Connection	471504	432729	91.8

Source: Primary Field data

**Table No:2**

	No.	Maintenance charges for 1999-2000 (Rs. in crores)	Normative cost (as per norms) Rs. in crores
<b>Water Supply</b>			
Hand-pump	161692	16.18	4.850
Power Pump	42392	37.42	29.674

The table above discloses that under water supply more than 3 times of normative cost under HPs and 125% on PPs are incurred. The district level committee headed by Collector will have to monitor the maintenance expenditure once in a quarter.

**Table No-3**

**O&M Needs for existing sources: O&M need as per cost norms proposed by Second State Finance Commission for award period (Amount Rs. in crores)**

Sl. No.	Sources	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
1.	Hand pumps @ Rs.600/-	11.74	12.91	14.21	15.63	17.19
2.	Power pumps @ Rs.7500/-	38.47	42.32	46.55	51.20	56.32
3.	Public fountains	} * 5.77	6.34	6.98	7.68	8.45
4.	House service connections					
5.	EC charges	36.25	39.86	43.85	48.24	53.06
	Total	92.23	101.43	111.59	122.75	135.02

- Assumed at 15% of Item 2



Table No.4

	Annual expenditure as estimated by ISFC for patchwork once in two years and renewal once in 6 years for 99-2000.(Rs. in Crores)	Expenditure incurred as per actuals 1999-2000 (GDC) (Rs. in Crores)
Village Panchayats	129.87	48.19
Panchayat Unions	64.51	18.35

Second State Finance Commission proposes for normal maintenance, largely patch work, once in three years and resurfacing of B.T Roads once in 6 years as per the following cost norms

**Table No: 5 O&M need at above normative level at 2000-01 cost level updated for 2002-03**  
(Rs. in crores)

	Maintenance at 2000-01 price level as per (DRD) once in 3 years	Resurfacing at 2000-01 price level once in 6 years	Maintenance once in 3 years	Resurfacing once in 6 years	Total
			Cost at 2002-03 price level		
Village Panchayats	18.19	74.10	22.01	89.66	111.67
Panchayat Unions	8.76	27.87	10.60	33.72	44.32

(Escalation factor at 10% annually)

**Table No:6**  
(Rs. in crores)

	Cost per year at 2000-01 price level			Cost for 2002-03
	Spare parts	C.C.	Total	
For Existing lights	46.58	74.53	121.11	146.54
For Additional lights	3.20	5.12	8.32	10.07

Table No.7

Head	2002-03	2003-04	2004-05	2005-06	2006-07
Buildings	9.25	10.17	11.19	12.31	13.54

Table No.8

Cost of norms for maintenance in respect of Panchayats and Panchayat Unions

Sl.No.	Name of Sector	Name of component	Unit cost (Rs.)
1.	Water Supply	Hand pump	600
		Power pump	7500
2.	Roads	<b>Patch work</b>	
		B.T	8000 per k.m.
		WBM	6000 per k.m.
		Gravel	2000 per k.m.
		<b>Resurfacing</b>	
		B.T	3.00 lakh per k.m.
3.	Street lights	Spare parts	400 per light

**ANNEXURE NO-V-1 (b)**  
**(Ref Para 8.2)**  
**O & M Level to be attempted by Better Fiscal Management**

**Village Panchayats**

(Rs. in crores)

Sl. No.	HEAD	2002-03	2003-04	2004-05	2005-06	2006-07
1	General Administration	85.92	92.79	100.22	108.23	116.89
2.	Roads & Streets	111.67	120.60	130.25	145.67	151.93
3	Sanitation and Public Health	11.62	12.55	13.55	14.63	15.80
4	Street lights	156.61	169.14	182.66	197.28	213.07
5	Water Supply including of C C charge	67.74	73.16	79.01	85.33	92.16
6	Others(Misc.)	46.45	50.16	54.17	58.50	63.19
<b>Total</b>		<b>480.01</b>	<b>518.41</b>	<b>559.89</b>	<b>604.67</b>	<b>653.05</b>

**Panchayat Unions**

(Rs. in crores)

Sl. No.	Expenditure item	2002-03	2003-04	2004-05	2005-06	2006-07
1	General Administration	119.64	129.21	139.54	150.71	162.76
2.	Roads	51.04	55.12	59.53	64.29	69.44
3.	Buildings	8.11	8.75	9.46	10.21	11.03
4.	Others	36.72	39.66	42.83	46.25	49.95
<b>Total</b>		<b>215.51</b>	<b>232.74</b>	<b>251.36</b>	<b>271.46</b>	<b>293.18</b>

**District Panchayats**

(Rs. in crores)

Sl. No.	Expenditure item	2002-03	2003-04	2004-05	2005-06	2006-07
1	General Administration	4.64	5.01	5.41	5.85	6.31

**ANNEXURE V-2**  
**(Ref Para 16)**  
**Town Panchayats**

The total estimated identified capital cost based on the norms works out to Rs.2970.75 crores. The break up details are: -

	In crores	Percentage
Water supply	1409.41	47.44%
Sanitation	41.67	1.40%
Roads	406.51	13.68%
Storm water drain	684.47	23.04%
Street lighting	125.30	4.22%
Solid Waste Management	20.48	0.69%
Others	282.91	9.52%
	<b>2970.75</b>	<b>100%</b>



**ANNEXURE - V-6.**  
(Ref. Para 28.4)  
**MUNICIPALITIES**

**O & M Cost Norms**

Service	% of Capital cost
Water Supply	3.00
Sewerage & Sanitation	1.00
Roads	5.00
Storm water drains	0.40
Street lighting	57.00
Solid Waste Management	8.00
Others	1.00

**ANNEXURE - V-6 (a).**  
(Ref Para 28.2)  
**MUNICIPALITIES**

**O & M level to be attempted by Better Fiscal Management**

(Rs. in Lakhs)

SECTOR	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Genl. Admn.	4858.17	5343.99	5878.39	6466.23	7112.84	29659.63
Public works & Roads	4274.53	4701.98	5172.18	5889.40	6258.34	26096.43
Sanitation & Drainage	619.25	681.19	745.28	824.22	906.64	3780.56
Street Lighting	2877.70	3165.47	3482.02	3830.22	4213.24	17568.65
Public Health & Conservancy	2632.20	2895.42	3184.96	3503.46	3853.80	16069.84
Town Planning	60.37	63.39	66.56	69.89	73.38	333.59
Education	259.17	272.13	285.73	300.02	315.02	1432.07
Water Supply	4817.06	5253.34	5734.87	6266.75	6854.65	28926.67
Miscellaneous	1065.81	1172.39	1289.63	1418.59	1560.45	6506.87
Addl. O&M	687.00	1414.00	2097.00	2857.00	3700.00	10755.00
<b>Total</b>	<b>22151.26</b>	<b>24963.3</b>	<b>27936.62</b>	<b>31425.78</b>	<b>34848.36</b>	<b>141129.31</b>

**ANNEXURE -V- 7**

(Ref para 34.1)

**SAMPLE STUDY ON WEAK MUNICIPALITIES**

S. No	Name of Municipality	Grade	% of establishment expenditure in total income	Excess staff including NMR	Staff per 1000 population ratio	Taxation %	Per Capita Income	Per Capita Expenditure (99-00) (Rs.)	Property Tax Collection %			Per Capita Loan outstanding (2000) (Rs.)
									1997-98	1998-1999	1999-2000	
1	Srivilliputhur	I	92	-	3.03	16.12	205	269	96	96	94	444
2	Aranthangi	I	92	25	3.37	12.5	346	583	40	46	65	520
3	Koothanallur	I	88	-	2.52	12.5	290	557	59	64	66	370
4	Chinnamannur	I	84	7	3.19	12.5	284	456	98	99	100	569
5	Cumbum	I	78	3	3.45	30.5	330	331	97	92	88	580
6	Virudhunagar	S	77	-	4.52	36.0	497	532	88	70	88	851
7	Devakottai	I	76	21	4.98	37.0	446	541	80	52	83	519
8	Periyakulam	I	73	-	2.34	37.5	250	289	71	69	60	200
9	Colachel	I	72	-	2.63	24.0	214	226	51	30	44	949
10	Maduranthagam	I	71	11	2.66	30.0	259	317	70	55	64	480
11	Arani	I	70	-	5.46	17.5	401	522	47	38	58	533

**ANNEXURE V - 8**  
**(Ref Para 34.2)**

LIST OF MUNICIPALITIES HAVING OPERATING RATIO OF MORE THAN - 1 (AVERAGE FOR 1995-96 TO 1999-2000)

Sl.No	Name of the municipality	Grade	Minimum	Maximum	Average
1.	Nellikuppam	II	0.76	1.44	1.06
2.	Mathuranthagam	II	0.78	1.27	1.14
3.	Colachal	II	0.82	1.25	1.06
4.	Usilampatti	II	0.91	1.51	1.11
5.	Aranthangi	II	0.78	1.69	1.01
6.	Chinnamanur	II	0.82	1.60	1.20
7.	Periyakulam	II	0.68	1.16	1.02
8.	Puliyangudi	II	0.83	1.15	1.01
9.	Koothanallur	II	0.67	1.92	1.10
10.	Sattur	II	0.94	1.16	1.05
11.	Sathiyamangalam	I	0.64	1.48	1.03
12.	Chengalpattu	I	0.92	1.13	1.01
13.	Ramanaathapuram	I	0.72	1.37	1.05
14.	Arani	I	0.92	1.35	1.13
15.	Sankarankoil	I	0.61	1.70	1.08
16.	Arakkonam	I	0.83	1.41	1.06
17.	Arcot	I	0.78	1.43	1.00
18.	Ranipet	I	0.71	1.91	1.11
19.	Tindivanam	I	0.71	1.20	1.02
20.	Aruppukkottai	I	0.60	1.33	1.01
21.	Srivilliputtur	I	0.95	1.31	1.11
22.	Palani	SG	1.01	1.20	1.12
23.	Tiruchengode	SG	0.82	1.23	1.01
24.	Pudukkottai	SG	0.91	1.45	1.11
25.	Dindigul	Spl.	0.98	1.21	1.10
26.	Karur	Spl.	1.04	1.24	1.13



V  
**ANNEXURE -9**  
(Ref. Para 37.1)  
**GAPS IN SERVICES FOR 2002-2007**  
**MUNICIPAL CORPORATIONS**

Civic Service	Components	Existing	Demand	Gap
I Water supply	Quantity of water (MLD)	895	1050	182
	Distribution length(km)	3909	5098	1189
	Storage Reservoir (ML)	363	347	30
	Treatment plant capacity (ml)	1221	1050	16
II. Sewerage and Sanitation	Under ground drainage (population covered in lakhs)	33	57	24
	Public Convenience (no. of seats)	11502	32191	20689
III. Roads	Earthen (length in km)	588.70	-	-
	WBM	177.30	-	-
	B.T.	4204.60	-	-
	Concrete	356.10	-	-
	Upgradation of Roads			
	Earthen to BT	-	-	589
	WBM to BT	-	-	177
	BT to concrete	-	-	204
	New Formations	-	-	697
	Black top			
IV. SWD	Length in KM)			271
	Upgradation of kutcha drains			2632
	New pucca drains			2932
	New closed drains			
V. Street lighting	Street lights (Nos)	203895	254910	56935
VI. SWM	Vehicle capacity (in tonnes)	3508	5149	1638
	Dustbins (in numbers)	13528	31865	18337
	Total Dust bin capacity required (Tonnes)			9729

N.B. The existing service levels and demand do not tally with the gap since the gap is arrived individual Corporation-wise and summed up.

**ANNEXURE V - 10**  
(Ref Para 37.1)

**SUMMARY OF CAPITAL INVESTMENT FOR ALL SERVICES**  
**MUNICIPAL CORPORATIONS**

Corporation	Water Supply	Sewer- age	Roads	SW Drains	Street Lighting	SWM	Others	Total	Column %
	(In Rs. Crores)								
Chennai	175.60	95.66	114.72	312.49	0.00	50.22	143.00	891.78	36
Coimbatore	20.46	74.79	35.23	56.59	7.88	18.89	15.95	229.79	9
Madurai	66.25	56.15	17.30	83.83	4.78	20.10	6.45	254.85	10
Salem	87.97	73.36	48.63	83.33	10.77	8.72	1.33	314.10	13
Tiruchirapalli	84.69	65.51	62.90	124.87	10.54	11.71	58.00	418.21	17
Tirunelveli	71.14	43.88	32.03	86.83	9.23	6.31	116.95	366.38	15
<b>Total</b>	<b>506.20</b>	<b>409.34</b>	<b>310.81</b>	<b>747.94</b>	<b>43.19</b>	<b>115.95</b>	<b>341.68</b>	<b>2475.11</b>	<b>100</b>

**ANNEXURE V - 11**  
(Ref Para 37.2)  
**ACTION PLAN AND DEBT RELIEF PACKAGE FOR MADURAI CORPORATION**

Sl.No	Items	Actual in 2003/04	To be Achieved	Remarks
	(Rs. in crores)			
1.	<b>Establishment Cost</b>			Reduce the staff cost by 22%
a.	Salary expenses	61.09	52.00	
2.	<b>Resource Mobilization</b>	Current Demand 33.96	Current Demand 40.75	Increase the base by 20% (*)
a.	Property Tax Base			
b.	Water Charges	Current Demand 3.56	Current Demand 6.24	Increase the base by 75%
c.	Sewer charge /Connection	Proposed sewer Charge is Rs.94/-	Proposed sewer Charge is Rs.120/-	Increase the base by 25%
d.	Income from Remunerative enterprises	Current Demand 1.44	Current Demand 1.59	Increase by 10%
3.	<b>Debt Relief Package</b>			
a.	Water Supply Loan	79.24 (as on 31/3/00)	19.81 to be written off	25% waiver
b.	Reduction in Interest Rate	Current Rate 13.5%	Weighted Average 10.74%	
c.	Interest and Principal moratorium	None	From 2001/02 to 20/03/04	Repay the amount in 17 years from 2004/05
d.	Phasing of Non Debt Liability	Outstanding non-debt liabilities to be rescheduled.	Except salaries all outstanding dues to be cleared in 5 years	

**ANNEXURE - V - 12**  
(Ref Para 38.2)  
**MUNICIPAL CORPORATIONS**

**RECOMMENDED INVESTMENT FOR CORPORATIONS**

(Rs. in lakhs)

Sector	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Water Supply	2247.85	2247.85	2142.60	2142.60	2142.60	10923.50
Sewerage	5388.00	5388.00	-	-	-	10776.00
Roads	6133.79	6133.79	5846.60	5846.60	5846.60	29807.38
Storm Water Drains	3599.96	3599.96	3431.40	3431.40	3431.40	17494.12
Street Lighting	417.60	417.60	417.60	417.60	417.60	2088.00
Solid Waste Management	1382.20	1382.20	1382.20	1382.20	1382.20	6911.00
Remunerative enterprises(maximum)	1950.00	1950.00	1950.00	1950.00	1950.00	9750.00
Optional and Discretionary Services(maximum)	975.00	975.00	975.00	975.00	975.00	4875.00
Investment in Fixed Deposits	975.00	975.00	975.00	975.00	975.00	4875.00
<b>Total</b>	<b>23069.40</b>	<b>23069.40</b>	<b>17120.40</b>	<b>17120.40</b>	<b>17120.40</b>	<b>97500.00</b>

**Investment Pattern:**

Keeping in mind the provisions of Urban Local Bodies Act, and track record of Corporations over the years, the following investment pattern is suggested from out of the total investible amount, viz loans, returns from existing remunerative enterprises, devolution of State Finance Commission etc.

- |    |  |         |
|----|--|---------|
| a. | Infrastructure and obligatory civic services           | 80%     |
| b. | Remunerative enterprises<br>(12% return to be ensured) | 10%     |
| c. | Optional and discretionary services                    | upto 5% |
| d. | Investment in fixed deposits.                          | 5%      |

This Commission suggests that the investment pattern above may be issued in the form of a Government Order for adoption by Corporations.



### ANNEXURE - V-13

(Ref Para 39.4)

Municipal Corporation

#### O&M LEVEL TO BE ATTEMPTED BY BETTER FISCAL MANAGEMENT

	(Rs. in Lakhs)					
	2002-03	2003-04	2004-2005	2005-06	2006-07	Total
General Administration and Taxes	3916.04	4329.65	4739.22	5136.01	5511.00	23631.92
Public Works and Roads	8992.89	9911.30	10819.96	11700.66	12532.15	53956.96
Sanitation & Drainage	2205.58	2381.60	2555.91	2724.62	2884.20	12751.91
Street Lighting	3342.46	3483.78	3818.63	4150.13	4471.35	19266.35
Public Health and Conservancy	3012.72	3377.43	3745.46	4109.81	4462.82	18708.24
Town Planning	75.12	82.63	90.06	97.26	104.06	449.13
Education	1214.64	1274.70	1338.43	1405.35	1475.61	6708.73
Water	2605.66	2855.47	3102.82	3342.47	3568.94	15475.36
Miscellaneous Item	1804.79	1921.60	2037.22	2149.25	2255.12	10167.98
Addl. O&M for new investment	1473.63	1615.54	1767.86	1929.10	2097.29	8883.42
<b>Total</b>	<b>28643.53</b>	<b>31233.70</b>	<b>34015.57</b>	<b>36744.66</b>	<b>39362.54</b>	<b>170000.00</b>

### ANNEXURE V - 14

(Ref para 45 . 3)

Formation of a new road

After demarcating the width of the road available for right of way in the proposed road, C.B.R. Test (California Baring Ratio ) should be conducted with the help of Highways Research Station in Chennai and regional laboratories in zonal headquarters . This also can be tested in the Government engineering college and polytechnics.

Widening and strengthening of existing roads.

For strengthening the existing road, the existing crust thickness of the road can be found out by conducting Benkelman's test. CBR test should be conducted for deciding the proposed pavement design of the roads. This can be applied for upgrading the proposed roads in the Panchayat Union atleast to the ODR standards as per the IRC standards and MoST Specifications (Ministry of Surface Transport).

Culverts and Bridges:

For culverts and bridges, soil exploration test should be conducted by means of core sample. The tests can be performed in HRS, Regional labs, Engineering Colleges and polytechnics.

Buildings:

For buildings, trial pit or soil exploration test can be conducted to decide the foundation details. Trial pits test can be conducted for small buildings in hard strata to find foundation depth. In case black cotton soils etc., sand filling, sand gravel mix or raft foundation can be done.

In the case of big structures, soil exploration test should definitely be conducted to find the nature of foundation (i.e) open or group of piles etc.,

#### Preparation of estimates:

Based on the Test results of the soil, estimate will be prepared with reference to the IRC and MOST and BIS Standards for roads, bridges and buildings respectively.

The estimate should be prepared only based on current schedule of rates. Adequate technically qualified engineers of various categories should be engaged to prepare the estimates to control the quality measures and supervision of works.

#### Execution of work:

At the outset as soon as materials are collected in the site the size and characteristics of the materials should be checked by means of enforcing quality control measures like (a) sieve analysis for metal, bulkage test for sand, cube Test for cement concrete.

**ANNEXURE -V-15**  
**(Ref Para 47)**  
**March 18 -24 - Anna Nagar Times**  
**Driving in India**

For the benefit of every Tom, Dick and Harry visiting India and daring to drive on Indian roads, I am offering a few hints for survival.

They are applicable to every place in India, except the State of Bihar, where life outside a vehicle is only marginally safer.

Indian road rules broadly operate within the domain of karma where you do your best and leave the results to your insurance company.

The hints are as follows:

Do we drive on the left or the right of the road? The answer is "both".

Basically you start on the left of the road, unless it is occupied.

In that case, go to the right unless that is also occupied.

Then proceed by occupying the next available gap, as in chess.

Just trust your instincts, ascertain the direction, and proceed.

Adherence to road rules leads to much misery and occasional fatality. Most drivers don't drive, but just aim their vehicles in the intended direction. Don't you get discouraged or under estimate yourself except for a belief in reincarnation; the other drivers are not in any better position.

Don't stop at pedestrian crossings just because some fool wants to cross the road. You may do so only if you enjoy being bumped in the back. Pedestrians have been strictly instructed to cross only when traffic is moving slowly or had come to a dead stop because some minister is in town. Still some may try to wade across, but then, let us not talk ill of the dead.

Blowing your horn is not a sign of protest as in some countries. Here, in India, they blow the horn to express joy, resentment, frustration, romance and bare lust (two brisk blasts), or, just to mobilize a dozing cow in the middle of the bazaar.

Keep informative books in the glove compartment. You may read them during traffic jams, while awaiting the motorcade, or while waiting for the rain waters to recede when over ground traffic meets underground drainage.

Night driving in Indian roads can be an exhilarating experience for those with the mental makeup of Genghis Khan. In a way, it is like playing Russian roulette, because you do not know who amongst the drivers is 'loaded'.

What looks like a premature dawn on the horizon turns out to be a truck attempting a land speed record. On encountering it, just pull partly into the field adjoining the road until the phenomenon passes. The roads do not have shoulders, but occasional boulders. Do not blink your lights expecting reciprocation.

The only dim thing in the truck is the driver, and after the peg of illicit arrack he had at the last stop, his total cerebral functions add up to little more than a naught.

Truck drivers are the James Bonds of India, and are licensed to kill. Often you may encounter a single powerful beam of light about six feet above the ground. This is not a super motorbike, but a truck approaching you with single light on, usually the left one. It could be the right one, but never get too close to investigate. You may prove your point posthumously.

Of course, all this occurs at night, on trunk roads. During the daytime, trucks are more visible except that the drivers will never show any signal. And you must watch for the absent signals; they are a greater threat. Only, you will often observe that the cleaner who sits next to the driver, will project his hand and wave hysterically. This is definitely not to be construed as a signal for a left turn. The waving is just an expression of physical relief on a hot day, or a gesture to a fellow trucker.

Occasionally you might see what looks like a UFO with blinking colored lights and sounds emanating from within. This is an illuminated bus, full of happy pilgrims singing bhajans. These pilgrims go at breakneck speed, seeking contact with the Almighty, their attempt often meeting with success.

One-way-street! These boards are put up traffic people to add zest in their otherwise drab lives. Don't stick to the literal meaning and proceed in one direction. In metaphysical terms, it means that you cannot proceed in two directions at once. So drive as you like, in reverse throughout, if you are the fussy type.

Lest I sound hypercritical, I must add a few positive points also. Rash and fast driving in residential areas has been prevented by providing "speed breakers", at the rate of two for each house. This mound, incidentally, covers the water and drainage pipes for that residence and is left untarred for easy identification by the Corporation authorities, should they want to recover the pipe for year-end accounting.

If after all this, if you still want to drive in India, have your lessons between 8 p.m. and 11 a.m. when the police have gone home, the citizens then are free to enjoy the freedom of speed enshrined in the Constitution.

Having said all this, isn't it still true that the accident rate and related deaths are less in India, compared to U.S. or other countries!!

The above article by Coen Jeukens (an architect with BAAN, a Dutch Software Company that has recently opened its branch in Hyderabad) is doing the rounds in the Internet.



## ANNEXURE V - 16

(Ref Para 48.2)

### Critique on water supply

- 1) Food, shelter and clothing in that order are the most important requirements for mankind. Water takes precedence over food and even in religious scriptures, water is accorded primacy among all natural elements. More than 75% of the earth's surface is covered by water, but only 10% of that is fit for human consumption. In this scenario, Tamil Nadu along with Gujarat and Rajasthan is perhaps most deficient in water. Reports indicate that the ground water table in several places in Tamil Nadu is drastically down and if there is consecutively failure of monsoon for two years Tamil Nadu will face drought.
- 2) However, the public do not seem to have been sensitized sufficiently about the scarcity of this elixir of life. They seem to be taking a nonchalant view that it is the responsibility of the administration to provide drinking water and it is the right of the people to stage road roko and demand for water. Given the scarcity of this precious commodity and the enormous cost involved in making this water reaching doorsteps of the people after treatment, it is not unreasonable to expect the public to pay user charges at least to cover O & M requirements.
- 3) Tamil Nadu Water Supply & Drainage Board established in the year 1971 is the single agency responsible for providing drinking water to the people living in Tamil Nadu other than Chennai city.
- 4) It is reported that the Tamil Nadu Water Supply & Drainage Board does not properly hand over the completed water supply schemes to the respective local bodies and in most of the water supply schemes that have been handed over to the local bodies, detailed engineering drawings have not been handed over to the concerned local bodies.
- 5) Teething problem of these schemes such as leakage was not detected at the early stages itself and leakages get detected only at the time of completion of the scheme or handing over the scheme to the local bodies. The Tamil Nadu Water Supply & Drainage Board need not wait for the water to be treated and can take use of even untreated water to do the test run and fill up the over head tank to see whether there is any leakage anyway.
- 6) In most of the combined water supply schemes, the source of the water is several kms away from the benefited local bodies and therefore the engineers of the concerned local bodies did not gain any expertise in bringing the water from distant source to the urban boundary. The engineers of the concerned local bodies are only responsible for the internal distribution of water. There is lack of coordination between engineers of the local bodies and Tamil Nadu Water Supply & Drainage Board engineers. To ensure effective coordination, it will be better if Tamil Nadu Water Supply & Drainage Board engineers are sent on deputation initially to the local bodies and eventually they can be absorbed by the concerned local bodies and Government may route their salary through the respective local bodies.
- 7) As far as maintenance of the individual water supply scheme is concerned, it is better left to the care of the concerned local bodies. Even here, the local body may encourage local user groups after proper training in maintaining individual power pump based water supply schemes. As far as combined water supply is concerned, it is better left to the care of Tamil Nadu Water Supply & Drainage Board for maintaining it. Any teething problems in maintenance, can be sorted out in the coordination meeting chaired by the concerned District Collector.
- 8) Enjoying a monopolistic status as outlined in previous paragraphs, Tamil Nadu Water Supply & Drainage Board has been dictating terms to the local bodies and is responsible for unreasonable cost and time overrun and as the interest burden is on the local bodies and not on Tamil Nadu Water Supply & Drainage Board it has resulted in the local bodies getting indebted for no fault of their own. As financial institutions like HUDCO & LIC prefer to deal with the single agency like Tamil Nadu Water Supply & Drainage Board rather than go after individual local bodies, the funds are placed at the disposal of the Tamil Nadu Water Supply & Drainage Board and local bodies are kept in dark as to when the project would be completed.
- 9) As already mentioned, provision of water has increasingly become a costly affair and reasonable user charges at least covering O&M should be recovered from public. Initially, at least in urban areas water received by each Urban Local Bodies at its boundary has to be metered for making payments. If there is any dispute, Collector can be given the freedom to co-opt Public Works Department engineers to give their readings in the presence of representatives of Tamil Nadu Water Supply & Drainage Board and Urban Local Bodies and arbitrate based thereon.

## ANNEXURE V - 17

(Ref Para 51)

### SOLID WASTE MANAGEMENT:

Solid waste management has been privatized in select zones of Chennai Municipal Corporation. At the same time, the staff of this Department in Chennai Corporation are also continuing to exist. As such, there is a possibility for dual payment of salary for the staff in those zones, which are brought under privatized conservancy operation. In addition, NGOs like Exnora are also doing parallel service. It is, therefore, necessary to analyse whether the experiment of privatization of Solid Waste Management made in Chennai is cost effective.

Holistic approach to Solid Waste Management involves the following activities:

1. Collection of household garbage free of charge.
2. Collection of organic garden waste and demolition debris on payment of prescribed fees with reference to the quantity.
3. Collection of commercial, institutional, kalyana mandapam and bio-medical wastes on payment of service cost.
4. Removal of unauthorisedly dumped wastes on the basis of the concept of "cost recovery" or "polluter pays" along with penalty.

A study on the removal of classified wastes on above basis may be done by a reputed Consultant and to be funded by Government.

**ANNEXURE V-18 (a)**  
**(Ref Para 54.2)**  
**Performance Indicators**

S. No.	Sector	Indicators Proposed to be Developed
<b>A. Municipal Finance</b>		
1.	Property Tax (8)	<ul style="list-style-type: none"> <li>▪ Current Collection Performance</li> <li>▪ Average Tax Demand per property</li> <li>▪ % arrears pending for 5 Years</li> <li>▪ % Properties Issued Demand Notice within 30 days of due date</li> <li>▪ No. of Assessments per collection Staff</li> <li>▪ % Increase in Assessments</li> <li>▪ Assessment Efficiency</li> <li>▪ Salary Expenditure to collect Rs. 1000 of property Tax</li> </ul>
2.	Resource Mobilization (4)	<ul style="list-style-type: none"> <li>▪ Per Capita Income</li> <li>▪ % Contribution by Own Sources</li> <li>▪ % Contribution from properties</li> <li>▪ Growth in Revenue Income</li> </ul>
3.	Expenditure, Debt and Liability Management (10)	<ol style="list-style-type: none"> <li>1. <i>Expenditure Management</i> <ul style="list-style-type: none"> <li>▪ Per Capita Expenditure</li> <li>▪ Operating Ratio</li> <li>▪ Establishment Expenditure as % of Revenue Income</li> <li>▪ Growth in Revenue Expenditure</li> <li>▪ Capital Utilization Ratio</li> </ul> </li> <li>2. <i>Debt and Liability Management</i> <ul style="list-style-type: none"> <li>▪ Per Capita Outstanding Debt</li> <li>▪ Debt Payment to Actual Commitment</li> <li>▪ Overdue as % of Outstanding Loan</li> <li>▪ Outstanding Debt to Revenue Income</li> <li>▪ Outstanding Non Debt Liability as % of Revenue Income.</li> </ul> </li> </ol>
<b>B. Core Services</b>		
1.	Water Supply (9)	<ul style="list-style-type: none"> <li>▪ Supply Frequency</li> <li>▪ Gross lpcd (w.r.t current population)</li> <li>▪ % Storage Capacity</li> <li>▪ % Assessment covered with HSC</li> <li>▪ Slum Population per Stand Post</li> <li>▪ Ratio of Distribution Network to Road length (Incl. SH, NH &amp; MDR etc.)</li> <li>▪ Cost per 1000 litres (Only O &amp; M)</li> <li>▪ Revenue per 1000 litres</li> <li>▪ Current Collection Performance of water charges</li> </ul>
2.	Sewerage and Sanitation (4)	<ul style="list-style-type: none"> <li>▪ % HHs with Sewer Connections</li> <li>▪ Ratio of UGD Network length to Road length (Incl. SH, NH &amp; MDR etc.)</li> <li>▪ % Houses with LCS &amp; Septic Tank Facility</li> <li>▪ Slum population per seat of Public convenience</li> </ul>
3.	Solid Waste Management (5)	<ul style="list-style-type: none"> <li>▪ Per capita waste generated (Current Population)</li> <li>▪ % Capacity of the Fleet of Vehicles to waste generated</li> <li>▪ Collection Efficiency</li> <li>▪ Spacing of Dustbins</li> <li>▪ Road length per conservancy staff</li> </ul>
4.	Roads, Storm Water Drains and Street Lighting (5)	<ul style="list-style-type: none"> <li>▪ % Roads Surfaced</li> <li>▪ Percentage Road Covered with pucca Drains</li> <li>▪ Drain Length per drain cleaner</li> <li>▪ Spacing between lights</li> <li>▪ % Sodium &amp; Mercury Lamps</li> <li>▪ O &amp; M Cost Per light</li> </ul>
<b>C. Demography and Social Indicators</b>		
1.	Demography, Slum and Social Indicators	<ul style="list-style-type: none"> <li>▪ % Slum Population</li> <li>▪ % Population Below Poverty Line</li> <li>▪ Persons per Park and Playground</li> <li>▪ % Women Beneficiaries under SJSRY scheme</li> </ul>
<b>D. Urban Governance</b>		
1.	Urban Governance (8)	<ol style="list-style-type: none"> <li>1. <i>Fiscal Discipline</i> <ul style="list-style-type: none"> <li>▪ Revenue Realization: Budget vs. Actual</li> </ul> </li> </ol>



		<ul style="list-style-type: none"> <li>▪ Rev. Expen. Control :Budget Vs Actual</li> <li>▪ Capital Works :Budget vs. Actual</li> <li>▪ No. of audit objections</li> <li>▪ Receipt of any Incentive Grant</li> </ul>
		<p>2. <i>Performance and Public Responsiveness</i></p> <ul style="list-style-type: none"> <li>▪ % Water connection given within the stipulated time</li> <li>▪ % Building permissions issued within the stipulated time</li> <li>▪ % Litigation in favour of municipality during the year</li> </ul>

#### Assignment of Scores

In order to assess the performance it is recommended that the values of above indicators be assigned scores to each indicator and weightages to each sector. These performance level scores to each indicator will have to be assigned either uniformly to all local bodies of the state / region for the purposes of comparative assessment or as desired by the local body to evaluate internal performance. An illustrative methodology for formulating Scorecard and assigning weightages is presented in the following sections.

#### Formulation of Score Card

The score card could be formulated based on the norms (water supply, collection performance etc.) or men value among the categories of local bodies. Depending upon the variation of performance levels of the local body, a five or ten point scale can be adopted for this purpose. An illustration is presented in following Table 5.2 for few of the indicators on a ten-point scale.

#### Assignment of Weightages

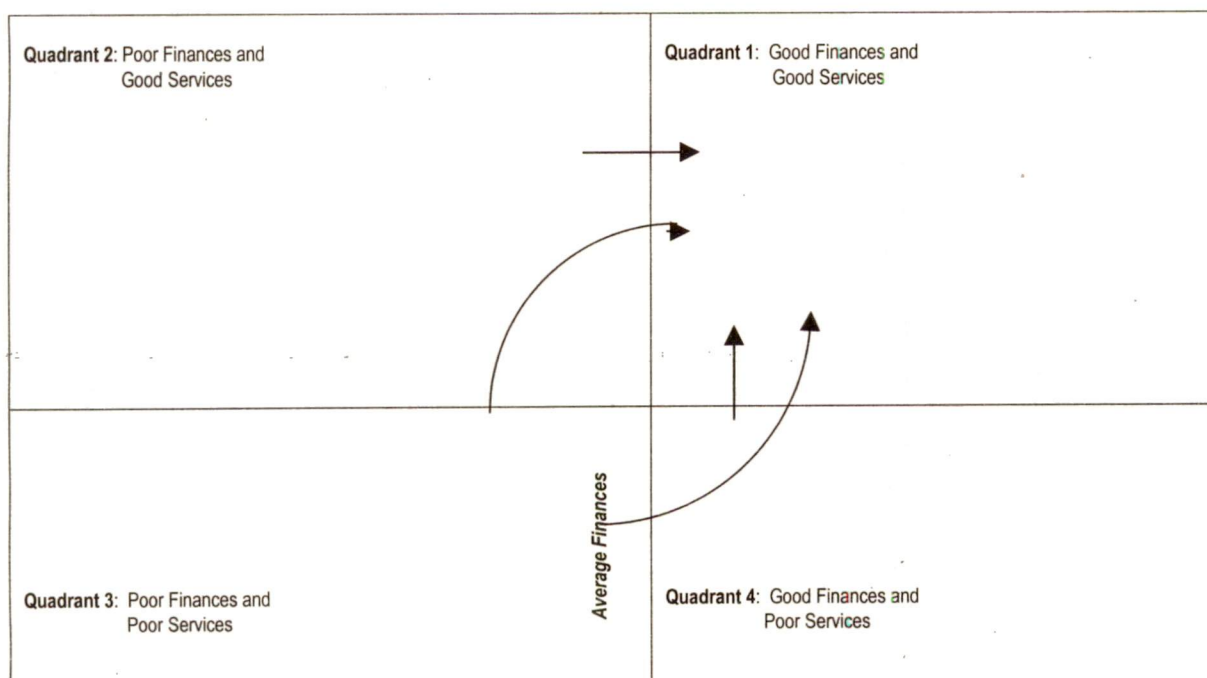
Further to bring all the indicators and all local bodies on a comparative scale for overall evaluation, weightage needs to be assigned to each sector depending on the relative importance of the particular sector or the purpose of evaluation. This will minimize discrepancies that occur in relation to certain ground realities. An illustrative weightage for different sectors is presented in Table 5-3.

Table: 5.3 Sector Indicators - Weightages

Main Indicators	Weightage- %
<b>For Overall Performance</b>	
Service	40
Finance	60
<b>Total</b>	<b>100</b>
<b>Financial Sector</b>	
Resource Mobilization	
General Resources	35
Property Tax	25
Expenditure Management	25
Debt Management	15
<b>Total – Financial Sector</b>	<b>100</b>
<b>Core Service Sector</b>	
Water Supply	30
Sewerage and Sanitation	20
Roads and Storm Water Drains	20
Street Lighting	10
Solid Waste Management	20
<b>Total – Service Sector</b>	<b>100</b>

While a weightage of 40% and 60% can be assigned for service and financial sectors of the local body, within finances sector a weightage of 35% is assigned for resource mobilization and 25% for expenditure management. In service sector, water supply has been assigned a weightage of 30% and 20% for sewerage and sanitation. This weightages could be altered based on the purpose of evaluation

**ANNEXURE V – 18 (B)**  
**(Ref Para 54.2)**



**Possible Interventions to improve Performance Levels**

Interventions	Q1	Q2	Q3	Q4
Financial Reforms	&	&	&	&
Training in Financial Management	&	&	&	&
Capacity Building-Finance Management		&	&	
Training in Technical Management	&	&		
Capacity Building – Technical Management			&	&
Support by way of Conditional Grant		&	&	
Loan –based interest subsidy support	&			&
Developing Projects to achieve desired Standards			&	&
Support by way of Grant for additional services for the poor	&	&		
Capacity Building – Preparation of MIS	&			&

& Indicates the need for particular intervention.



**ANNEXURE - V-19**  
(Ref - Para 54-3)

**Satisfaction of the poor with Public Services in Five Cities in India (in percent)**

Services	Cities														
	Ahmedabad			Bangalore			Kolkatta			Chennai			Pune		
	A*	U*	S*	A	U	S	A	U	S	A	U	S	A	U	S
Water	77	93	35	74	81	63	97	98	61	42	50	23	95	80	80
Electricity	53	100	48	63	100	71	82	84	75	50	49	90	96	100	85
Sanitation**	70	82	30	52	64	31	80*	95	23	36	19	48*	84	99	24
PDS***		94	47		85	79	97	86	64	100	85	57		94	94
Health	34	95	67	39	70	80	25	54	65	67	73	96	11	74	98
Street lights	56	68		76	56		81	64	65	90	90	40	99	87	
Garbage	58	98		47	100		61	97		7	62	36	60	98	
Police		35	51		23	69	93	19	20	67	11	49		19	100

Notes: \* A - availability

U - Use and

S - Satisfaction

\*\* For Kolkatta and Chennai, Figures for sanitation are arrived at by averaging the percentages for toilet and drainage facilities

\*\*\* Public distribution system

Period covered :

1992-96

Source :

Public affairs center and Gallup MBA  
Market Research Agency

**ANNEXURE- V-20 (a)**

(Ref Para 58)

**First State Finance Commission Devolution and Deductions  
CORPORATIONS**

	1997/98	1998/99	1999/00	2000/01
	Rs. Lakhs			
General Devolution (85%)	7849.67	9647.17	9601.29	12289.34
Incentive and Equalization	1232.48	1513.28	1518.24	1927.73
Total	9082.15	11160.45	11119.53	14217.07
Deductions				
i. Dues towards loans	0.00	890.71	774.71	2157.54
ii. Group Insurance - Management contribution	0.00	451.23	0.00	0.00
iii. Audit fees	0.00	36.69	0.00	0.00
iv. Others	0.00	0.00	1.74	2.00
Total Deductions	0.00	1378.63	776.45	2159.54
Net Devolution	9082.15	9781.82	10343.08	12057.53
Gross Devolution to all ULBs by GO Tamil Nadu	29321.00	36001.00	36119.00	45800.00
Share of Corporations - Percentage	30.97	31.00	30.78	31.04

**ANNEXURE V-20 (b)**  
**(Ref Para 58)**

**Municipalities - I SFC Devolution and Deductions**

(Rs. in lakhs)

	1997-98	1998-99	1999-2000	2000-01
<b>A. DEVOLUTION (GROSS)</b>				
i. 85% OF Gross devolution	7857.01	9647.17	9601.29	13875.06
ii. Equalisation & Incentive (15%)	1232.48	1513.28	1518.24	2176.48
Total ((i)+(ii))	9089.49	11160.45	11119.53	16051.54
<b>B. DEDUCTIONS (as per G.O.)</b>				
i. Pension Dues	757.00	1448.44	1438.10	1839.00
ii. Tamil Nadu Electricity Board Dues	69.89	0.00	123.55	39.06
iii. Payment of Salaries to weak MPLT's	49.11	-	-	-
iv. Road Development	-	2000.00	1770.00	-
v. Drains & Culverts	-	-	-	700.00
vi. Burial & Burning grounds	-	-	-	300.00
vii. Repayment of loans to TUFIDCO	-	-	-	368.44
	-	-	-	544.76
viii. Payment of water supply Moratorium interest	-	-	-	64.48
ix. Tourist /Pilgrim centre improvement from Equ. Fund	-	-	-	300.00
x. Repayment of loan to MUDF / TNUDF (apportioned)	-	-	-	500.00
Total ( (i) to (x))	876.00	3448.44	3331.65	4655.74
<b>NET DEVOLUTION (A - B)</b>	8213.49	7712.01	7787.88	11395.80
<b>C. DEDUCTIONS (by CMA)</b>				
i. NRY & LCE Dues	494.23	-	-	-
ii. Tamil Nadu Electricity Board Dues	123.38	-	-	-
iii. Loan annuities Dues, Recoveries / Loan Repayment	-	1027.18	1291.46	3759.05
	-	0.70	1.74	2.00
iv. Staff Salaries	-	-	30.94	54.02
v. Health Fund	-	-	1072.77	-
vi. Repayment of loan dues to MUDF & TNUDF	-	-	-	-
Total ((i) to (vi))	617.61	1027.88	2396.91	3815.07
Total Deduction (B + C )	1493.61	4476.32	5728.56	8470.81
Effective Devolution A-(B+C)	7595.88	6684.13	5390.97	7580.73
Gross Devolution to all ULBS by GO TN	29321.00	36001.00	36119.00	45800.00
Share of Municipalities - Percentage	31	31	30.79	35.05



**ANNEXURE V-20 ( c )**  
**(Ref Para 58)**  
**First State Finance Commission Devolution and Deductions**  
**Town Panchayats**

Devolution Details	1997/98	1998/99	1999/00	2000/01
	Rs. Lakhs			
General Devolution (85%)	9622.17	11825.56	11617.87	13478.63
Incentive and Equalization	1510.76	1855.00	1861.07	2114.30
Total	11132.93	13680.56	13478.94	15592.93
<b>Deduction</b>				
Pension Payment	982.50	1660.00	1460.00	1200.00
Engineering Staff Salary	0.00	400.00	300.00	400.00
Road Development	0.00	1000.00	1500.00	400.00
TNEB Dues	109.50	0.00	151.45	47.88
Shandy Improvements	0.00	0.00	200.00	0.00
Assistance to Weaker Town Panchayats	218.00	0.00	0.00	0.00
Temple Town Development	0.00	0.00	0.00	1500.00
Public Health and Water Supply	0.00	0.00	0.00	400.00
Total Deduction	1310.00	3060.00	3611.45	3947.88
Net Devolution	9822.93	10620.56	9867.49	11645.05
Gross Devolution to all ULBs by GoTN	29321.00	36001.00	36119.00	45800.00
Share of Town Panchayats – Percentage	37.96	38.00	37.32	34.00

Source: Directorate of Town Panchayats

**ANNEXURE - V- 20 (d)**  
**(Ref – Para 58)**  
**First State Finance Commission Devolution and Deductions**  
**Panchayat Raj Institutions**

Devolution details	1997-98	1998-99	1999-2000	2000-2001
	(Rs. in lakhs)			
General Devolution (85%)	30983.06	38047.69	38160.11	48452.60
Incentive and Equalization	5945.37	7324.69	7346.33	9327.77
Total	36928.43	45372.38	45506.44	57780.37
<b>Deductions</b>				
Pension Payment	1613.19	2529.76	3196.00	777.00
TNEB Dues	996.37	1805.00	380.00	1550.00
Shandy improvements	-	250.00	-	-
Infrastructure assistance to weaker panchayats	500.00	-	2332.33	2881.00
Administrative Expenditure	-	-	20.00	200.00
Infrastructure assistance to pilgrim centers	-	923.09	-	-
Water supply(TWAD)	1748.00	1500.00	280.00	635.00
Basic amenities for places affected by natural calamities	701.00	-	-	-
House Tax Incentive	2000.00	2846.60	4014.00	3791.00
Prize awards	-	-	196.00	-
Common burial grounds	-	-	124.00	-
Total Deductions	5945.37	7324.69	7346.33	9327.00
Net Devolution	30983.06	38047.69	38160.11	45453.00

**ANNEXURE VI – 1(a)**  
**(Ref: Para 7.2)**  
**REPORT ON SEWERAGE SCHEME**  
**ALANDUR MUNICIPALITY**

The Executive Adviser, Second State Finance Commission visited Alandur Municipality on 20.12.2000 and held discussions with the Chairman and Commissioner regarding the implementation of Sewerage scheme.

**Town Profile:**

Alandur Municipality is situated on the southern boundary of the City of Chennai. This town is considered to be the Gate Way of the City of Chennai.

**Statistics:**

Present Population	:	1,65,000
Area	:	19.50 sq.km
No. of Residential house-holds	:	18,000
Commercial cum Residential house-holds	:	1,000
Commercial Properties	:	500
Total building properties	:	20000
Length of Roads	:	135 kms.

**Sewerage Scheme:**

The Sewerage scheme for Alandur Municipality has been sanctioned by the Government of Tamil Nadu in G.O.(3D) No.38 MA&WS dated.9.12.98.

**Financial Aspects:**

The total cost of the scheme is Rs.30 crores as detailed below:

1.	Loan from TUFIDCO	Rs.16 crores
2.	Grant	
	a. TUFIDCO Rs. 1 crore ( 8/2000)	Rs. 4 crores
	b. TUIFSIL Rs. 3 crores (5/2000)	
3.	Public investment	Rs.10 crores
	<b>Total</b>	<b>Rs.30 crores</b>

A sum of Rs.3.12 crores is availed as loan in three instalments so far out of the total amount of Rs.16 crores sanctioned by Tamil Nadu Urban Finance and Infrastructure Development Corporation. The repayment of the entire loan of Rs.16 crores will be made during the period from 9/2000 to 2015. Each instalment payment is worked out to Rs.30.76 lakhs per quarter beginning from 30.9.2000. A sum of Rs.150/- will be collected from each beneficiary per month towards maintenance charges. A sum of Rs.27 lakhs will be collected as maintenance charges per month. The income derived from this source is more than sufficient to repay the loan. In fact, the municipality is fetching additional revenue from this project. The repayment of loan will be made from out of the collection proceeds of maintenance charges.

**Unique Scheme:**

The Project is an unique one in the sense that all the beneficiaries will share the significant portion of the investment cost of the project at the rate of Rs.6000 per house hold and the scheme is implemented under BOQ (Bill of quantities) and the Sewerage Treatment Plant alone under BOOT system. A sum of Rs.6.39 crores is collected as deposits from 13309 households as on 1.11.2000.

**Main Features:**

The scheme is consisting of the following components:

1. Collection and transmission
2. Treatment plant under BOOT
3. Effluent disposal system.

Main Sewer Line	:	20 kms
Branch Sewer Line	:	100kms
Sewage pumping station	:	1 No.
Pumping main –800 mm PSC pipe	:	5.846 ms
Sewage Treatment Plan	:	12 MLD in phase 1
Lease period of STP	:	12 MLD in phase 2 in 14 years (BOOT )
Sewage Contribution	:	80 LPCD



The project is being carried out into two phases.

The first Phase is consisting of main sewers and branch sewers totaling to 70 km, pumping station and pumping main and one 12 mld capacity sewage treatment plant will be completed and commissioned in 2 years.

In the second phase, the balance 70 km of branch sewers and the second unit of 12 mld sewage treatment plant will be constructed and commissioned in the next 1 year. Attempts will be made by the Project Management team to complete Phase 1 of the project in one and a half years and bring it into beneficial use.

The Operation and Maintenance of sewerage system, pump houses and pumping will be done by the Municipality. The contractor will operate and maintain the sewage treatment plant during the lease period of 14 years and hand over the STP to the Municipality at the end of the lease period.

#### **Progress of Implementation:**

Sewerage lines have been laid covering a length of 19.15 km and a sum of Rs.5.28 crores is spent so far as on 1.1.2001. Approximate expenditure for the project is worked out at Rs.30 lakhs per month. The land of 20 cents area in Vanuvampettai is taken over for the construction of Sewerage Pumping Station. The collection well work is in good progress. Bottom concreting work is completed in the collection well. The total expenditure incurred for this work so far is Rs.20 lakhs. The entire Sewerage Scheme work is awarded to IVRCL. The execution, supervision, management, monitoring and coordination works are entrusted to M/s.Consulting Engineering Services India Limited, Delhi.

#### **Time Schedule:**

Phase 1 work has been taken up from 1.3.2000 and to be completed by August 2001.

##### **1. Present Stage of Construction (as on 15.12.2000)**

1. Laying of sewers – 19.15 km completed
2. Pump House - Raft slab and 6m above side wall completed.
3. Pumping Main - 1255m laid out of 5850m

Aeration Tank: Earth work and leveling course concrete in progress.

Phase I	- Start Date	- 1.3.2000
	Completion Date	- August 2001.
Phase II	- Works to be done:	50km of Branch sewers.
	Start Date	- 1.9.2001
	Completion Date	- 1.3.2003.

##### **2. Progress of Works of Sewage Treatment Plant**

Phase I (12mld) work commenced on 1.11.2000 and to be completed by August 2001.

##### **3. WORK TO BE DONE**

1. All the main sewers of 20 km and branch sewers of 50km – Total 70km
2. Pumping Station including mechanical and electrical works – 1 No.
3. Pumping main up to Sewage Treatment Plant (Pension Sub-Committee –800 mm dia pipe, 5850m long)
4. Sewage Treatment Plant (12 mld capacity) – 1No.

#### **Salient Features:**

1. Bold Venture to provide a Core Civic Service
2. Popular Public Health Project
3. Sharing the investment cost by the beneficiaries
4. Practical Planning
5. Cost Effective
6. Citizens Friendly
7. Time Bound Scheme
8. Model Scheme

**ANNEXURE VI – 1(b)**  
**(Ref: Para 7.2)**  
**REPORT ON VALASARAVAKKAM UNDERGROUND**  
**SEWERAGE PROJECT**

The Officer on Special Duty / Accounts Officer visited Valasaravakkam Town Panchayat on 19-01-2001 in connection with the Sewerage project conceived by the local body. The following are the salient features of the project.

Situated	:	Between Chennai Corporation limit at Saligramam and Porur Town Panchayat.
Population	:	21,953 as per 1991 census. Present population may be 45,000
Area	:	8 Square Kilometres
No. of Tax assessees (Property Tax)	:	8,657
Length of Roads	:	60 Kms

The scheme was approved in G.O.Ms.No.(2D) No.110, dated 28-10-99.

**Cost details:**

TNUDF loan (TUIFSL)	:	374.66 Lakhs
Mega city loan (TUFIDCO)	:	374.66 Lakhs
Public Deposit / Local Body contribution	:	941.00 Lakhs
TNUDF (TUIFSL) Grant	:	300.00 Lakhs
LCS grant	:	10.00 Lakhs
<b>Total</b>	:	<b>2000.32 Lakhs</b>

**EXECUTION AS ENVISAGED**

2000-01	-	980.86 Lakhs
2001-02	-	1039.45 Lakhs

The Town Panchayat has so far collected Rs.2.45 crores. But no loan portion or grant portion has been released. The global tender notice has been issued by TUIFSL on 12-12-2000. The tender opening has been fixed on 30-01-2001. The local body contribution is raised by way of collecting contribution from the public

PUBLIC CONTRIBUTION(Deposit)	:	One time payment
Residential Assesseees	:	Rs. 12,000/-
Commercial / Industrial	:	Rs. 24,000/-
Pumping Stations	:	3 Nos
Treatment Plant	:	Linked to Chennai Treatment Plant at Nesapakkam

Total sewer line – 60 Kms covering all 18 wards. The project duration is 12 months from the date of work order. The user charges per assessee is tentatively fixed at Rs.150/p.m. Since it is in infant stage, more details by way of technical specification may be obtained after the finalization of tender.

Issues to be analysed:

The Town Panchayat had a small surplus of Rs.13.87 lakhs as on 31.3.2000. Unless the estimated public contribution is received, the loan component may go up. As at present, Rs.7.50 crores is loan component. Therefore the Town Panchayat has to bear nearly Rs.75 lakhs per annum for the first few years and thereafter at a lesser rate. This appears to be huge in relation to resource base of Town Panchayat. One negative feature arising out of the discussion is that the Government have not rescinded the TNHB notification acquiring land issued in 1971. Colonies have come up after the TNHB notification which could not be regularized. If the notification is cancelled, the Town Panchayats may regularize the construction by collecting the building licence fees plus penalty if any. This is estimated to be around Rs.2.5 crores. If this is done, the debt burden may come down.

Another measure on which the Town Panchayat is pinning hope is construction of shopping complex in the prime locality belonging to Town Panchayat thereby earning a sizeable income.

If the compliance from monthly user charges is substantial, the Town Panchayat may be able to repay debt and be comfortable with the project launched.



## ANNEXURE VI - 2

(Ref: Para 7.3)

### அரசாணை நகல்

சுருக்கம்

நகராட்சி சேவைப் பணிகள் - தனியார் மயமாக்கல் - வழிகாட்டு நெறிகள் - வெளியிடப்படுகின்றன  
நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கல் (நதி3) துறை

அரசாணை (நிலை) எண். 69

நாள் - 4.5.98

### ஆணை

தமிழ்நாட்டின் மக்கள் தொகையில் 40 சதவீதத்தினர் நகர்ப்புறங்களில் வாழ்கின்றனர். இப்பகுதிகளில் நகராட்சிகளின் சேவைப்பணிகளை பயனுள்ள விதத்தில் திறம்படி வழங்குதல் நகராட்சிகளின் கடமையாகும்.

2. அரசு நகர்ப்புற உள்ளாட்சி அமைப்புகளின் சேவைப்பணிகளை திறம்பட நிறைவேற்றவுள்ள கருவிகளில் ஒன்று தனியார் மயமாக்கல் எனக் கருதப்படுகிறது. சேவைப்பணிகளைப் பிரித்து அவற்றில் தனியார் மயமாக்கப்பட்டால் பயன் விளைவிக்கக்கூடிய பணிகளை மட்டும் தனியாரிடம் ஒப்படைப்பது சாலச் சிறந்தது. அத்தகைய தனியார் மயமாக்கல், எந்தவகையிலும் தனியார் துறையின் ஏகபோகத்திற்கு வழியேற்படுத்தக் கூடாது என்பதும் கவனத்தில் கொள்ளப்பட வேண்டும்.

3. மேலே பத்தி இரண்டில் கூறப்பட்டுள்ள நிலையில் ஒரு கொள்கை அடிப்படையிலான வழிகாட்டு நெறிகளை வெளியிடுவது பயனுள்ளதாக இருக்கும் என அரசு கருதுகிறது. இக்கருத்தின் அடிப்படையில் ஓர் கொள்கைக் குறிப்பு தயாரிக்கப்பட்டு இத்துடன் இணைக்கப்பட்டுள்ளது.

4. கொள்கைக் குறிப்பின் அடிப்படையில் நடவடிக்கை எடுக்குமாறு அனைத்து மாநகராட்சி ஆணையர்கள், நகராட்சி ஆணையர்கள், பேரூராட்சி செயல் அலுவலர்கள் ஆகியோர் கேட்டுக் கொள்ளப்படுகிறார்கள். இதன் மீது எடுக்கப்பட நடவடிக்கை குறித்து நகராட்சி நிர்வாக ஆணையர் / பேரூராட்சி ஆணையர் மூலமாக அரசுக்கு அவ்வப்போது அறிக்கை அனுப்புமாறும் அவர்கள் கேட்டுக் கொள்ளப்படுகிறார்கள்.

(ஆளுநரின் ஆணைப்படி)

எஸ். மாலதி

அரசு செயலாளர்

பெறுநர்

நகராட்சி நிர்வாக ஆணையர், சென்னை-5.

/ உண்மை நகல் /

தமிழ்நாட்டில் நகராட்சி சேவைப்பணிகளை தனியார் மயமாக்குதல் குறித்து கொள்கைக் குறிப்பு

தமிழ்நாட்டில் நகர்ப்புற பகுதிகளில், மக்கள் தொகையில் 40 சதவீதத்தினர் வாழ்கின்றனர். இப்பகுதிகளில் நகராட்சிகளின் சேவைப்பணிகள் பயனுள்ள வகையிலும், திறம்படவும் நிறைவேறுதல் உறுதி செய்யப்பட வேண்டும். அரசமைப்பு சட்டத்தில் 74-வது திருத்தத்தை மாநிலம் ஏற்றுக் கொண்டது சேவைப்பணிகளை திறம்பட நிறைவேற்றுவதில் அரசின் கொள்கை ரீதியான இடையீட்டினைக் குறிக்கும் ஓர் ஆரம்ப அடையாளமாகும். 1996 செப்டம்பர்-அக்டோபர் மாதங்களில் சுமார் 700-க்கும் மேற்பட்ட நகர்ப்புற உள்ளாட்சி அமைப்புகளுக்குத் தேர்தல்கள் நடத்தி முடிக்கப்பட்டன. நகர்ப்புற உள்ளாட்சி அமைப்புகளின் செயலாற்றலை வளர்க்கும் பணியை அரசு தற்போது மேற்கொண்டு வருகிறது.

பயனுறும் வகையில், திறம்படி சேவைப்பணிகளை நிறைவேற்றவுள்ள கருவிகளில் ஒன்று தனியார் மயமாக்கல் என்பதை அரசு ஏற்றுக் கொண்டுள்ளது. இருந்த போதிலும் தேவைப்படின, சேவைப்பணிகளை கட்டவிழ்த்து, குறிப்பாக சிலவற்றை அடையாளங்கண்டு பிரித்தெடுத்து அவற்றை எவ்வகையிலும் அரசின் மேலான நோக்கத்திற்கு குந்தகம் ஏற்படாத வகையில் தனியார் மயமாக்கப்பட வேண்டும். எனவே, ஒவ்வொரு சேவைப்பணியிலும் பின்வரும் அம்சங்கள் தனியார் மயமாக்கப்படக்கூடியவை என அரசாங்க அடையாளம் காணப்பட்டுள்ளன:-

முதன்மை மற்றும் இதர சேவைப்பணிகள்

பின்வருவன முதன்மை மற்றும் இதர சேவைப்பணிகள் எனக் கருதப்படுகின்றன:-

முதன்மை சேவைப்பணிகள்:-

1. திடக்கழிவு மேலாண்மை
2. தெருவிளக்குகள் பராமரிப்பு
3. சாலைகள் மற்றும் பாலங்கள் பராமரிப்பு
4. குடிநீர் மற்றும் துப்புரவுப் பராமரிப்பு

இதர சேவைப்பணிகள்:-

1. பூங்காக்கள்
2. வணிக வளாகங்கள்
3. சந்தைகள்

**ANNEXURE VI – 3**  
**(Ref: Para 8.4)**  
**FISCAL RESPONSIBILITY FOR URBAN LOCAL BODIES**

In the context of the introduction of the draft bill on Fiscal Responsibility and Budget Management in the Parliament, it is only a matter of time the states will also bring in similar enactments. Hence in the next phase, the Urban Local Bodies which consider themselves as units of local self-government, need to follow suit.

Accordingly, the Commission has identified major areas and parameters of fiscal responsibility as applicable to Urban Local Bodies.

- 1) Prepare budget based on the need and performance covering a 3 year rolling plan of expenditure and revenue projections.
- 2) Fix pre-determined target for achieving revenue surplus of 5%.
- 3) Strictly adopt right size of staff strength based on norms.
- 4) Widen Tax Base
- 5) Eliminate Fiscal deficit
- 6) Fix limit on Debt.
- 7) Cut the time, and cost over run of capital expenditure on projects on internal rate of return basis.
- 8) Levy right level of User Charges: (\*)
- 9) Target for Collection:
  - (a) Current Demand 95%
  - (b) Arrear Demand 75%
- 10) Assess returns and recovery for new projects.

After getting this vetted by Law department, suitable provisions may be made in the common Urban Local Bodies Act.

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(\*)The end users who reap the benefits from the services should be made to pay for the services on the principle of service provider –service receiver relationship (Examples: water supply and solid waste management).



**ANNEXURE - VII -1**  
**(Ref Para 3.1)**  
**கருக்கம்**

கடன்- மாநகராட்சிகள் மற்றும் நகராட்சிகளின் தற்போதைய கடன் கணமையை குறைக்க பின்பற்ற வேண்டிய வழிமுறைகளுக்கு ஒப்புதல் - மாநகராட்சிகள் மற்றும் நகராட்சிகள் செலுத்த வேண்டிய கடன் நிலுவைக் கணக்குகளை வருங்காலத்தில் பராமரிக்கவும் கண்காணிக்கவும் தமிழ்நாடு நகர்ப்புற நிதி மற்றும் அடிப்படை வசதி மேம்பாட்டுக் கழகத்திடமிருந்து நகராட்சி நிர்வாக ஆணையாளருக்கு மாறுதல் செய்தல் - ஆணைகள் - வெளியிடப்படுகின்றன.

அரசாணை (நிலை) எண் 120

நாள் 10.7.98

பார்வை:

- 1) 20.5.97 நாளிட்ட, நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கு (தேர்தல்-2) துறை அரசாணை நிலை எண் 127.
- 2) 12.1.98 நாளிட்ட, தமிழ்நாடு நகர்ப்புற நிதி மற்றும் அடிப்படை வசதி மேம்பாட்டுக் கழகம் லிட் தலைவர் மற்றும் மேலாண்மை இயக்குநரது கடிதம் டிபிட்கோ.எஸ்.எ.ஜென் / 97.
- 3) 2.2.98 நாளிட்ட, நிதித் (வரவு செலவு ஒருங்கிணைப்பு-2) துறை கடித எண் 68242 / பிகோ ஆர்ட் 2 / 97-14.
- 4) 25.3.98 நாளிட்ட, நகராட்சி நிர்வாக ஆணையரது நே.மு.க.எண் 10543 / 98 அந.1.

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**ஆணை:**

1994-ஆம் ஆண்டு அமைக்கப்பட்ட தமிழ்நாடு மாநில நிதிக்குழு 29.11.96 - அன்று அரசுக்குக் கொடுத்த தனது அறிக்கையில் நகர்ப்புற உள்ளாட்சி அமைப்புகளின் நிதிகளை மேம்படுத்துவதற்கான பரிந்துரைகளை அளித்தது. நகர்ப்புற உள்ளாட்சி அமைப்புகளின் தற்போதைய கடன்கள் பற்றிய நிலைமைகள் மற்றும் இந்தக் கடன்களை எவ்வாறு அவை திரும்பச் செலுத்துவது போன்றவை குறித்தும் தமிழ்நாடு மாநில நிதிக்குழு குறிப்பிட்ட (specific) பரிந்துரைகள் எதுவும் செய்யவில்லை. எனவே, பார்வை -1ல் படிக்கப்பட்ட அரசாணையில் இதுகுறித்து ஆராய்ந்து அரசுக்கு ஒரு அறிக்கை சமர்ப்பிக்க ஒரு குழுவினை அரசு அமைத்தது.

2. மேற்படிக்குழு 18.2.98 - அன்று அரசுக்கு அளித்த அறிக்கையை அரசு கவனமுடன் பரிசீலித்து பின்வரும் ஆணைகளைப் பிறப்பிக்கின்றது:-

(அ) 1.4.98 வரை குடிநீர் திட்டங்களுக்காக பெறப்பட்ட ஆயுள் காப்பீட்டுக் கழக கடன் உள்பட, அரசு மூலமாக பெறப்பட்ட, எல்லாக் கடன்களும், அசலுடன் வட்டித்தொகையையும் சேர்த்து ஒரே கடன் தொகையாக தொகுக்கப்பட வேண்டும்.

(ஆ) 1.4.98 - வரையிலான நகராட்சிக் கடன் கணக்கினை உள்ளாட்சி நிதித் தணிக்கை இயக்குநர் சரிபார்த்து, மேற்படி இனங்களுக்கான, வட்டித்தொகை உள்ளிட்ட கடன் நிலுவைகள், குறித்த அறிக்கையை கூடிய விரைவில் நகராட்சி நிர்வாக ஆணையருக்கு அனுப்ப வேண்டும்.

(இ) 1.4.98 முதல் அரசுக் கடன்கள் அனைத்தையும் கண்காணிக்கவும், வசூலிக்கவும், நகராட்சி நிர்வாக ஆணையர் அதிகாரம் பெற்றவராவார். தமிழ்நாடு நகர்ப்புற நிதி மற்றும் அடிப்படை வசதி மேம்பாட்டுக் கழகம் 31.3.98 ம் தேதிய நிலையில் மாநகராட்சி மற்றும் நகராட்சிகள் செலுத்த வேண்டிய கடன் நிலுவைக் கணக்குகளையும், 1.4.98 - க்குப்பின் வசூலிக்கப்பட்ட தொகையினையும் நகராட்சி நிர்வாக ஆணையாளருக்கு மாற்றுவதற்கு நடவடிக்கை எடுக்குமாறு கழகத்தின் தலைவர் மற்றும் நிர்வாக இயக்குநர் கேட்டுக்கொள்ளப்படுகிறார்.

(ஈ) கடன் நிலுவைகளைக் கணக்கிடுவதற்கு முன், மாநகராட்சிகள் / நகராட்சிகளுக்கு குறித்த காலக் கெடுவுக்குள் பணம் செலுத்த நகராட்சி நிர்வாக ஆணையர் தனித்தனியாக கேட்பு அறிக்கை (Individual Demand Notice) அனுப்புவதுடன் கடன் நிலுவைத் தொகையை உறுதி செய்யுமாறும் கடன் நிலுவைத் தொகை கணக்கிட்ட பின் கடன் செலுத்தியிருந்தால் அதன் விவரங்களையும் தெரிவிக்கும்மாறும் அவற்றைக் கேட்டுக்கொள்ள வேண்டும்.

(உ) ஆண்டுதோறும், மார்ச், செப்டம்பர் ஆகிய மாதங்களில் அரையாண்டுத் தவணைகளாக 20 ஆண்டுகளில் 1.4.98 வரையிலான தொகுக்கப்பட்ட மொத்த கடன் தொகையை மாநகராட்சிகள் / நகராட்சிகள் திருப்பிச் செலுத்த வேண்டும். கடன் தொகைக்கு 13.5% என்ற அடிப்படையில் வட்டி செலுத்த வேண்டும். மாநகராட்சிகளோ, நகராட்சிகளோ செப்டம்பர் மற்றும் மார்ச்சு மாதங்களில் தவணைத் தொகைகளை செலுத்தத் தவறினால் நிதிப் பங்கீடீன்கீழ் (Cdevolution) அக்டோபர், ஏப்ரல் மாதங்களில் விடுவிக்கப்படவேண்டிய தொகையிலிருந்து நகராட்சி நிர்வாக ஆணையர் பிடித்தம் செய்ய வேண்டும்.

(ஊ) கடன்களைத் திருப்பிச் செலுத்த இயலாத நிலையில் உள்ள மாநகராட்சி/நகராட்சிகளைப் பொறுத்தவரை அவை தமது சொந்த வருவாயைப் பெருக்க எடுக்கும் நடவடிக்கைகளை மதிப்பிட படிவம் ஒன்று தயாரிக்கப்பட வேண்டும்.

(எ) எந்தெந்த நகராட்சிகளின் கடன்களை ரத்து செய்யப் பரிந்துரை வழங்கப் படுகின்றதோ அவற்றின் செலவினங்களைக் கட்டுப்படுத்த கடுமையான நடவடிக்கைகள் தொடங்குவதுடன் கடன்களை ரத்து செய்வதற்கு முன்நடவடிக்கையாக, சொந்த வருவாயைப் பெருக்கும் ஒரு செறிவுத் திட்டத்தினை (Package of Measure) முன்நிபந்தனையாக ஏற்றுச் செயல்படுத்த வேண்டும்.

(ஏ) மேலும் ஒவ்வோராண்டும் மாநகராட்சிகள் மற்றும் நகராட்சிகளின் கடன் நிலுவையை ரத்து செய்வதற்கு அரசிற்கு பரிந்துரைகள் வழங்க நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கு துறை செயலர் தலைமையில் நகராட்சி நிர்வாக ஆணையரையும், நிதித்துறையின் பிரதிநிதி ஒருவரையும் உறுப்பினர்களாகக் கொண்ட குழு ஒன்று அமைக்கப்படுகிறது.

(ஐ) மேற்குறிப்பிடப்பட்ட இனங்களின் அடிப்படையில் அனைத்து நகராட்சிகள் மற்றும் சென்னை நீங்கலான இதர மாநகராட்சிகளுக்கும் சீராய்வு செய்யப்பட்ட நிதிநிலை விவர அறிக்கை (Cash flow statement) தயார் செய்யப்பட வேண்டும். இவ்வறிக்கை நகராட்சி நிர்வாகத்திற்கு மாநில நிதி ஆணையம் நிதிப்பங்கீட்டில் 25 சதவீதம் அதிகரிப்பு என்ற எதிர்பார்ப்பின் அடிப்படையில் தயாரிக்கப்பட வேண்டும்.

(ஓ) அரசுக்கு கடன்களின் நிலை குறித்து ஆண்டறிக்கை ஒன்றை அரசிற்கு நகராட்சி நிர்வாக ஆணையர் அனுப்ப வேண்டும்.

(ஔ) மாநகராட்சிகள் மற்றும் நகராட்சிகளின் கடன் நிலுவைகளை கண்காணித்தல் மற்றும் வசூலித்தல் பொறுப்பை மேற்கொள்ளத் தேவைப்படும் பணியிடங்களை தோற்றுவிப்பது குறித்து தனியாக பரிசீலித்து ஆணைகள் வெளியிடப்படும்.

3. இவ்வாணையின் பிரதியினை தமது கட்டுப்பாட்டுக்குள் உள்ள அனைத்து நகராட்சி நிர்வாக ஆணையர் கேட்டுக்கொள்ளப்படுகிறது.

கள் அலுவலர்களுக்கும் அனுப்புமாறு

4. இவ்வாணை 9.7.98 - நாள்ிட்ட அ.சா.கு.எண் 270 / கூ.செ(கு) / 98 ல் பெறப்பட்ட நிதித்துறையின் இசைவுடன் வெளியிடப்படுகின்றது.

(ஆளுநரின் ஆணைப்படி)

எஸ். மாலதி,  
அரசு செயலாளர்

பெறுநர்:

நகராட்சி நிர்வாக ஆணையர், சென்னை-5  
தலைவர் மற்றும் மேலாண்மை இயக்குநர்,  
தமிழ்நாடு நகர்ப்புற நிதி மற்றும் அடிப்படை வசதி மேம்பாட்டுக்கழகம் லிட்,  
84, டி.டி.கே சாலை, தமிழரசி மாளிகை இரண்டாவது மாடி,  
ஆழ்வார்பேட்டை, சென்னை - 600 018.  
இயக்குநர், உள்ளாட்சி நிதித் தணிக்கை, குறளகம், சென்னை-108  
நிதித் துறை, சென்னை -9  
நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கு (ந.நி.5/பொது) துறை, சென்னை-9

/ஆணைப்படி அனுப்பப்படுகிறது/

ஒம்/-  
பிரிவு அலுவலர்.

## ANNEXURE-VII - 2

(Ref para 4.1)

கருக்கம்



கடன் நிவாரணம்-மாநகராட்சிகள் மற்றும் நகராட்சிகள் பல்வேறு வளர்ச்சிப் பணிகளுக்காக பெற்ற கடன் திரும்பச் செலுத்த இயலாமை-  
நிவாரணம் அளித்து ஆணைகள் வெளியிடல்.

நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கல் (ந.நி. 3(2)) துறை

அரசாணை(நிலை) எண்.87

நாள்-27.6.2000

ஆணை:

1999-2000 ஆம் ஆண்டுக்கான மான்யக் கோரிக்கை விவாதத்தின் போது மாண்புமிகு ஊரக வளர்ச்சி மற்றும் உள்ளாட்சித் துறை அமைச்சர் அவர்களால் நிதி நிலைமையில் மோசமாக உள்ள 2 மாநகராட்சிகள் மற்றும் 23 நகராட்சிகளுக்கு கடன் சுமையிலிருந்து நிவாரணம் அளிக்கும் பொருட்டு கடன்களை ரத்து செய்யவோ அல்லது அவற்றை திரும்பச் செலுத்தும் கால அட்டவணையை மாற்றியமைக்கவோ அரசு நடவடிக்கை எடுக்கும் என அறிவிக்கப்பட்டது.

2. அவ்விவாதினைத் தொடர்ந்து இப்பிரச்சனை குறித்து விரிவாக ஆய்வு செய்து நிதி நிலைமை மோசமாக உள்ள இரண்டு மாநகராட்சிகள் மற்றும் நூற்பது நகராட்சிகளின் கடன் நிலுவைகளைத் தனித்தனியாக ஆய்வு செய்து கீழ்க்கண்ட நிவாரணங்களுள் ஒன்றை அவ்வுள்ளாட்சி அமைப்புகளுக்கு அளிப்பதற்கான சாத்திய கூறுகள் ஆழ்ந்து ஆய்வு செய்யப்பட்டது-

- வட்டி வீதத்தினை 13.5 சதவீதம் என்ற அளவிலிருந்து குறைப்பது.
- கடன் நிலுவையில் அசல் தொகையை நிரந்தரக் கடனாக மாற்றுவது.
- அசலுடன் வட்டித் தொகையை அல்லது அசல் அல்லது வட்டித் தொகையை செலுத்துவதை ஒரு குறிப்பிட்ட கால கட்டத்திற்கு தள்ளிப் போடுவது.
- இவ்வுள்ளாட்சி அமைப்புகளின் நிதிநிலை மிக மோசமாக உள்ளதால், அதை மேலும் மோசமாகும்படி மாநில நிதிக்குழு பரிந்துரையின் அடிப்படையிலான ஒதுக்கீடு மற்றும் நிதிப் பங்கீடு (Devolution) ஆலம் கிடைக்கக்கூடிய நிதியில் பாதிப்பு இருத்தலாகாது. சமன்பாடு மற்றும் ஊக்க நிதியில், சமன்பாட்டு நிதி திரும்பச் செலுத்த வேண்டிய கடன் தொகைக்கு ஈடுசெய்யப்படுகிறது.

3. ஒவ்வொரு உள்ளாட்சி அமைப்பின் நிதிநிலை குறித்தும் விரிவாக ஆய்வு செய்தபின், அரசு கீழ்க்கண்ட ஆணைகளை வெளியிடுகிறது;

(அ) கீழ்க்கண்ட நகராட்சிகளுக்கு சலுகை ஏதும் அளிக்க வேண்டியதில்லை, அவை தொடர்ந்து அரசு கடனுடன் 13.5 வீதத்தில் வட்டியும் செலுத்த வேண்டும்.



1	ஆம்பூர்	7	சீர்காழி
2	ஓசூர்	8	திருமங்கலம்
3	மன்னார்குடி	9	உசிலம்பட்டி
4	பண்டூர்	10	வாணியம்பாடி
5	பரமக்குடி	11	விருதுநகர்
6	சாத்தூர்		

(ஆ) கீழ்க்கண்ட நகராட்சிகள் அரசுக்கடனை தொடர்ந்து திரும்ப செலுத்தவேண்டும். ஆனால், கடனுக்கான வட்டி 13.5 ரூ லிருந்து 10.74 ரூ ஆக (1.4.2000 முதல்) குறைக்கப்படுகிறது..

1	அரக்கோணம்	3	சிதம்பரம்
2	ஆற்காடு	4	சின்னமனூர்

(இ) கீழ்க்கண்ட மாநகராட்சிகள் மற்றும் நகராட்சிகளுக்கு 1.4.2000 முதல் 31.3.2004 வரை அசல் தொகை செலுத்துவதிலிருந்தும், 1.4.2000 முதல் 31.3.2001 வரை வட்டித் தொகை செலுத்துவதிலிருந்தும் விடுமுறை அளிக்கப்படும்.

மாநகராட்சிகள்			
1	மதுரை	2	சேலம்
நகராட்சிகள்			
1	பழனி	11	திருவொற்றியூர்
2	அருப்புக்கோட்டை	12	கம்பம்
3	மதுராந்தகம்	13	மேட்டுர்
4	ராணிப்பேட்டை	14	ராசிபுரம்
5	திருப்பூர்	15	வாலாஜாபேட்டை
6	திண்டுக்கல்	16	திருவண்ணாமலை
7	எடப்பாடி	17	கும்பகோணம்
8	நாகப்பட்டினம்	18	புதுக்கோட்டை
9	தாம்பரம்	19	தஞ்சாவூர்
10	குடியாத்தம்		

(ஊ) மேற்படி 21 உள்ளாட்சி அமைப்புகள் (2 மாநகராட்சிகள் மற்றும் 19 நகராட்சிகள்) பதினொன்றாவது நிதிக் குழு பரிந்துரைகளின்படி பெறக்கூடிய கூடுதல் நிதியுதவியின் அடிப்படையில் இவற்றின் நிதிநிலையை மறு ஆய்வு செய்யவேண்டும். அதை நகராட்சி நிர்வாக ஆணையர் 2000ஆம் ஆண்டு செப்டம்பர் மாதத்தில் மீண்டும் ஆய்வு செய்து, 31.3.2000க்குப் பிறகும் நிவாரணம் தேவையா என்பது பற்றி ஆராய்ந்து அரசுக்கு அறிக்கை அனுப்பவேண்டும்.

(ஈ) கீழ்க்கண்ட நகராட்சிகள் குறித்து தயாரிக்கப்பட்ட நிதித் திட்டத்தினை ஆய்வு செய்து அரசுக் கடனை, தற்போது நிர்ணயிக்கப்பட்ட விகிதத்தில், அந்நகராட்சிகள் திரும்பச் செலுத்தும் திறன் அல்லது திறனின்மை குறித்தும், அந்நகராட்சிகளுக்கு கடன் நிவாரணம் தேவையா என்பது குறித்தும் தமிழ்நாடு நகர்ப்புற வளர்ச்சி நிதியத்தின் கருத்தினைப் பெற்றுப் பரிசீலித்து, தக்க ஆணைகள் வெளியிடப்படும்.

1	கடூர்	4	மணப்பாறை
2	பல்லாவரம்	5	சங்கரன்கோவில்
3	தூத்துக்குடி	6	வேலூர்

4. இவ்வாணையின் நகலினை சம்பந்தப்பட்ட நகராட்சி ஆணையர்களுக்கு அனுப்பமாறு நகராட்சி நிர்வாக ஆணையர் கேட்டுக்கொள்ளப்படுகிறார்.

5. இவ்வாணை 5.6.2000 நாள்ிட்ட நிதித்துறையின் அ.சா.எண்.1813/குளு/௭/2000-ல் பெறப்பட்ட இசைவுடன் வெளியிடப்படுகிறது.

(ஆளுநரின் ஆணைப்படி)

க. மாலதி  
அரசுச் செயலாளர்

பெறுநர்-

நகராட்சி நிர்வாக ஆணையர், சென்னை-5  
இயக்குநர், உள்ளாட்சி நிதித் தணிக்கை, குறளகம், சென்னை-108  
தலைமைச் செயல் அலுவலர், தமிழ்நாடு நகர்ப்புற வளர்ச்சி நிதியம், சென்னை-17  
மாநில கணக்காயர், சென்னை-18  
மாநில கணக்காயர், சென்னை-35  
மாநில கணக்காயர், சென்னை-9  
நகல் பெறுநர், நிதித்துறை, சென்னை-9  
ந.நி.கு.வ. (வ/செ) துறை, சென்னை-9

/ஆணைப்படி அனுப்பப்படுகிறது/

(ஓம்) -  
பிரிவு அலுவலர்

**ANNEXURE- VII - 3**  
**(Ref Para 4.2)**

கருக்கம்



கடன் நிவாரணம்-மாநகராட்சிகள் மற்றும் நகராட்சிகள் பல்வேறு வளர்ச்சிப் பணிகளுக்காக பெற்ற கடன்கள் - திரும்பச் செலுத்த இயலாமை - நிவாரணம் அளித்து ஆணைகள் வெளியிடப்பட்டன- தொடர்ந்து நிதி நிலை மோசமாக உள்ள மாநகராட்சிகள் மற்றும் நகராட்சிகளுக்கு கடன் நிவாரணம் நீட்டித்து ஆணைகள் வெளியிடல்.

நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கு (நதி-2) துறை

அரசாணை(நிலை) எண்:50

நாள்:9.3.2001

**பார்வை:**

1. அரசாணை (நிலை) எண்: 87, நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கு(நதி-3(2)துறை, நாள் 27.6.2000
2. நகராட்சி நிர்வாக ஆணையர் கடித எண் 86610/99/11.9.2000 நாள் 11.9.2000
3. நகராட்சி நிர்வாக ஆணையர் கடித எண் 86610/99/11.9.2000 நாள் 1.1.2001

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**ஆணை:**

கடந்த ஆண்டு மாநகராட்சிகளும் நகராட்சிகளும் பல்வேறு வளர்ச்சிப் பணிகளுக்காக பெற்ற கடன்களை திரும்பச் செலுத்த இயலாமல் இருந்த நிலைமையை விரிவாக ஆராய்ந்த அரசு, அந்தந்த உள்ளாட்சி அமைப்புகளின் நிதி நிலைக்கு தக்கவாறு பல்வேறு வகையான நிவாரணங்கள் அளித்து பார்வை -1 ல் படிக்கப்பட்ட அரசாணையில் ஆணைகள் வெளியிட்டது.

மேற்படி ஆணையில் பத்தி 3(இ) (எ) -ல் கீழ்க்கண்ட உள்ளாட்சி அமைப்புகளுக்கு 1.4.2000 முதல் 31.3.2004 வரை அசல் தொகை செலுத்துவதிலிருந்தும் 1.4.2000 முதல் 31.3.2001 வரை வட்டித் தொகை செலுத்துவதிலிருந்தும் விடுமுறை அளித்து ஆணையிடப்பட்டது.

மாநகராட்சிகள்			
1	மதுரை	2	சேலம்
நகராட்சிகள்			
1	பழனி	11	திருவொற்றியூர்
2	அருப்புக்கோட்டை	12	கம்பம்
3	மதுராந்தகம்	13	மேட்டூர்
4	ராணிப்பேட்டை	14	ராமநாதபுரம்
5	திருப்பூர்	15	வாலாஜாபேட்டை
6	திண்டுக்கல்	16	திருவண்ணாமலை
7	எடப்பாடி	17	கும்பகோணம்
8	நாகப்பட்டினம்	18	புதுக்கோட்டை
9	தாமிரவருணி	19	தஞ்சாவூர்
10	குடியாத்தம்		

2. மேலும் மேற்படி ஆணையில் பத்தி 3(இ) (ii)-ல் மேற்படி 21 உள்ளாட்சி அமைப்புகள் (2 மாநகராட்சிகள் மற்றும் 19 நகராட்சிகள்) பதினொன்றாவது நிதிக்குழு பரிந்துரைகளின்படி பெறக்கூடிய கூடுதல் நிதியுதவியின் அடிப்படையில் அவற்றின் நிதிநிலையை மறு ஆய்வு செய்ய வேண்டும் எனவும் அதை நகராட்சி நிர்வாக ஆணையர் 2000-ஆம் ஆண்டு செப்டம்பர் மாதத்தில் மீண்டும் ஆய்வு செய்து, 31.3.2000 க்குப் பிறகும் நிவாரணம் தேவையா என்பது பற்றி ஆராய்ந்து அரசுக்கு அறிக்கை அனுப்ப வேண்டும் எனவும் ஆணையிடப்பட்டது.

3. அதன்படி நகராட்சி நிர்வாக ஆணையர் 21 உள்ளாட்சி அமைப்புகள் (2 மாநகராட்சிகள் மற்றும் 19 நகராட்சிகள்) பதினொன்றாவது நிதிக்குழு பரிந்துரைகளின்படி பெறக்கூடிய கூடுதல் நிதியுதவியின் அடிப்படையில் அவற்றின் நிதிநிலைமையை மறு ஆய்வு செய்து மேற்குறிப்பிட்ட உள்ளாட்சி அமைப்புகளின் நிதிநிலைமை தொடர்ந்து மோசமான நிலையிலேயே உள்ளது என்றும் பெரும்பாலும் அவை மூலதன பணிகளை மேற்கொண்டு தங்கள் சேவையை மேம்படுத்த இயலாத நிலையிலேயே உள்ளன என்றும், அவற்றில் சில தமது ஊழியர்களுக்கு சம்பளம் வழங்குவது உட்பட இயக்கம் மற்றும் பராமரிப்புச் செலவுகளை மேற்கொள்ள இயலாத நிலையில் உள்ளன என்றும் குறிப்பிட்டுள்ளார். அடுத்து சொத்து வரி சீராய்வு 2003-2004 ஆம் ஆண்டு இரண்டாம் பகுதியில் நடைபெறுகையில் இவற்றின் நிதிநிலைமை மேம்படும் என எதிர்பார்க்கப்படுகிறது. 11-வது நிதிக்குழுவின் பரிந்துரையில் நகர உள்ளாட்சி அமைப்புகளுக்கு போதுமான நிதி ஒதுக்கப்படவில்லை, மிகவும் குறைவாக ஒதுக்கப்பட்டுள்ள தொகையும் பராமரிப்புப் பணிகளுக்கே போதுமானதாக இருக்கும். எனவே 22.6.2000 நாள்ிட்ட அரசாணை (நிலை) எண்:87-ல் நிவாரணம் அளிக்கப்பட்ட 21 உள்ளாட்சி



அமைப்புகளுக்கும் கடனுக்கான வட்டியை திருப்பிச் செலுத்துவதிலிருந்து 1.4.2001 முதல் 31.3.2004 வரை விலக்களிக்கலாம் என நகராட்சி நிர்வாக ஆணையாளர் பரிந்துரைத்துள்ளார்.

4. நகராட்சி நிர்வாக ஆணையரின் செயற்குறிப்பு அரசால் கவனமாக பரிசீலிக்கப்பட்டது. 11-வது நிதிக்குழு மொத்தம் ரூ.38 கோடி மட்டுமே நகரக உள்ளாட்சி அமைப்புகளுக்கு ஒதுக்கீடு செய்துள்ளது. இத்தொகையில், மக்கள் தொகை பங்கீட்டைப் பொறுத்து மாநகராட்சிகளுக்கு ரூ.12 கோடியும் நகராட்சிகளுக்கு ரூ.12 கோடியும் கிடைக்கும். இத்தொகை எந்த வகையிலும் இவ்வள்ளாட்சி அமைப்புகளின் நிதி நிலைமையை கடன்களை திரும்பச் செலுத்தும் அளவுக்கு சீராக்காது. மேலும் நகரக உள்ளாட்சி அமைப்பு பகுதிகளில் அடுத்த சொத்துவரி சீராய்வு 1.10.2003-ல் நடக்கவிருப்பதால் 31.3.2004-க்குப் பிறகுதான் நிதிநிலையில் ஏற்படும் மாற்றம் தெரியவரும். எனவே, நகராட்சி நிர்வாக ஆணையரின் செயற்குறிப்பினை ஏற்று, பார்வை 1-ல் படிக்கப்பட்ட அரசாணையில் நிவாரணம் அளிக்கப்பட்ட 21 உள்ளாட்சி அமைப்புகளும் தாம் பெற்றுள்ள கடனுக்கான வட்டியை திருப்பிச் செலுத்துவதிலிருந்து அளிக்கப்பட்ட விடுமுறைக் காலத்தை 1.4.2001 முதல் 31.3.2004 வரை நீட்டித்து அரசு ஆணையிடுகிறது.

இவ்வாணை 9.02.2001 தேதிய நிதித்துறை அ.சா.கு.எண்.66/(SS(G)2001-ன் படி அத்துறையின் இசைவுடன் வெளியிடப்படுகிறது.

(ஆளுநரின் ஆணைப்படி)

சு. மாலதி,  
அரசுச் செயலர்.

#### ANNEXURE-VII - 4 (Ref para 4.7)

##### CASE STUDIES

##### Debt Relief Package

###### (1) Tirupathur Municipality:

This municipality is served by a comprehensive water supply scheme from 1974 onwards. The system was so designed, that the Thirupathur Municipality's share of water would be 7,50,000 Gallons per day (48 lakh litres for the entire scheme). This was for a population of 50,000 in 1991. The system was designed to last 30 years. The present pumping and supply from the system, is 35.5 lakh litres only against the designed 48 lakh litres quantity. In the meantime, the present population has grown to 63,304. So an improvement scheme was drawn up at a cost of Rs.4.12 crores and G.O. issued giving administrative sanction in G.O.Ms.No.272, dated 31.12.96. The estimate was based on an outline proposal.

The detailed estimates were however ready much later and bids were called in April 2000 and awarded in September 2000 to be completed by September 2001. The Financing as approved originally was by 2/3<sup>rd</sup> LIC loan and 1/3<sup>rd</sup> Government Loan and subsequently modified to 70% grant and 30% loans. However, loan from LIC amounting to Rs.81.00 lakhs was drawn by Tamil Nadu Water Supply and Drainage Board on 26.3.97 itself about 3 years before contract was awarded. The Municipality has already a water supply loan of Rs.1.40 crores as on 1.4.98 and so far an amount of Rs.56.80 lakhs has been deducted from State Finance Commission devolution due to the Municipality for the old and the present loan from 98-99 onwards.

This is a clear case of an investment made earlier not yielding water, it was supposed to and a subsequent investment planned has resulted on a loan liability 3 years before award of work and Municipality is paying back the loan even before work has started.

###### (2) Salem Sewerage Project:-

Administrative sanction accorded in G.O.Ms.No.1529/RDLA dated 4.10.1980 for Rs.9.10 crores, subsequently revised to Rs.12.00 crores (G.O.No.286/RDLA, Dated 18.3.83). Due to land for sewerage treatment not being readily available, the scheme could not be completed. Sewers have been laid for a length of 17.61 K.M. with virtually no benefit. The scheme has today been virtually abandoned. The following loans have been drawn for the project.

LIC	- 126.868 lakhs
State	- 254.25 lakhs
	-----
Expenditure incurred	- 175.17 lakhs
	-----

These loans have been drawn in various years from 82-83 to 89-90. Salem Corporation's loan liability as on 1.4.98 (including water supply and sewerage) is over Rs.50 crores. An amount of Rs.1.43 crores was also adjusted from State Finance Commission devolution due to Salem in 1998-99. Subsequently, however, Government have issued orders giving a holiday to Salem Corporation from loan repayment upto 31.3.2001.

###### (3) Shengottai Water Supply Scheme:

The outline proposal was sanctioned for Rs.1.05 crores in 1997. subsequently, it was found that the source identified is not a reliable one and the scheme was modified to be part of a bigger comprehensive water supply scheme for Rs.20.36 crores sanctioned in G.O.Ms.No.109, MA&WS dated 17.8.2000. Shengottai's share of cost is Rs.4.15 crores to be financed with 30% grant from Government. However, a loan of Rs.49.27 lakhs was drawn from LIC on 17.2.98 and Rs.20.58 lakhs from State on 22.9.98 both before work could commence. The expenditure as on date on this Project is Rs.2.35 crores.

**ANNEXURE – VII - 5**  
**(Ref Para 10.2)**  
**BIFR MODEL ANALYSIS**  
**Debt Relief to Urban Local Bodies**

**1. Drafting a rehabilitation package – Primary Steps.**

The first step is to prepare a thorough appraisal after visiting the ULB and holding discussions with the concerned authorities. The appraisal should seek to answer the following questions:

- a. What are the causes of sickness?
- b. What is the responsibility of the ULB in bringing about the sickness?
- c. Does the ULB require any additional qualified personnel?
- d. What are the conditions of the asset? Would any expenditure be needed to make it fully operational and productive? Is there a need for modernization or up gradation? What would be cost of bringing a new project?
- e. What is the financial position of the ULB?

Based on the above information elicited by these questions a broad picture of the sacrifices that would be needed from the ULB, Funding institutions and the Government in establishing a satisfactory rehabilitation plan.

**2. Financial Concessions:**

Relief and concessions by Funding Institutions and the government may be as follows:

- a. Further credit for completing an incomplete project to enable it to realize returns.
- b. Reduction in rates of interest on the existing and additional loans.
- c. funding of overdue interest on existing loans.
- d. Lengthening of the period of repayment of existing loans.
- e. Granting longer moratorium of repayment of the additional loans.
- f. Waiver of penal charges.

**3. Urban Local Body related concessions:**

- a. Bringing additional contribution to make the project viable either by way of own contribution or by way of imposing one time deposits in case of water supply, sewerage and shopping complexes.
- b. Agreeing for a possible VRS package in order to reduce pay packages.
- c. Agreeing for sale of the Asset, which is not remunerative to the ULB. For example if the shopping complex is not fetching revenues, the ULB can go in for disposal of the property to settle off the loan to the funding institution or the Government.
- d. Privatizing the O & M activities and handing over the distribution of water supply to the operator leaving the responsibility of ensuring the source with the ULB.
- e. The ULB should agree to improve the collection of tax and non-tax revenues with agreed increase in efficiency during the period of rehabilitation.

**ANNEXURE – VII - 6**  
**(Ref Para 10.2)**  
**CASE STUDY**  
**TIRUPPUR MUNICIPALITY**

Tiruppur Municipality (Special Grade) spreading over an area of 27 sq.km has emerged as India's leading cotton knitwear export centre in this sector. Despite its emergence as an export centre, Tiruppur suffers from inadequate levels of water supply and absence of sewage collection, off-take and treatment systems.

In order to address the infrastructure needs of Tiruppur area, Tiruppur Area Development Programme (TADP) has been developed at a cost of Rs.1240 crores which is promoted by GOI, GOTN, TACID, Tiruppur Exporters Association and IL &FS. The role of Tiruppur municipality in this project is to support New Tiruppur Area Development Corporation Ltd., as per the Concession Agreement entered into by the municipality with New Tiruppur Area Development Corporation Ltd. The municipality has to install volumetric meters in its water supply area and to establish the collection of water charges on behalf of New Tiruppur Area Development Corporation Ltd. and in respect of sewer project, install sewer connections from the households to the sewer systems. As per Section 8.3 (i) of the Concession Agreement, Tiruppur Municipality has to take steps for exemption, waiver and remission of taxes and levies of octroi, water taxes and property tax for the works taken up by New Tiruppur Area Development Corporation Ltd. during the period of concession. However, the quantum of loss due to the above concession could not be assessed now.

2. The viability of Tiruppur Municipality has been studied in depth by the Commission. It is observed that there is overall budget deficit from 1995-96 onwards except 1997-98. The loans outstanding as on 31.3.2000 is Rs.3461 lakhs which is among the highest in the municipalities. The per capita debt is Rs.1284. The municipality is covered under the debt relief package sanctioned in GO.Ms.87 Municipal Administration and Water Supply Department dt.27.6.2000 and Go.Ms.No.50 Municipal Administration and Water Supply Department dated 9.3.2001. It is a question as to how this municipality will manage the heavy repayment of principal and interest after the moratorium period i.e 1.4.2001 to 31.3.2004 is over. The revision in water charges in 1.10.2000 and property tax in 1.10.2003 would fetch a revenue increase of Rs.250 to Rs.300 lakhs only whereas the



total additional debt liability as on 1.4.2004, after availing the principal and interest moratorium, would be around Rs.800 lakhs. Hence, it may not be possible for Tiruppur Municipality to meet the heavy debt liability by means of revision in property tax and water charges upward.

3. The per capita tax income of this municipality (1999-00) is Rs.641/- and per capita own income is Rs.896/- and these are found to be the maximum among the Special Grade Municipalities. The other side of such a rosy and prosperous town is dismal due to heavy debt outstanding and repayment liability.

4. The municipality should explore the possibilities of tapping maximum resources to augment its income on the one hand and resort to austerity measures such as restricting to staff norm, minimum establishment expenditure and other measures as recommended by Second State Finance Commission so that the heavy debt burden would be reduced to a greater extent during the award period of Second State Finance Commission. The recommendation of Second State Finance Commission in para 10.2 (ii) is applicable to Tiruppur municipality also. The loss mentioned in para- 1 above needs to be quantified as and when water supply project becomes operational. Profit, if any, of New Tiruppur Development Corporation needs to be shared with Municipality at least to the extent of 50%.

## ANNEXURE: VII - 7

(Ref para 14.1)

### CREDIT RATING

#### Salient features of credit rating:

- i) The credit rating essentially reflects the probability of timely repayment of principal and interest by a borrower (Urban Local Bodies)
- ii) The focus of credit rating is on risk tolerance of the investor, and credit risk of the security and hence it cannot by itself be a basis for investment decision making.
- iii) The credit rating does not imply that the rating agency performs an audit function.
- iv) Debt rating agencies monitor the finances of the company / Government institutions to determine whether modification to the credit rating done already is warranted.
- v) Credit rating by a professional rating firm offers a superior and more reliable source of information on credit risks at a low cost.
- vi) A rating firm gathers, analyses interprets and summarises complex information in a simple and readily understood format for wide public consumption.

Based on the above process, the following rating scales are given:-

#### Rating Scales

The rating symbols and their implications are as follows:

(Sample)

#### Long term debentures, Bonds and shares:

L AAA	Highest Safety	(Strong position. Risk factors negligible)
LAA	High Safety	(Risk factors – modest and vary slightly from L AAA)
LLA	Adequate Safety	(Risk factors – more variable and greater in periods of economic stress)
L BBB	Moderate Safety	Protective factors are below average.
Adverse changes in business likely to affect timely payment of principal and interest.		
L BB	Inadequate Safety	The timely payment of principal and interest are more likely to be affected by prospective changes in business.
L B	Risk prone	Obligations may not be met when due.
L C	Substantial risk	Timely servicing of debt could be possible only in case of continued existence of favourable circumstances.
L D	Default	Extremely speculative. Recovery is likely only on liquidation or reorganization.

**ANNEXURE -VIII – 1**  
(Ref: Para 3.6)  
**AUDIT AND ACCOUNTABILITY**

LOCAL BODY & NUMBER INVOLVED	TYPE OF AUDIT TO BE DONE BY DLFA	TYPE OF AUDIT TO BE DONE BY A.G (AS PER SEC.14 OF C&AG ACT)
1	2	3
<b>Municipal Corporations 6</b>	<u>Detailed Audit</u> Viz., Tax and Non Tax Scheme works Accounts Cent Percent Voucher Audit Establishment matters Audit Records and Registers verification M-Book and completion report and other Miscellaneous To look into the adequacy of devolution towards O & M and to ensure that there is no excess spending.	Accountant General may continue to do the audit as per the practice hitherto for Municipal Corporations.
<b>Municipalities 102</b>	<u>Detailed Audit</u> Viz., Tax and Non Tax Scheme works Accounts Cent Percent Voucher Audit Establishment matters Audit Records and Registers verification M-Book and completion report and other Miscellaneous To look into the adequacy of devolution towards O & M and to ensure that there is no excess spending.	Accountant General will continue to do the audit as per the practice hitherto for Municipalities.
<i>Town Panchayats</i> 611	<u>Detailed Audit</u> Viz., Tax and Non Tax Scheme works Accounts Cent Percent Voucher Audit Establishment matters Audit Records and Registers verification M-Book and completion report and other Miscellaneous To look into the adequacy of devolution towards O & M and to ensure that there is no excess spending.	Accountant General may take up audit as and when the financial limit crosses Rs.1 crore as per Section 14 of Comptroller & Auditor General of India Act.
<i>District Panchayats</i> 28	<u>Detailed Audit</u> Viz., Tax and Non Tax Scheme works Accounts Cent Percent Voucher Audit Establishment matters Audit Records and Registers verification M-Book and completion report and other Miscellaneous To look into the adequacy of devolution towards O & M and to ensure that there is no excess spending.	Accountant General may take up audit as and when the financial limit crosses Rs.1 crore.
<i>Panchayat Unions</i> 385	<u>Detailed Audit</u> Viz., Tax and Non Tax Scheme works Accounts Cent Percent Voucher Audit Establishment matters Audit Records and Registers verification M-Book and completion report and other Miscellaneous To look into the adequacy of devolution towards O & M and to ensure that there is no excess spending.	Accountant General may take up audit as and when the financial limit crosses Rs.1 crore as per the existing procedure.



Village Panchayats 12619	Deputy BDO Audit: As per the existing procedure: Test Audit by Directorate of Local Fund Audit @ 22% of Village Panchayats every year including 2% of Village Panchayats based on receipts / value of works and on specific complaints forwarded by Director of Rural Development.	No Need
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Besides, there is need to introduce pre-audit for work-bills so as to avoid audit objections in future on flimsy grounds. The present concurrent Audit may be converted as Pre-audit wing in Panchayat Unions.

**ANNEXURE VIII – 2**  
(Ref: Para 3.9)

**NUMBER OF SERIOUS IRREGULARITIES PENDING AS ON 31.3.2000 IN RESPECT OF LOCAL BODIES.**

LOCAL BODY	SERIOUS IRREGULARITIES	RILS
Panchayat Union	39417	6452
District Panchayat	Nil	Nil
Town Panchayat	62959	6410
Municipalities	21729	11903
Municipal Corporations	Nil	Nil
<b>Total</b>	<b>124105</b>	<b>24765</b>

**ANNEXURE – VIII – 3**  
(Ref: Para 4)

Various aspects to be covered by the Management Audit Team are as follows:-

- a. Whether the selection of work has been approved by the competent authority like Grama Sabha or Local Body Council or any other agency approved for the purpose.
- b. Whether the choice of the work is actually to meet the felt and perceived needs of the local people or otherwise (ie) whether the choice is based on real priority; whether remunerative enterprises are taken up wherever possible.
- c. In site selection, people's concurrence / convenience/ feasibility of the site has to be verified.
- d. Whether proper estimates have been prepared taking into account of the site condition, soil, area, availability of input materials required for creation of asset.
- e. Acceptance of the proposal with reference to the cost, accommodation, approach etc by the user department
- f. Whether proper administrative sanction and technical sanction have been accorded by the competent authority and before fixing the agency for execution
- g. Whether fixing of agency, calling of Tenders/Quotation/Nomination etc and acceptance of agreement etc. have been properly done.
- h. Whether proper work order indicating the executing agency, cost of the project, time schedule etc., has been issued
- i. Whether simultaneous action has been initiated to provide arrangements like water supply electrification, sanitary etc.
- j. Watching of progress (physical and financial) by way of pursuing of records at different stages of work, computerized monitoring of works at collectorates, and also sending work reports to the authorities concerned
- k. Whether periodical inspection of works (say fortnightly or monthly) has been done by the local authorities like BDO / PO, DRDA/Collector
- l. On completion of the project, whether proper intimation has been given to the user department to take over the building
- m. Whether the user department has taken over the building in time for proper utilization
- n. Whether the project has been made as an asset to the user department and necessary entries made in the concerned registers
- o. Whether on completion, the asset has been put to use immediately, and it is being utilized for the intended purpose.
- p. Whether the asset is being maintained properly for the purpose proposed at the initial stage or otherwise
- q. Whether the amount allotted for the work is sufficient or insufficient or whether any overestimation or underestimation has taken place.
- r. Whether measurement and check measurement has been taken by the authorities concerned and certified by the competent authority before effecting payment
- s. Whether the amount allotted is properly accounted for in the books of accounts and payment is effected when it becomes due or paid in advance or in late and reported to concerned department.

- t. Whether orders of departmental materials such as cement, steel, bitumen., doors, windows, sanitary pan etc., were placed in time and orders placed with the approved companies or firms and supplies effected and the quality, quantity, rate and specification conform to the supply orders placed.
- u. Whether the people's participation or involvement was forthcoming as envisaged in the guidelines of the schemes by way of cash or kind or labour and whether dovetailing of funds and convergence of schemes have been attempted for optimum utilisation.
- v. Whether the work chosen in terms of size or volume is in excess or insufficient as to satisfy the real need in its entirety.
- w. Is there any undue delay in preparation of estimate, and according sanction.
- x. Is there any time lag between fixation of agency, actual commencement of work and completion of work.
- y. In the case of beneficiary oriented schemes, choice of beneficiaries, whether procedure adopted was transparent, whether most eligible beneficiaries are inadvertently denied assistance, whether ineligible persons are getting assistance etc. could be checked.
- z. As regards beneficiary oriented schemes, it would be ensured whether further follow up action has been initiated to see whether the beneficiary assisted under IRDP has crossed the poverty line, whether the beneficiary trained under TRYSEM has got self-employment by availing loan from bank and whether marketing arrangements are available for the products manufactured by DWCRA women groups.

**ANNEXURE – VIII – 4**  
(Ref: Para 7.2)

Copy of:

Government of Tamil Nadu  
Abstract

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Rules – Municipal Councils – Members of Municipal Councils – (Disclosure of Assets) Rules, 1973 – Notification – Published  
Rural Development and Local Administration Department.

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G.O.Ms.No.858  
Order:

Dated 25<sup>th</sup> April, 1973.

The appended notification will be published in the Tamil Nadu Government Gazette.  
(By Order of the Governor)

E.C.P. PRABHAKAR,  
Secretary to Government.

/True copy/

APPENDIX  
NOTIFICATION

In exercise of the powers conferred by sub section (1) of Section 303 of the Tamil Nadu District Municipalities Act, 1920(Tamil Nadu Act V of 1920), the Governor of Tamil Nadu hereby makes the following rules: -

**Rules**

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1. Short title and commencement:- (i) These rules may be called the Members of the Municipal Councils (Disclosure of Assets) Rules, 1973.

(ii) They shall come into force at once.

2. Periodical disclosure of assets of Members of the Municipal Councils:- Every member of a Municipal Council including the Chairman and the Vice-Chairman shall—

- (a) if he holds office as such on the date of commencement of these rules, as soon as may be after such date; or
- (b) if he is elected or co-opted, after such date, as soon as may be after such election or co-option; and
- (c) thereafter, at intervals of every twelve months ending with the 31<sup>st</sup> day of march,

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(d) furnish to the executive authority of the Municipal Council in the form appended to these rules return of:-

- (i) all properties owned, acquired or inherited by such member or any member of his family; and
- (ii) all properties held on lease or mortgage either in his own name or in the name of any member of his family, together with details of the means by which, or the sources from which, such property was acquired or inherited.

3. Returns to be placed at the meeting and to be public documents:- Every return submitted under rule 2 shall—



- (1) as soon as possible after it is submitted, be placed at the meeting of the council; and
- (2) be deemed to be a public document and the executive authority may, subject to such conditions (including payment of fees) as may be prescribed by such authority give to any person on demand a copy of such return.

APPENDIX  
FORM  
(See Rule 2)

Return of assets of the Member of the Municipal Council/Chairman/Vice-Chairman . . . . .

Municipal Council as on the 31<sup>st</sup> March . . . . .

Name of the Member, the Chairman  
or the Vice-Chairman.

Date of election or co-option.

ASSETS OF THE MEMBERS

(1) Immovable property

(2) Business interests

- (a) Shares
- (b) Stock
- (c) Scrip
- (d) Partnership
- (e) Debentures and securities

(3) Other interests  
Bank Accounts

(b) Gold

(c) Precious stones

three items exceeds Rs.10000/-.

(4) (a) Jewellery

where the aggregate value of all the

5) Movables (including motor vehicles)  
where the aggregate value exceeds Rs.10,000/-

(6) Details of Trusts with which the member has  
any connection.

DECLARATION

I, . . . . . declare that to the best of my knowledge and belief, the information furnished in the above return is true and complete.

Place:

Signature

Date:

Note:-

(1) "Members of the family" means any person related, whether by blood or marriage, to the member of the Municipal Council, or to his wife or her husband and wholly dependent on such member.

(2) "Immovable property" includes land and buildings.

(3) The Member may give a short note explaining the nature of acquisition of the assets in the column relating to Remarks.

(4) If the member so chooses, he may also explain the liabilities incurred by him and by his family members in the column relating to Remarks.

PROCEDURE FOR FURNISHING THE RETURN

- (1) Every member shall fill up this form furnishing information for the period ending with 31<sup>st</sup> day of March.
- (2) The Member shall after filling it send it to the Executive Authority of the Municipal Council on or before the 30<sup>th</sup> day of September every year.
- (3) The Executive Authority concerned on receipt of the same shall cause it to be placed at the meeting of the council.

/TRUE COPY/

Sd.  
Section Officer

ANNEXURE IX-1  
(Ref: Para 2.3.)



ஊரக வளர்ச்சி (சி-1) துறை,  
தலைமை செயலகம், சென்னை - 9.  
அரசு கடிதம் (நிலை) எண். 127, நாள் 16.5.2000

அனுப்புனர்  
டாக்டர். இரமேஷ் சந்திர பண்டா, இ.ஆ.ப.,  
அரசு செயலாளர்.

பெறுநர்  
ஊரக வளர்ச்சி இயக்குனர்,  
சென்னை 15.

ஐயா,

பொருள்.

பணியமைப்பு - கிராம ஊராட்சிகள் பணியமைப்பை சீரமைப்பது குறித்த - குழுவின் பரிந்துரை எண்.8 - மக்கள் தொகை 2000 - க்கு குறைவாக உள்ள கிராம ஊராட்சிகளை மக்கள் தொகை 2000 - க்கு மேல் உள்ளவைகளாக சீரமைத்தல் - அரசின் முடிவு தெரிவித்தல் - குறித்து.

பார்வை.

1. அரசாணை (2டி) எண்.149, ஊரக வளர்ச்சி நாள் 9.7.99
2. ஊரக வளர்ச்சி இயக்குநரின் கடிதம் எண்.27094 / ரீ1 /

99 நாள் 6.4.2000.

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பார்வை 1-ல் குறிப்பிடப்பட்டுள்ள அரசாணையின் படி, கிராம ஊராட்சிகளின் பணியமைப்பை அவைகளின் நிதி நிலைக்கேற்ப சீரமைப்பது குறித்து ஆய்வு செய்ய அமைக்கப்பட்ட குழு, மக்கள் தொகை 2000-க்கு குறைவாக கொண்ட கிராம ஊராட்சிகள் சுய சார்பாக இயங்க இயலவில்லை என்றும்; மொத்த கிராம ஊராட்சிகள் 12619-ல் அப்படிப்பட்ட வகை ஊராட்சிகள் 6118 உள்ளன என்றும்; ஊராட்சிகள் அமைக்க குறைந்தபட்ச மக்கள் தொகை 500 என்பது 1958-ம் ஆண்டிலிருந்தே உள்ளது என்றும் தெரிவித்து கீழ்க்கண்டவாறு பரிந்துரைத்துள்ளது :-

பரிந்துரை எண். 8 :

மக்கள் தொகை குறைவாக உள்ள பஞ்சாயத்துகள் நிதி ஆதாரத்தை திரட்டுவதிலும், நிர்வாக செலவினத்தை கட்டுப்படுத்துவதிலும் மிகுந்த சிரமத்தை எதிர்கொள்கின்றன. மேலும் மத்திய / மாநில அரசுகளின் நிதி ஒதுக்கீடும் கணிசமாக கிடைப்பதில்லை. இந்த ஊராட்சிகளின் நலிந்த நிலைக்குக் காரணம் இதன் நிலைத்து இருக்கக் கூடிய அளவு இல்லாதது. (Unviable unit size).

எனவே, 500-க்கும் மேற்பட்ட மக்கள்தொகை கொண்ட பகுதிகளை ஒருங்கிணைத்து ஊராட்சிகளாக மாற்றலாம் என்பதை மாற்றி, 2000 மக்கள்தொகைக்கும் மேற்பட்ட பகுதிகளுக்கு ஊராட்சிகள் அமைக்கலாம் என உரிய சட்டத் திருத்தம் கொண்டு வரவேண்டும் எனவும் இதை அடுத்தத் தேர்தலுக்கு முன் செய்யலாம் எனவும் குழு பரிந்துரை செய்கிறது.

2. இந்தப் பரிந்துரையை அரசு நன்றாக ஆய்வு செய்த பின், இப்பரிந்துரையை ஏற்க இயலாது என்றும் முடிவு எடுத்துள்ளது.

3. மேற்குறிப்பிட்ட அரசின் முடிவு தங்களுக்குத் தெரிவித்துக் கொள்ளப் படுகிறது.

ஒப்பம்.....  
அரசு செயலருக்காக.

நகல்:

ஊரக வளர்ச்சி (இ5) துறை, சென்னை - 9.

ஊரக வளர்ச்சி (சி2 / சி3 / சி4) துறை, சென்னை - 9.



**ANNEXURE IX - 2 (a)**  
(Ref: Para 2.10.)

No.of existing Panchayats / No.of reorganized Panchayats

District: Pudukottai

Sl.No.	Name of Panchayat Union	No.of existing Panchayats	No.of Panchayats if reorganized with population of 3000
1.	Annavasal	43	30
2.	Arimalam	32	23
3.	Kunnandarkovil	37	23
4.	Pudukottai	28	20
5.	Ponnamaravathi	42	28
6.	Thirumayam	33	21
7.	Viralimalai	45	34
8.	Aranthangi	52	39
9.	A.V.Kovil	35	22
10.	Manamelkudi	28	18
11.	Gandarvakottai	36	21
12.	Karambakudi	39	25
13.	Thiruvarankulam	48	34
<b>Total</b>		<b>498</b>	<b>338</b>

**ANNEXURE IX - 2 (b)**  
(Ref: Para 2.10.)

Number of existing Panchayats proposed for amalgamation

District: Thiruvallur

Sl.No.	Name of Panchayat Union	No.of existing Village Panchayats	Proposed for amalgamation
1.	Villivakkam	17	15
2.	Puzhal	15	9
3.	Minjur	56	42
4.	Sholavaram	39	30
5.	Gummudipoondi	61	43
6.	Poonamallee	28	18
7.	Thiruvallur	38	23
8.	Kadambattur	43	33
9.	Poondi	49	25
10.	Ellapuram	53	41
11.	Thiruttani	27	20
12.	Thiruvalangadu	42	32
13.	R.K.Pet	38	29
14.	Pallipet	33	22
<b>Total</b>		<b>539</b>	<b>382</b>

**ANNEXURE IX-3**  
**(Ref: Para 3.2.)**

**ABSTRACT OF**  
**NO.OF EXISTING PANCHAYAT UNION / NO.OF REORGANISED PANCHAYAT UNION**

District: Coimbatore

S.No	Name of Existing Panchayat Union	No.of Village Panchayats	Name of Proposed Panchayat Union	No.of Village Panchayats after reorganization.
1.	Karamadai	17	Karamadai	17
2.	Madukkarai	9	Madukkarai	22
3.	P.N. Palayam	9	P.N. Palayam	17
4.	S.S. Kulam	8	-	-
5.	Thondamuthur	10	-	-
6.	Annur	21	Annur	26
7.	Avinashi	31	Avinashi	29
8.	Palladam	20	Palladam	25
9.	Pongalur	16	Pongalur	22
10.	Sulur	17	Sulur	23
11.	Sulthanpet	20	-	-
12.	Tiruppur	21	Tiruppur	21
13.	Anaimalai	19	Anaimalai	26
14.	Gudimangalam	23	Gudimangalam	31
15.	Kinathukadavu	34	Kinathukadavu	35
16.	Madathukulam	11	-	-
17.	Pollachi (N)	39	Pollachi (N)	35
18.	Pollachi (S)	26	Pollachi (S)	34
19.	Udumalpet	38	Udumalpet	26
		389		389

Existing Panchayat Unions    19  
Proposed Panchayat Unions    15



**ANNEXURE IX-4**  
(Ref: Para 4.5.)  
**LIST OF TOWN PANCHAYATS FOR RECLASSIFICATION**

(ZONE WISE)				
Sl.No	NAME OF THE ZONE	NAME OF THE DISTRICT	NAME OF THE TOWN PANCHAYAT	GRADE
1.	Kancheepuram	Kancheepuram	1. Edaikazhinadu 2. Meenambakkam 3. Acharapakkam 4. Madambakkam 5. Tiruporur	II II I I I
2.	Tiruvallur	Tiruvallur	6. Pallipat	I
3.	Dharmapuri	Dharmapuri	7. Nagojanahalli 8. Kambainallur	II I
4.	Vellore	Vellore	9. Pennathur 10. Vilapakkam 11. Odagathur 12. Thiruvalem	I I I I
		Thiruvannamalai	13. Kannamangalam 14. Desur 15. Pernamallur 16. Pudupalayam	I II II II
5.	Salem	Salem	17. Keeripatti 18. Sendarapatti 19. Belur 20. Kadayampatti 21. Panamarathupatti 22. Poolampatti	I I I I I II
		Namakkal	23. Erumaipatti 24. Pattanam 25. R. Pudupatti 26. Athanur	I I II I
6.	Erode	Erode	27. Elathur 28. Pethampalayam 29. Avalpoondurai 30. Jambai 31. Salangapalayam 32. Chinnakampalayam 33. Olagadam 34. Kilambadi 35. Kasipalayam(Gobi) 36. Kolappalur 37. Kollankoil 38. Modakurichi 39. Nasiyanur 40. P.Mettupalayam 41. Ruthravathi	II II I I I II II II I I I I I I I
7.	Coimbatore	Coimbatore.	42. Samathur 43. Thondamuthur 44. Samalapuram 45. Alandurai 46. Dhali 47. Ettimadai 48. Idigarai 49. Mopperipalayam 50. Thenkarai (c.) 51. Dhaliyur 52. Kaniyur 53. Kannampalayam 54. Kinathukadavu 55. Periyane gamam 56. Sarkar samakulam 57. Vedapatti	I II I II II II II II II I I I I I I I
8.	Uthagamondal	The Nilgiris	--	--

9.	Cuddalore	Cuddalore	58.	Srimushnam	I
			59.	Lalpettai	I
			60.	Killai	II
			61.	Mangalampettai	I
			62.	Melpattambakkam	I
			63.	Sethiyathoppu	II
		Villupuram	64.	Ananthapuram	II
10.	Thanjavur	Thanjavur	65.	Marakkanam	I
			66.	Manalurpettai	I
			67.	Thiruvannainallur	I
			68.	Melathirupanthuruthy	II
			69.	Swamimalai	I
			70.	Melattur	I
			71.	Perumagalur	II
			72.	Veppathur	II
			73.	Sholapuram	II
		Nagapattinam	74.	Kilvelur	I
11.	Tiruchirapalli	Thiruchirapalli	75.	Thittacheri	I
			76.	Koradhacheri	I
			77.	Peralam	I
			78.	Balakrishnapatti	I
		Perambalur	79.	Poovalur	I
			80.	Pullampadi	I
			81.	Uppiliapuram	I
			82.	Varadarajan Pettai	II
			83.	Arumbavur	II
			84.	Kurumbalur	II
			85.	Poolambadi	II
			86.	Lebbai Kudikadu	I
		Pudukottai	87.	Annavasal	I
			88.	Arimalam	I
			89.	Keeramangalam	I
12.	Dindigul	Dindigul	90.	Eriodu	II
			91.	Thadikombu	I
			92.	Agaram	I
			93.	Palayam	I
			94.	Ayyalur	I
			95.	Kannivadi	I
			96.	Sriramapuram	I
			97.	Sithaiyankottai	I
		Karur	98.	P.J.Cholapuram	II
			99.	Marudur	I
			100.	Nangavaram	I
			101.	Punchaithottakurichi	I
			102.	Aravakurichi	I
			103.	Krishnarayapuram	II
13.	Madurai	Madurai	104.	A.Vellalapatti	I
			105.	Elumalai	I
			106.	Palamedu	I
			107.	T.Kallupati	I
		Theni	108.	Devadanapatti	I
14.	Sivaganga	Ramanathapuram	109.	R.S.Mangalam	II
			110.	Abiramam	I
		Virudhunagar	111.	Mallankinar	II
			112.	W.Pudupatti	II
			113.	S.Kodikulam	II
			114.	Sundarapandiyam	I
		Sivaganga	115.	Nerkuppai	II



15.	Tirunelveli	Tirunelveli	116. Achanputhur	I
			117. Panpoli	II
			118. Melaseval	I
			119. Ayikudi	I
			120. Gopalamudram	I
			121. Rayagiri	I
			122. Vadagaraikilpidagai	I
			123. Vasudevanallur	I
			124. Alwarkurichi	I
			125. Elanji	I
			126. Moolaikaraipatty	I
			127. Nanguneri	I
			128. Sundarapandiapuram	II
			129. Thirukumgudi	II
			130. Thiruvenkadam	II
		Thoothukudi	131. Alwarthirunagar	I
			132. Kanam	II
			133. Perungulam	II
			134. Pudur (V)	I
			135. Thenthirupperai	II
			136. Kadambur	I
16.	Nagercoil	Kanniyakumari	137. Aurmanai	I
			138. Mandaikadu	II
			139. Mulagumoodu	II
			140. Palugal	I
			141. Puthalam	II
			142. Reethapuram	I
			143. Thalakudi	II
			144. Boothapandi	I
			145. Edaikodu	I
			146. Ezhudesam	I
			147. Kadayal	I
			148. Kallukootam	I
			149. Killiyur	I
			150. Kollamcode	I
			151. Kothanallur	I
			152. Kumarapuram	I
			153. Nallur(K)	I
			154. Pacode	I
			155. Palapallam	I
			156. Thengamputhur	I
			157. Thiruvattaru	I
			158. Thiruvithancode	I
			159. Valvachagoshtam	I
			160. Verkilambi	I
			161. Vilavur	I
			162. Villukuri	I
			163. Athur	II
			164. Azhagiapandiapuram	II
			165. Eraniyal	II
			166. Ganapathipuram	II
			167. Kappiyarai	II
			168. Keelkulam	II
			169. Marungur	II
			170. Neiyur	II
			171. Thenthamaraiikulam	I
			172. Vellimalai	I
			173. Agastheeswaram	II
			174. Anjugramam	I
			175. Kottaram	I
			176. Mylaudy	I
			177. Alagappapuram	I
			178. Therur	II

**ANNEXURE IX 5.**  
(Ref: Para 5.8.)  
**NORMS FOR CLASSIFICATION OF URBAN LOCAL BODIES**

LOCAL BODY	CURRENT NORMS		NORMS AS PER TNULB ACT / RULES		NORMS RECOMMENDED BY SSFC
	Population	Average Annual income	Minimum population	Average Annual income	
<b>Town Panchayats</b>		(Rs.lakhs)		(Rs.lakhs)	(Rs. in lakhs)
Grade II	Upto 10,000	>10	20,000	>30	>30 but <40
Grade I	Upto 15,000	>15		>40 but <50	>40 but <60
Selection Grade	Upto 20,000	>20		>50 but <75	>60 but <100
Special Grade	Above 20,000	>50		>75	>100 but <200
<b>Municipalities</b>					
Grade II	>30,000	>50	30,000	>50	>200 but <400
Grade I		>100		>400 but <600	>400 but <600
Selection Grade		>200		>600 but <1000	>600 but <1000
Special Grade		>500		>1000	>1000 but <5000
Corporations	>10,00,000	>5000	5,00,000	>3000	>5000

**ANNEXURE - IX - 6**  
(Ref: Para 5.6.1.)

From  
K.R. Tamizhmani,  
Spl. Government Pleader, (MA&WS Dept)  
High Court, Madras - 600 104.  
Phone: 5341024 (Office)

To  
The Member Secretary,  
II State Finance Commission.  
Panagal Building,  
Saidapet, Chennai - 600 015.

Letter ROC.No. KRT/SGP/2001, dated 27.03.2001

Sub: Municipalities - Reclassification of Municipalities - Tamil Nadu District Municipalities (Extension of transferred territory) Act 1959 - Legal Opinion - Regarding.  
Ref: Your D.O.Lr.No.87/SSFC/ B /2000-02, dated 26.3.2001.

\*\*\*\*\*

I have examined the matter in detail. There is absolutely no bar for down grading any Municipality which forms part of transferred territory. Once a certain area or Municipality is transferred to the State of Tamil Nadu and the Tamil Nadu District Municipalities Act, 1920 is made applicable, the said area and the Municipality will continue to be governed and regulated in terms of 1920 Act only. Neither Sec.3 (5) nor Sec. 5 or Sec.8 of the Tamil Nadu District Municipalities (extension to the transferred territory) Act, 1959 would be a bar for down grading any Municipality provided we have the power under 1920 Act or any other law for that matter. You are at liberty to suggest any amendment in this regard and there is no legal bar to down grade a Municipality on the only ground that it falls within the transferred territory.

Sd.  
Spl. Government Pleader



**ANNEXURE - XI-1**  
(Ref: Para 1)

**TENTH CENTRAL FINANCE COMMISSION FUNDS FOR LOCAL BODIES**

(Rs. in lakhs)

		Urban Local Bodies							Panchayat Raj Institutions					
Year									Municipality	Town Panchayat	G.O.Ms.No. & date RD Dept.	Village Panchayat	Panchayat Union	District Panchayat
	G.O. (MS)No. & Date MAWS Dept.	Chennai	CBE	MDU	Salem	Trichy	Tively	Total						
1996-97	296 dt 19.11.96 & 320 dt. 5.12.96	470.00	114.00	100.00		71.00	47.00	882.00	873.00	1067.00	227 dt. 15.10.96	543.00 (Pop. 10000 & above	3840.00	2800.00
1997-98	118 dt 9.5.97	478.00	117.04	103.04	82.04	74.04	48.05	902.21	892.68	1093.11	167 dt. 28.5.97	1913.00	3870.00	1400.00
1998-99	97 dt. 5.6.98	478.00	117.04	103.04	82.04	74.04	48.05	902.21	892.68	1093.11	258 dt. 4.12.98	1863.00	4620.00	700.00
1999-00	247 dt. 14.6.99	478.00	117.04	103.04	82.04	74.04	48.05	902.21	892.68	1093.11	199 dt. 25.9.99	3378.01	3232.35	574.64

## ANNEXURE XI-2

(Ref: Para 2.1.)

### ELEVENTH CENTRAL FINANCE COMMISSION REPORT SUMMARY OF RECOMMENDATIONS RELATING TO STATE LOCAL BODIES

- 14.31 Article 243I should be amended to enable the States to set up the State Finance Commissions (SFC) at the expiration of every fifth year or earlier, akin to the provision that already exists under article 280 for constituting the Finance Commission. The synchronization of availability of the State Finance Commission reports may also be ensured through either a Central legislation or an appropriate provision in the Constitution. (Para 8.11a).
- 14.32 State Finance Commission reports may contain specific chapters, as indicated in Para (8.11 b), so as to make them more useful to the Finance Commission. (Para 8.11b).
- 14.33 State Governments should take their decision on the recommendations of the State Finance Commission, especially in regard to matters relating to resource transfer, and place the ATRs on the floor of the State Legislature within six months. Amendments to the laws, if necessary, should be made to ensure this at the earliest. (Para 8.11 c)
- 14.34 The words 'on the basis of the recommendations made by the Finance Commission of the State', appearing in sub-clauses (bb) & (c) of article 280(3) of the Constitution, may be deleted. (Para 8.11.d).
- 14.35 States should, by legislation, ensure that the chairpersons and members of the SFCs may be drawn from amongst experts in specific disciplines such as economics, law, public administration and public finance. (Para 8.12).
- 14.36 Taxes on land / farm income may be levied in suitable form to strengthen the resource base of the local bodies. The amounts so collected may be passed on to these bodies for improving and strengthening the civic services. Local Bodies may also be involved in collection of these taxes. (Para 8.15a).
- 14.37 Cess on land based taxes and other State taxes / duties may be levied and devolved to the local bodies for augmenting specific civic services. (Para 8.15 b)
- 14.38 States should levy profession tax with a view to supplementing the resources of local bodies, or they should empower the local bodies to levy it. The rates should be suitably revised from time to time. (Para 8.15c)
- 14.39 Property tax / house tax has not been exploited to its full potential. The relevant tax legislation should be suitably modified to delink this tax from the rent control laws. Where a property has been let out, the property tax should be made recoverable from the occupier. (Para 8.16a)
- 14.40 Abolition of octroi should invariably be accompanied with its replacement by a suitable tax that is buoyant and can be collected by the local bodies. (Para 8.16b)
- 14.41 The rate structure of user charges levied by the local bodies should be revised regularly to keep pace with inflation and to recover atleast, as far as possible, the full-operations and maintenance cost. Local bodies should have the power to fix the rates of taxes and user charges. (Para 8.16c)
- 14.42 The grants recommended for local bodies in this report should be given to those local bodies, which have the primary responsibility for maintenance of civic services. The grant should be untied, but should not be used for payment of salaries and wages. (Para 8.19a)
- 14.43 States should review the existing accounting heads under which funds are being transferred to the local bodies. For each major head / sub-major head, six minor heads should be created - three for the consultation with the Comptroller and Auditor General of India (C&AG) and the Controller General of Accounts, to ensure uniformity among the States. (Para 8.19a)
- 14.44 The C&AG should be entrusted with the responsibility of exercising control and supervision over the maintenance of accounts and their audit for all the tiers / levels of panchayats and urban local bodies. (Para 8.19b)
- 14.45 The Director, Local Fund Audit, or any other agency made responsible for the audit of accounts of the local bodies, should work under the technical and administrative supervision of the C&AG. In no case, should be the Director of Panchayats or for Urban Local Bodies be entrusted with this work. The prescribed authority entrusted with the audit and accounts of the local bodies should not have any functional responsibility in regard to these bodies, so as to ensure his independence and accountability. (Para 8.19c)
- 14.46 The C&AG should prescribe the format for the preparation of budgets and for keeping accounts by the local bodies, which should be amenable to computerization. (Para 8.19d).
- 14.47 Local bodies, which do not have trained accounts staff, may contract out the upkeep of accounts to outside agencies / persons. The C&AG may lay down the qualification and experience required for this purpose. The Director, Local Fund Audit, or his equivalent authority, may do the registration of such agencies / persons. (Para 8.19 e)
- 14.48 Audit of accounts of the local bodies may be entrusted to the C&AG, who may get it done through his own staff, or by engaging outside agencies on payment of remuneration fixed by him. An amount of half percent of the total expenditure incurred by the local bodies should be placed with the C&AG for this purpose. (Para 8.19f)
- 14.49 The report of the C&AG, relating to audit of accounts of the Panchayats and the municipalities, should be placed before a committee of the State Legislature constituted on the same lines as the Public Accounts Committee. (Para 8.19g)
- 14.50 An amount of Rs.4,000 per Panchayat per annum, on an average, should be adequate to meet the expenditure on maintenance of accounts on contract basis, if the staff / facilities are not available within the Panchayat. The amount may be paid from the grants that are recommended for the rural local bodies. Any additional fund required for this purpose should be met from the grants given to the States for the Panchayats. Where a Panchayat has got staff available for upkeep of accounts, these funds need not be so earmarked. If any municipality does not have a regular staff for this purpose, the grants provided to it may also be so earmarked. (Para 8.20).
- 14.51 A database on finances of the Panchayats and municipalities should be developed at the district, State and Central Government levels and be easily accessible by computerizing it and linking it through V-SAT. The Director, Local Fund Audit, or the authority prescribed for conducting the audit of accounts of the local bodies, may be made responsible for this task. The Chief Secretary of the State may do the State level coordination and monitoring. The C&AG should be involved at all stages. (Para 8.21).
- 14.52 A total grant of Rs.1,600 crores for Panchayats and Rs.400 crores for the municipalities is recommended to be given to States for each of the five years starting from the financial year 2000-01. The amounts indicated for maintenance of accounts, audit of accounts and for the development of database, would be the first charge on these grants and would be released by the concerned Ministries of the Government of India, after the arrangements suggested become operational. Shares in respect of the scheduled, tribal and other



- excluded areas should be made available to the respective States only after the relevant legislative measures are taken extending the provisions of the 73<sup>rd</sup> and 74<sup>th</sup> amendments to such areas. (Para 8.22).
- 14.53 Inter-se share of States in the grants provided for the Panchayats and the municipalities is based on the rural / urban population of the State (40 per cent), index of decentralization (20 per cent), distance from the highest per capita income (20 per cent), revenue effort of the local bodies (10 per cent) and geographical area (10 per cent). (Paras 8.23, 8.24, 8.25 & 8.26).
- 14.54 While all the States barring Arunachal Pradesh have either enacted a new Panchayat / Municipal Act or have amended the existing legislation in conformity with the 73<sup>rd</sup> and 74<sup>th</sup> amendments, the schemes relating to the subjects included in the Eleventh and Twelfth Schedules have not yet been transferred to these bodies in most of the States as contemplated in articles 243G and 243W. Transfer of functions and schemes to the local bodies should be specifically provided by legislation. (Para 8.28a)
- 14.55 The roles of the three tiers of the Panchayats have generally not been delineated in the State legislations and the matter has usually been left to be decided by way of executive instructions. Legislative arrangements should be made to clearly indicate the role that these bodies have to play in the system of governance in the rural areas of a district. (Para 8.28b)
- 14.56 The two Union Ministries - the Ministry of Rural Development and the Ministry of Urban Development - have to ensure that the local bodies function as institutions of self-Government and all impediments to the realization of this ideal are removed. These Ministries should take the initiative for transferring the schemes related to their subjects included in the Eleventh and Twelfth Schedules, to the local bodies. (Para 8.28c)
- 14.57 The three-tier Panchayat Raj System is very rigid arrangement. States may be provided flexibility to decide whether a two-tier system would operate with greater efficiency and economy or a three-tier structure would be essential. (Para 8.28d).
- 14.58 For extending the provisions of the 74<sup>th</sup> amendment to the Fifth Schedule areas, Parliament is yet to enact the enabling legislation. This may be speeded up. (Para 8.28c)
- 14.59 The Legislatures in the States of Meghalaya, Mizoram and Nagaland should take suitable action for extending the provisions of the 73<sup>rd</sup> amendment to the non-Sixth Schedule areas. Alternatively, the existing village level institutions in these areas may be recognised as Panchayats for the purposes of the 73<sup>rd</sup> amendment, by appropriate legislative changes. (Para 8.28f)
- 14.60 Suitable enabling provisions in the Constitution may be introduced so that the hill areas in the State of Manipur and in the district of Darjeeling in West Bengal could get the benefit of the 73<sup>rd</sup> amendment. (Para 8.28g)
- 14.61 Administrative reorganization of Panchayats is necessary to ensure their development as viable institutions of self-Government. (Para 8.28h)
- 14.62 The District Planning Committees and the Metropolitan Planning Committees should be constituted and made functional. (Para 8.28i)
- 14.63 All Government properties of the Centre as well as the States, should be subject to the levy of user charges. It should be regulated by suitable legislation. (Para 8.32).

**ANNEXURE XII - 1**

**(Ref : Para 3.1.2.)**

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EXTRAORDINARY

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MINISTRY OF HOME AFFAIRS

ORDER

New Delhi, the 28<sup>th</sup> May, 1990

G.S.R. 512(E) – The following Order by the President is published for general information.

**Whereas it appears to the President that the public interest would be served by the establishment of an Inter-State Council;**

**Now, therefore, in exercise of the powers conferred by Article 263 of the Constitution, the President hereby makes the following order, namely :-**

- 1) Short title and commencement. –(i) This order may be called the Inter-State Council Order, 1990.
- (2) It shall come into force at once.

**2. Composition of the Council.- There shall be an Inter-State Council (hereinafter referred to as the Council ) consisting of the;**

- a) Prime Minister ;
- b) Chief Ministers of all States;
- c) Chief Ministers of Union territories having a Legislative Assembly and Administrators of Union territories not having a Legislative Assembly;
- d) Six Ministers of Cabinet rank in the Union Council of Ministers to be nominated by the Prime Minister.

(Note: Other Ministers and Ministers of State having independent charge in the Union Government may be invited as and when any item relating to a subject under their charge is to be discussed).

3. Chairman of the Council. – The Prime Minister shall be the Chairman of the Council and shall preside over the meetings of the Council;

**Provided that when the Prime Minister is unable to preside over any meeting, he may nominate by Union Minister of Cabinet rank to preside over the meeting.**

**4. Duties of the Council.- The Council shall be a recommendatory body and in that capacity, shall perform the following duties, namely:-**

- a) investigating and discussing such subjects, in which some or all of the States or the Union and one or more of the States have a common interest, as may be brought up before it;
- b) making recommendations upon any such subject and in particular recommendations for the better coordination of policy and action with respect to that subject; and
- c) deliberating upon such other matters of general interest to the States as may be referred by the Chairman to the Council.

**5. Procedure of the Council.- The Council shall, in the conduct of its business, observe the following procedure, namely:-**

- a) the Council shall adopt guidelines for identifying and selecting issues to be brought up before it;
  - b) the Council shall meet at least thrice in every year and at such time and place as the chairman may appoint in this behalf;
  - c) the meetings of the Council shall be held in camera;
  - d) ten members (including the Chairman) shall form the quorum for a meeting of the Council;
  - e) all questions which may come up for consideration of the Council at a meeting shall be decided by consensus and the decision the Chairman as to consensus shall be final;
- and
- f) the Council shall, in the conduct of its business, observe such other procedure as it may, with the approval of the Central Government, lay down from time to time.

**6. Secretariat of the Council.- The Council shall have a Secretariat comprising of such officers and staff as the Chairman may think fit to appoint.**

R. VENKATARAMAN,  
President

Camp Shimla,  
Dated, the 25<sup>th</sup> May, 1990

(F.No.IV/11017/3/90-CSR)  
NARESH CHANDRA, Home Secy.

(True copy)

Section Officer.



இணைப்பு XII-2  
(பார்வை : பத்தி 33)  
சுருக்கம்



ஊராட்சிகள் - மூன்றாண்டுக்கு ஊராட்சி அமைப்புகளுக்கு மேலும் அதிகாரங்கள், பொறுப்புகள் மற்றும் உரிமைகள் வழங்க அரசுக்கு பரிந்துரை செய்ய உயர்நிலைக்குழு அமைக்கப்பட்டது - குழுவின் அறிக்கை அரசுக்கு சமர்ப்பிக்கப்பட்டது - குழுவின் அறிக்கை இயல் இரண்டில் உள்ள பரிந்துரை எண்.35-ன் மீது நடவடிக்கை எடுத்தல் - மாண்புமிகு முதலமைச்சர் அவர்கள் தலைமையில் தமிழ்நாடு ஊரக மற்றும் நகர்ப்புற வளர்ச்சி மன்றங்களை அமைத்தல் - ஆணை வெளியிடப்படுகிறது.

ஊரக வளர்ச்சித் (தி2) துறை

அரசாணை (நிலை) எண்.237

நாள் 04.11.99

படிக்கப்பட்டவை

1. அரசு ஆணை (நிலை) எண் 320, ஊரக வளர்ச்சித் துறை நாள் 11.11.97
2. அரசு ஆணை (நிலை) எண்.78 ஊரக வளர்ச்சித் துறை நாள் 28.4.98.

ஆணை:

இந்திய அரசியலமைப்பு சட்டம், அட்டவணை 2-ல் மாநில அரசுகள், உள்ளாட்சி அமைப்புகளுக்கு உரிமைகள், பொறுப்புகள் மற்றும் அதிகாரங்கள் பகிர்ந்தளிக்க வேண்டிய 29 பொருள்கள் என்னென்னவென்று குறிப்பிடப்பட்டுள்ளது. அதன்படி முதற்கட்டமாக மாநில திட்டக்குழுவின் பரிந்துரைகளை ஏற்று மூன்றாண்டுக்கு ஊராட்சி அமைப்புகளுக்கு உரிமைகள், அதிகாரங்கள் மற்றும் பொறுப்புகள் (சிறுபாசனம், சிறுகாடுகள் மற்றும் வன உற்பத்திப்பொருட்கள் பாதுகாப்பு ஆகியவற்றை தவிர) பிற இனங்கள் மீது ஒப்படைப்பு செய்யப்பட்டுள்ளன. மேலும், மூன்றாண்டுக்கு ஊராட்சி அமைப்புகளுக்கு கூடுதல் அதிகாரங்கள் அளிக்க அரசுக்கு பரிந்துரை செய்ய மாண்புமிகு ஊரக வளர்ச்சி மற்றும் உள்ளாட்சித் துறை அமைச்சர் அவர்களை அமைப்பாளராகவும், சட்டமன்றத்தில் இடம் பெற்றுள்ள அனைத்துக் கட்சிகளின் பிரதிநிதிகளை உறுப்பினர்களாகக் கொண்டும் உயர்நிலைக் குழு அமைத்து பார்வை ஒன்று மற்றும் இரண்டில் படிக்கப்பட்ட அரசாணைகளில் ஆணைகள் வெளியிடப்பட்டன. உயர்நிலைக்குழு தனது அறிக்கையை அரசுக்கு 11.01.99 அன்று சமர்ப்பித்தது.

2. உயர்நிலைக் குழுவின் அறிக்கையில் இயல் 2-ல் உள்ள பரிந்துரை எண்.35 பின்வருமாறு:  
பரிந்துரை எண்.35

மத்தியில் உள்ள தேசிய வளர்ச்சி குழுவும் போன்று, மாநில அளவில், முதலமைச்சரை தலைவராகக் கொண்டும், சில சட்டமன்ற உறுப்பினர்கள், சில நாடாளுமன்ற உறுப்பினர்கள், மாவட்ட பஞ்சாயத்துத் தலைவர்கள், மாநகரத் தந்தைகள், அமைச்சர்கள், முதுநிலை நிர்வாகத்தினர்கள், மற்றும் மாநில திட்டக் குழு உறுப்பினர்களையும் கொண்டு, மாநில வளர்ச்சி குழுவும் ஏற்படுத்தப்பட வேண்டும்.

3. உயர்நிலைக்குழு அறிக்கையிலுள்ள, பரிந்துரைகளை அரசு ஏற்பது குறித்து முடிவு செய்ய 3.5.99 மற்றும் 4.5.99 ஆகிய நாட்களில் சுடிய அமைச்சரவைக் கூட்டத்தில் எடுக்கப்பட்ட முடிவுக்கேற்ப உயர்நிலைக் குழுவின் அறிக்கை இயல்-2ல் உள்ள பரிந்துரை எண்.35 மீது அரசு பின்வருமாறு ஆணையிடுகிறது.

- 1) மாநிலத்தின் வளர்ச்சிப் பணிகள் பற்றி கருத்து தெரிவிக்க (1) தமிழ்நாடு ஊரக வளர்ச்சி மன்றம் (2) தமிழ்நாடு நகர்ப்புற வளர்ச்சி மன்றம் என்ற இரண்டு அமைப்புகள் அமைக்கப்படுகின்றன.
- 2) தமிழ்நாடு ஊரக வளர்ச்சி மன்றம் கீழ்க்கண்டவாறு அமைக்கப்படுகிறது.

முதலமைச்சர்

தலைவர்

திட்டம், நிதி, குடிநீர் வழங்கல், மற்றும் உள்ளாட்சித் துறைகளின் அமைச்சர்கள்  
ஊரக வளர்ச்சி தொடர்பான மாநில திட்ட குழு உறுப்பினர்  
மாவட்ட ஊராட்சிகளின் தலைவர்களிலிருந்து 6 சார்பாளர்கள்  
ஊராட்சி ஒன்றியத் தலைவர்களிலிருந்து 6 சார்பாளர்கள்  
கிராம ஊராட்சிகளின் தலைவர்களிலிருந்து 6 சார்பாளர்கள்  
தலைமைச் செயலர்  
ஊரக வளர்ச்சித்துறையின் செயலர்.

உறுப்பினர்கள்

உறுப்பினர்  
உறுப்பினர்கள்  
உறுப்பினர்கள்  
உறுப்பினர்கள்  
உறுப்பினர்  
உறுப்பினர் செயலர்

- 3) தமிழ்நாடு ஊரக வளர்ச்சி மன்றத்தின் செயல்பாடுகள்:-  
 (அ) ஊரக வளர்ச்சியின் கொள்கைப் பிரச்சனைகளைப் பற்றி விவாதித்தல்.  
 (ஆ) உள்ளாட்சி அமைப்புகளை வலுப்படுத்துவதற்கான கொள்கை முடிவுகளைப் பற்றி விவாதித்தல்.  
 (இ) அடிப்படைக் கட்டமைப்பு வசதிகளைப் பற்றியும், சமூக, பொருளாதார முன்னேற்றத் திட்டங்களின் செயல்பாடுகள் பற்றியும் ஆய்வு செய்தல்.  
 (ஈ) வளர்ச்சி தொடர்பான பிரச்சனைகள் செய்திகள், பொருட்கள் பற்றி மன்ற உறுப்பினர்கள், மன்றத் தலைவரின் அனுமதிபெற்று விவாதித்தல்.
- 4) தமிழ்நாடு நகர்ப்புற வளர்ச்சி மன்றம் கீழ்க்கண்டவாறு அமைக்கப்படுகிறது.

**முதலமைச்சர்**

**தலைவர்**

திட்டம், நிதி, உள்ளாட்சித் துறை, குடிநீர் வழங்கல், வீட்டு வசதி, நகர்ப்புற வளர்ச்சி மற்றும் குடிசை மாற்று துறைகளின் அமைச்சர்கள்  
 நகர்ப்புற வளர்ச்சி தொடர்பான மாநில திட்ட குழு உறுப்பினர்  
 அனைத்து மாநகராட்சி தந்தையர்  
 நகராட்சித் தலைவர்களிலிருந்து 6 சார்பாளர்கள்  
 பேரூராட்சிகளின் தலைவர்களிலிருந்து 6 சார்பாளர்கள்  
 தலைமைச் செயலர்  
 நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கல் துறையின் செயலர்.

உறுப்பினர்கள்

உறுப்பினர்  
 உறுப்பினர்கள்  
 உறுப்பினர்கள்  
 உறுப்பினர்கள்  
 உறுப்பினர்  
 உறுப்பினர் செயலர்

- 5) தமிழ்நாடு நகர்ப்புற வளர்ச்சி மன்றத்தின் செயற்பாடுகள்:-  
 (அ) நகர்ப்புற வளர்ச்சியில் கொள்கைப் பிரச்சனைகளைப் பற்றி விவாதித்தல்.  
 (ஆ) நகர்ப்புற உள்ளாட்சி அமைப்புகளை வலுப்படுத்துவதற்கான கொள்கை முடிவுகளைப் பற்றி விவாதித்தல்.  
 (இ) அடிப்படைக் கட்டமைப்பு வசதிகளைப் பற்றியும், சமூக, பொருளாதார முன்னேற்றத் திட்டங்களின் செயல்பாடுகள் பற்றியும் ஆய்வு செய்தல்.
- (ஈ) வளர்ச்சி தொடர்பான பிரச்சனைகள், செய்திகள், பொருட்கள் பற்றி மன்ற உறுப்பினர்கள், மன்றத் தலைவரின் அனுமதிபெற்று விவாதித்தல்.
- 6) மாவட்ட ஊராட்சிகள், ஊராட்சி ஒன்றியங்கள், ஊராட்சிகள், நகராட்சிகள் மற்றும் பேரூராட்சிகள் ஆகியவற்றின் தலைவர்களிலிருந்து சார்பாளர்கள் மாண்புமிகு முதலமைச்சர் அவர்களால் நியமிக்கப்படுவர். இந்த சார்பாளர்களின் பதவிக்காலம், அவர்களுடைய நியமன நாளிலிருந்து 2 ஆண்டுகளாக இருக்கும்.
- 7) அலுவல் சாராத உறுப்பினர்களின் பயணப்படி, அகவிலைப்படி போன்ற பிற படிப் பணத்தைப் பொறுத்தவரையில், இரு குழுக்களுக்கும் முதன்மை நிலைக் குழு அந்தஸ்து வழங்கப்படும். இந்த குழு தொடர்பான செலவுகள் தமிழ்நாடு ஊரக வளர்ச்சிக் குழுவின் செலவுகள், ஊரக வளர்ச்சித் துறையினாலும், நகர்ப்புற வளர்ச்சிக் குழுவின் செலவுகள், நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கல் துறையினாலும் ஏற்றுக்கொள்ளப்படும்.
- 8) தமிழ்நாடு ஊரக வளர்ச்சி மன்றத்தின் அனைத்து பணிகளை ஊரக வளர்ச்சித் துறையும் தமிழ்நாடு நகர்ப்புற வளர்ச்சி மன்றத்தின் அனைத்துப் பணிகளை நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கல் துறையும் மேற்கொள்ளும்.
4. இவ்வரசாணை நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கல் துறையின் அ.சா.எண்.ந.நி (ம) கு.வ /செயலர்/99 நாள் 01.11.99-ல் பெறப்பட்ட ஒப்புதலுடன் வெளியிடப்படுகிறது.

(ஆளுநரின் ஆணைப்படி)

இரமேஷ் சந்திர பண்டா  
 அரசுச் செயலர்.

**பெறுநர்**

மாண்புமிகு முதலமைச்சர், சென்னை -9  
 மாண்புமிகு ஊரக வளர்ச்சி மற்றும் உள்ளாட்சித் துறை அமைச்சர், சென்னை -9  
 மாண்புமிகு வீட்டு வசதித் துறை அமைச்சர், சென்னை -9  
 தலைமைச் செயலர், சென்னை -9  
 செயலர், நிதித் துறை, சென்னை -9  
 செயலர், திட்டம் மற்றும் வளர்ச்சி, சென்னை -9  
 செயலர், ஊரக வளர்ச்சித் துறை, சென்னை -9  
 செயலர், நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கல் துறை, சென்னை -9  
 உறுப்பினர்-செயலர், மாநில திட்டக் குழு, சென்னை -9  
 ஊரக வளர்ச்சி இயக்குநர், சென்னை -15.  
 நகராட்சி நிர்வாகத்தின் இயக்குநர், சென்னை-5  
 பேரூராட்சிகளின் இயக்குநர், சென்னை - 108  
 அனைத்து மாவட்ட ஆட்சித் தலைவர்கள்

// உண்மை நகல் //

பிரிவு அலுவலர்.



**Annexure –XII-3(a)**

**(Ref – Para 5.2)**

Abstract of capital investment Rs.600.00 lakhs

(Rs. in lakhs)

Sl.No.	Description	SIRD	RETCs	Total
1	Buildings	135.00	360.00	495.00
2.	Equipment	15.00	90.00	105.00
<b>Total</b>		<b>150.00</b>	<b>450.00</b>	<b>600.00</b>

**ANNEXURE –XII-3 (B)**

**(Ref – Para 5.2)**

Recurring expenditure from 2002-03 to 2006-07

Recurring expenditure to be met from devolution funds

Financial Commitment

SIRD

(Rs. in lakhs)

Year	Administration	Maintenance	Training cost	Total	SSFC devolution amount
2002-03	67.78	21.13	93.24	182.15	25.00
2003-04	74.56	23.24	102.56	200.36	25.00
2004-05	82.01	25.57	112.81	220.39	25.00
2005-06	90.22	28.12	124.09	242.43	25.00
2006-07	99.24	30.94	136.49	266.67	25.00
<b>Total</b>	<b>413.81</b>	<b>129.00</b>	<b>569.19</b>	<b>1112.00</b>	<b>125.00</b>

FIVE RETCs

(Rs. in lakhs)

Year	Maintenance	Training cost	Total	SFC devolution amount
2002-03	25.89	298.87	324.76	50.00
2003-04	28.48	328.76	357.24	50.00
2004-05	31.33	361.63	392.96	50.00
2005-06	34.46	397.79	432.25	50.00
2006-07	37.91	437.57	475.48	50.00
<b>Total</b>	<b>158.07</b>	<b>1824.62</b>	<b>1982.69</b>	<b>250.00</b>

Maintenance cost for two new RETCs from 2004-05 to 2006-07

Year	Maintenance	Training cost	Total	SSFC devolution amount
2004-05	5.20	110.00	115.20	To meet from SSFC devolution fund of Rs.25.00 lakhs allotted to RETCs.
2005-06	5.72	121.00	126.72	..
2006-07	6.29	133.10	139.39	..
<b>Total</b>	<b>17.21</b>	<b>364.10</b>	<b>381.31</b>	

**இணைப்பு XII - 4**  
**(பார்வை : பத்தி 21.4)**

**சுருக்கம்**



உள்ளாட்சி அமைப்பு - மைய மற்றும் மாநில நிதிக்குழுக்கள் உள்ளாட்சி அமைப்புகளின் மீதான பரிந்துரைகள் - ஆய்வு செய்தல் - உயர் மட்டக் குழு அமைப்பது - ஆணை வெளியிடப்படுகிறது

நிதித் (நி.கு.4)துறை

அரசாணை நிலை எண் 86

நாள் 27.2.2001

விக்ரம், மாசி 15.

திருவள்ளூர் ஆண்டு 2032

ஆணை:

ஊரக உள்ளாட்சி அமைப்புகள் தொடர்பான 73-வது அரசியல் சட்டத்திருத்தம் மற்றும் நகர உள்ளாட்சி அமைப்புகள் தொடர்பான 74-வது அரசியல் சட்டத்திருத்தம் 1992ல் நிறைவேற்றப்பட்டு இந்த சட்டத்திருத்தங்கள் 24.4.1993 முதல் நடைமுறைப்படுத்தப் பட்டதால் அவைகள் அன்று முதல் அரசியலமைப்பின் அங்கமாக செயல்பட்டு வருகிறது. அரசியலமைப்பு சட்டப்பிரிவு 243-ல் இருந்து 243(1) வரை ஊரக மற்றும் நகர்ப்புற அமைப்பு களுக்கு வகை செய்யப்பட்டுள்ளது. மேலே குறிப்பிட்ட சட்டத் திருத்தங்களுக்குப்பிறகு அரசியலமைப்புச் சட்டப்பிரிவு 280 உட்பிரிவு 3ல் (தீதி) மற்றும் (நீ) என்ற புதிய பிரிவுகள் சேர்க்கப்பட்டது. இதன்படி இந்திய குடியரசு தலைவரால் அமைக்கப்படும் அரசியல் அமைப்புச் சட்டம் பிரிவு 280(வி)-ன் கீழ் அமைக்கப்படும் மைய நிதிக்குழு, மாநில நிதிக்குழுவின் பரிந்துரைகளின் அடிப்படையில் ஊரக மற்றும் நகர்ப்புற உள்ளாட்சி அமைப்புகளின் நிதி ஆதாரங்களை மேம்பாடு செய்யும் பொருட்டு மாநில அரசின் தொகு நிதியை பெருக்குவதற்கு வழி முறைகளை பரிந்துரைக்கவேண்டும். இந்நிலையில் மைய நிதிக்குழு உள்ளாட்சி அமைப்புகளுக்கு மானியம் பரிந்துரைப்பது சட்ட பூர்வமாக்கப்பட்டுள்ளது. அரசியல் சட்டப்பிரிவு 243 மி மற்றும் 243 சீ- ன்படி உள்ளாட்சி அமைப்புகளின் நிதி ஆதாரங்களை மேம்படுத்தும் பொருட்டு அவைகளின் நிதி நிலையினை ஆய்வு செய்து மாநில அரசின் வரிகளை உள்ளாட்சி அமைப்புகளுக்கிடையே பகிர்ந்தளிப்பதற்கான கோட்பாடுகள் பற்றி பரிந்துரை செய்ய ஆளுநர் அவர்களால் மாநில நிதிக்குழு ஒன்று ஐந்து ஆண்டுகளுக்கு ஒரு முறை அமைக்கப்படல் வேண்டும்.

2. இவ்வகையில், உள்ளாட்சி அமைப்புகளின் நிதி ஆதாரங்களை ஆய்வு செய்வதற்காக மைய மற்றும் மாநில நிதிக்குழுக்கள் நியமிக்கப்படுவது தொடர்ச்சியாக இருக்கும். இவ்விரு நிதிக்குழுக்களின் பரிந்துரைகளின் மீதான தொடர் நடவடிக்கைகள் குறித்து அவ்வப்போது ஆய்வு செய்வது அவசியமாகிறது. இந்த வகையில் முதலாவது மாநில நிதிக்குழு அமைக்கப்பட்டு அந்தக் குழு 1996-ல் தனது அறிக்கையினை அளித்தது. இந்தக்குழுவின் பரிந்துரைகள் 31.3.2002 வரை நடைமுறையிலிருக்கும். மேலும் பதினோராவது மைய நிதிக்குழு உள்ளாட்சி அமைப்புகள் பற்றி பல்வேறு பரிந்துரைகளை அரசுக்கு அளித்துள்ளது. இரண்டாவது மாநில நிதிக்குழு 1999-ல் அமைக்கப்பட்டு அதன் அறிக்கை 2001-ம் ஆண்டு அக்டோபர் 31க்குள் அளிக்கப்பட இருக்கின்றது. மேற்கூறிய முதலாவது மாநில நிதிக்குழு மற்றும் பதினோராவது மைய நிதிக்குழுவின் பரிந்துரைகளின் மீதான தொடர் நடவடிக்கை குறித்து ஆய்வு செய்ய வேண்டும். மேலும் இரண்டாவது மாநில நிதிக்குழுவின் அறிக்கை பெற்ற பின் அந்த பரிந்துரைகளின் மீதான தொடர் நடவடிக்கை குறித்து ஆய்வு செய்யப்படவேண்டும். இந்த ஆய்வினை தொடர்ந்து மேற்கொள்ள ஒரு அமைப்பினை அமைப்பது பற்றி அரசு தீவிரமான பரிசீலனை செய்தது. ஆழ்ந்த பரிசீலனைக்குப் பின், மைய மற்றும் மாநில நிதிக்குழுக்களால் உள்ளாட்சி அமைப்புகள் தொடர்பாக மானியம் மற்றும் வரிப்பங்கீடு உட்பட இக்குழுக்கள் பரிந்துரைக்கும் பரிந்துரைகளின் மீதான தொடர் நடவடிக்கையினை ஆய்வு செய்ய அரசு கீழ்க்கண்டவாறு உயர் மட்டக்குழு ஒன்றினை அமைக்க ஆணையிடுகிறது,

1.	தலைமைச் செயலர்	தலைவர்
2.	சிறப்புப் பணி அலுவலர் மற்றும் முதன்மைச் செயலர், நிதித்துறை(அலுவலால்)	உறுப்பினர்
3.	செயலர், நிதித்துறை	உறுப்பினர்
4.	செயலர், ஊரக வளர்ச்சித் துறை	உறுப்பினர்
5.	செயலர், நகராட்சி நிர்வாகம் மற்றும் குடிநீர் வழங்கல் துறை	உறுப்பினர்

சட்டம் தொடர்பான கருத்துக்களை விவாதிக்கும்போது செயலர், சட்டத்துறை அவர்கள் சிறப்பு அழைப்பினராக இக்கூட்டத்திற்கு அழைக்கப்படுவார். இந்த உயர்மட்டக்குழு மூன்று மாதங்களுக்கு ஒரு முறைகூடி உள்ளாட்சி அமைப்புகள் தொடர்பான மைய மற்றும் மாநில நிதிக்குழுக்களின் பரிந்துரைகள் மீது எடுக்கப்பட்டுள்ள நடவடிக்கைகள் குறித்து ஆய்வு செய்யும். இக்குழு தொடர்பான நடவடிக்கைகளை நிதித்துறை ஒருங்கிணைக்கும்.

(ஆளுநரின் ஆணைப்படி)

ஏ.பி.முத்துசாமி,  
தலைமைச் செயலர்



## ANNEXURE- XII - 5

(Ref : Para 21.6.)

- I **Budgetary Reforms**
  - 1) Wiping out deficit by 2004
  - 2) Ensuring 5% cash reserve in each year's income
  - 3) Statutory ceiling on debt level
- II **Fiscal objectives and Reforms**
  - 1) Limiting the salary and pension commitment to 49%
  - 2) Fixing responsibility for time and cost over-run on line agencies/and departments
  - 3) Monitoring the ratio of staff vs. population
  - 4) Privatization of certain civic services
  - 5) Effecting statutory amendments
  - 6) Cost recovery in core civic services
- III **Review and monitoring**
  - 1) Reviewing the utilization of State devolution
  - 2) Quarterly review of O&M expenditures
  - 3) Reviewing own revenue of local bodies and its potential growth
  - 4) Reviewing Date-base management /web site updating

The devolution distribution details besides being put on website, may be brought out through priced publication either by the Finance Department or by the respective HoD. This will instil confidence among people that the Government is doing its best to meet the needs of the people.

## ANNEXURE XII - 6

(Ref : Para 32.4.)

(See Article 243 –W of Constitution of India)

### A. AS PER TWELFTH SCHEDULE

- 1. Urban planning including town planning
- 2a. Regulation of land use and construction of buildings;
- 2b. Prevention or removal of obstructions and projections in or upon streets, bridges and other public places;
- 2c. Regulation of hoardings and advertisements put up for public view on public or private land
- 3. Planning for economic and social development;
- 4a. Construction and maintenance of roads, culverts and drains which are under the municipality and those transferred by the Government to the municipality.
- 4b. Numbering and naming of streets;
- 5a. Execution and maintenance of water supply schemes required for domestic industrial or commercial purposes, except in the municipality where there is a separate authority to which such functions are assigned.
- 5b. Protection of public ponds and fountains;
- 6a. Public health matters including vaccination and inoculation.
- 6b. Solid waste management.
- 6c. Maintenance of sewerage and drainage schemes except in the municipality where there is a separate authority to which such functions are assigned.
- 6d. Mosquito control;
- 6e. Regulation of dangerous trades or trade practices;
- 6f. Licensing of eating establishment;
- 6g. Regulation of sale of meat, fish and other perishable food items and sale of other consumer items.
- 6h. Disposal of unclaimed corpses or carcasses of animals;
- 7. Fire services
- 8. Urban forestry, protection of the environment and promotion of ecological aspects;
- 9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded;
- 10. Slum improvement and upgradation;
- 11. Urban poverty alleviation;
- 12. Construction and maintenance of parks, gardens, play grounds, traffic islands in the urban areas
- 13a. Promotion of cultural, educational and aesthetic aspects;
- 13b. Organization of fairs and exhibitions;
- 14. Opening and maintenance of public burial and burning grounds and electric crematoria;
- 15a. Cattle pounds, prevention of cruelty to animals;
- 15b. Destruction of stray dogs;
- 16. Registration of births and deaths ;
- 17a. Installation of street lights and their maintenance;
- 17b. Providing parking places for vehicles including taxis and autorickshaws;
- 17c. Maintenance of public markets, shopping complexes, bus stands, rest houses;
- 17d. Establishment of public comfort stations, latrine and bathing places.
- 18. Regulation of slaughter house and tanneries
- B. OUTSIDE TWELFTH SCHEDULE
- 19. Civic reception to persons of distinction ;

**ANNEXURE -XIII-1**  
(Ref – Para 3)

**OVER ALL BUDGET OF THE TAMIL NADU GOVERNMENT - A TREND (1994-95 TO 2001-2002)**

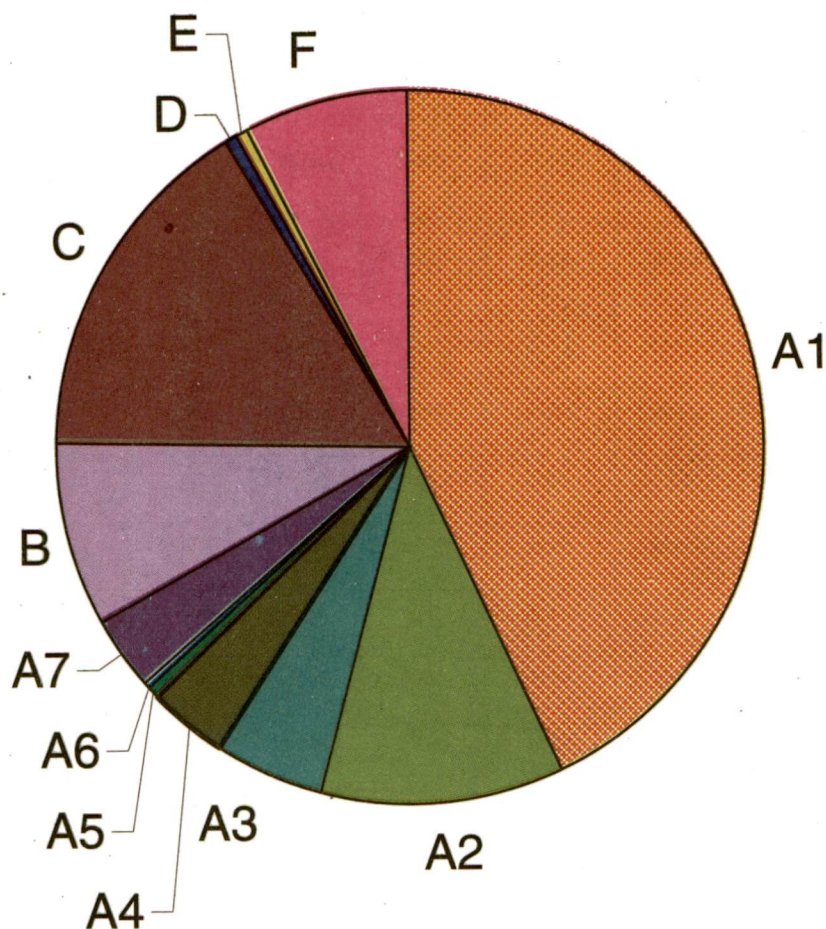
(Rupees in Crores)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001 (R.E)	2001-02 (B.E)
A.CONSolidATED FUND (NET)	129.30	-63.29	-1002.71	-396.82	-2617.47	-2274.66	-1437.65	-2017.33
I .Revenue Account	-415.55	-311.32	-1103.60	-363.90	-13436.57	-4400.30	-3922.28	-3659.30
II .Capital Account	544.85	248.03	100.89	967.08	819.10	2125.64	2484.63	1641.97
B.CONTINGENCY FUND (NET)	-3.19	6.59	-4.98	5.30	-	-	-	-
C.PUBLIC ACCOUNT (NET)	-251.56	171.15	1023.60	403.94	2474.40	2408.97	1006.37	1021.74
TOTAL TRANSACTIONS (A+B+C)	-125.45	114.45	15.91	12.42	-143.07	134.31	-431.28	-995.59
Opening Balance	69.79	-55.66	58.79	74.70	87.12	-55.95	78.36	-352.92
Closing Balance	-55.66	58.79	74.70	87.12	-55.95	78.36	-352.92	-1348.51



# ANNEXURE XIII -2

## REVENUE RECEIPTS OF THE STATE 1999-2000 Actuals



SL.NO.	Components	Actuals (Rs. in Lakhs)	% to Total Revenue Receipts
A1	Sales Tax	702423	43.02
A2	State Excise	183370	11.23
A3	Stamps and Registration	81758	5.00
A4	Tax on Vehicles	57798	3.54
A5	Entertainment Tax	9109	0.56
A6	Land Revenue	4723	0.29
A7	Other Tax Revenue	52712	3.23
<b>A1-A7</b>	<b>State's own Tax Revenue</b>	<b>1091893</b>	<b>66.87</b>
B	Non-Tax Revenue	135685	8.31
C	Central Devolution	266700	16.33
D	CFC Grants to Local bodies	10072	0.47
E	Other CFC Grants	7616	0.62
F	Other grants-in-aid from G.O. I	120787	7.4
	<b>Total</b>	<b>1632753</b>	

**ANNEXURE-XIII-3**  
(Ref – Para 4.1)

**REVENUE FROM VARIOUS TAXES - TAMIL NADU GOVERNMENT**

(Rupees in crores)

TAX	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001	2001-02
	A/Cs						(R.E.)	(B.E.)
Sales Tax	3913.84	4689.27	5341.07	5603.79	6112.94	7024.23	8309.00	9550.00
State Excise Duties	614.64	934.66	1063.07	1299.85	1709.82	1833.70	2000.00	2280.00
Stamp Duty & Regn. Fees.	506.69	613.01	590.60	631.55	672.52	817.58	900.00	990.39
Taxes on Vehicles	372.45	392.21	425.42	469.69	518.14	577.98	631.06	734.31
Electricity Duties	114.41	140.53	150.62	171.41	178.83	196.54	219.11	260.27
Taxes on Goods & Passengers	110.03	161.99	187.26	214.96	182.76	222.64	250.00	270.00
Entertainment Tax	89.59	99.99	117.16	119.24	91.98	91.09	78.42	88.62
Land Revenue	35.27	25.21	18.77	60.31	28.29	47.23	50.30	51.53
Agricultural Income Tax	16.73	19.47	13.86	39.36	38.53	17.78	17.97	17.97
Urban Land Tax	10.69	10.48	9.97	10.96	14.18	11.47	14.00	14.00
Other Taxes and Duties on commodities and services	49.43	64.38	65.65	64.52	77.31	78.68	95.86	91.38
<b>TOTAL</b>	<b>5833.77</b>	<b>7151.20</b>	<b>7983.45</b>	<b>8685.64</b>	<b>9625.30</b>	<b>10918.92</b>	<b>12565.72</b>	<b>14348.47</b>



**ANNEXURE XIII- 4**  
**(Ref – Para 5)**

**STATEMENT SHOWING THE IMPORTANT FACTORS HAVING SIGNIFICANT IMPACT ON**  
**"STATE FINANCES"**

(Rupees in Crores)

	1997-98	1998-99	1999-2000	2000-01(Est)	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2002-07
											Total
1. Impact of VI Pay Commission	-										
(A) Salaries	-										
i. Recurring	-	770.70	770.70	770.70	770.70	770.70	770.70	770.70	770.70	770.70	3853.50
ii. Arrears	-	207.65	207.65	-	-	-	1143.26	-	-	-	1143.26
iii. Other recommendation	-	91.97	157.66	157.66	157.66	157.66	157.66	157.66	157.66	157.66	788.30
(B) Pension & Other Retirement Benefits	-										
i. Recurring	-	461.81	461.81	461.81	461.81	461.81	461.81	461.81	461.81	461.81	2309.05
ii. Arrears	-	189.77	236.23	54.93	-	-	856.56				856.56
<b>Total [A+B]</b>	-	1721.90	1834.05	1445.10	1390.17	1390.17	3389.99	1390.17	1390.17	1390.17	8950.67
2. Interest Commitment on increased borrowings to fund the plan.(Estimated expr.)	113.81	93.59	109.44	120.39	132.43	145.67	160.23	176.26	193.88	213.27	889.31
3. Transfers to Local Bodies on account of First State Finance Commission award & recommendations	1497.61	1809.44	1913.61	2305.93	2767.12	-	-	-	-	-	0.00
<b>Total</b>	1611.42	3624.93	3857.10	3871.42	4289.72	1535.84	3550.22	1566.43	1584.05	1603.44	9839.98

**ANNEXURE XIII- 5**  
(Ref - Para 6)

**ASSETS AND LIABILITIES OF TAMIL NADU GOVERNMENT**

(Rupees in crores)

Liabilities	As on 31-3-1995	As on 31-3-2000	Assets	As on 31-3-1995	As on 31-3-2000
1. Loan:-			Loans to Electricity Board	973.00	413.16
	6800.81	12385.27	Other Loans Advanced by Government	1533.79	3618.59
Due to Government of India					
Open market Loan	2293.59	4783.07	Capital Expenditure	4475.67	9248.67
4% Tamil Nadu Land Ceiling Compensation Bonds	0.01	0.08			
Loans from Financial Institution	267.69	1408.97			
2. Other Liabilities					
State PF and savings Bank Deposits	1811.31	4848.71			
<b>Total</b>	<b>11173.41</b>	<b>23426.10</b>	<b>Total</b>	<b>6982.46</b>	<b>13280.42</b>
			Excess of Liabilities over Assets	4190.95	10145.68

**ANNEXURE XIII- 6**

(Ref - Para 7.1)

**RESOURCE GAP OF THE TAMIL NADU GOVERNMENT**  
(1994-95 TO 2001-02)

(Rs. in Crores)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
	A/Cs						(R.E)	(B.E)
Revenue Deficit	415.55	311.32	1103.60	1363.90	3436.57	4400.30	3922.28	3659.30
<sup>A</sup> Basic Resource Gap	19119.62	22724.65	26767.60	34264.23	37508.71	36421.09	79934.22	101561.19
<sup>*</sup> Gross Fiscal Deficit	1496.41	1255.86	2444.97	2121.73	4777.11	5382.32	5780.58	6178.85

<sup>\*</sup>[ Rev. Expdre. + Cap. Expdre. + Loans & Adv (Net) - Rev. Receipt ]

<sup>A</sup> [ States own Revenue - (Rev. Expdre. + Capital disbursement)]



### ANNEXURE XIII -7

(Ref - Para 8.2)

#### COMPARATIVE STATEMENT ON REVENUE INCOME AND UTILIZATION FOR 1997-98 TO 2001-02

(Rs. in lakhs)

Sl. No.	Local Body	Revenue Income			Total	Utilization			% of salary and O&M	% of SFC devolution
		Own Revenue	Assigned Revenue	SFC devolution		Salary	O&M	Total		
1	VPs	45269	47700	131788	224757	32315	118205	150520	67	87
2	Pus	48224	2602	99699	150525	57425	38120	95545	63	96
3	Dt.Pts.	-	-	17658	17658	1871	17	1888	11	100
4	TPs.	61581	33675	49860	145116	40765	60006	10771	69	49
5	Mpts.	129849	44147	36867	209863	93472	81985	175457	84	21
6	Corpns	206655	68835	54445	329935	117766	112764	230530	70	24
	Total	490578	196959	390317	1077854	343614	411097	754711	61 (average)	63 (average)

Statement showing the revenue gap of all Local Bodies for 2002-07.

(Rs. in lakhs)

Local Body	Own Revenue Income	Expenditure for 2002-07							Revenue Gap
		Salary	Pension	O&M	Addl. O&M	Debt servicing	Non-Debt liabilities	Total	
V.Ps.	100465	54422	-	369707	-	-	-	424129	- 323664
P.Us	40000	74395	29724	112086	-	-	-	216205	- 176205
Dt. Pts.	-	2786	-	-	-	-	-	2786	- 2786
T.Pts.	102621	80304	14404	101516	19940	29303	4815	250282	- 147661
Mpts.	208373	183592	48772	157026	10755	42264	13516	455925	- 247552
Corpns.	338988	231257	74032	222592	12273	82548	13698	636400	- 297412
Total	790447	626756	166932	962927	42968	154115	32029	1985727	- 1195280

(Rs.in Crores)

Revenue Gap	: 11952.80	Global sharing including 5% Central Devolution	: 10964.33
Capital needs	: 5025.00	Assigned Rev	: 2131.24
Fiscal gap	: 16977.80		: 13095.57

### ANNEXURE XIII -8

(Ref - Para 8.2)

#### CAPITAL REQUIREMENTS TO FILL IN GAPS IN SERVICES BASED ON NORMS FOR 2002-07

Components	Village Pancha-yats	Panchayat Unions	Town Panchayats	Municipalities	Corporations	Total
(Rupees in Crores)						
Water Supply	500.00	-	454.61	266.02	137.81	1358.44
Sewerage	-	-	13.52	70.94	124.71	209.17
Roads	1150.58	211.18	131.10	190.02	375.28	2058.16
SWD	-	-	220.79	91.20	224.51	36.50
Street Lighting	96.76	-	40.44	49.41	26.39	213.00
Solid Waste Management	-	-	6.62	32.93	87.55	127.10
Others	-	-	91.23	122.88	154.40	368.51
Additional Cost Factors	-	-	-	0	154.12	154.12
Total	1747.34	211.18	958.31	823.4	1284.77	5025.00

**ANNEXURE XIII- 9**  
(Ref - Para 13.9)  
**STATEMENT SHOWING THE DETAILS OF PLAN DISCRETIONARY**  
**GRANTS TO LOCAL BODIES**

(Rs in Lakhs)

Sl.No.	Details of the Grant	1996-97	1997-98	1998-99	1999-2000	2000-01 (RE)	2001-02 (BE)
<b>Demand No.27</b>							
1	Namakku Naame Thittam	-	115	1400	3711	6101	4000
2	Anna Marumalarchi Thittam	-	5186	5353	7500	7500	7500
3	MLA Constituency Development Scheme (MLACDS)	-	5775	7075	11750	18095	18095
4	Jawahar Gram Samridhi Yojana (JGSY) *	6263	4627	4525	2747	2893	2572
5	Assistance to Primary Education under PM Gramodaya Yojana *	-	-	-	-	1799	-
6	Employment Assurance Scheme (EAS)	3743	5420	4680	3243	2578	2109
7	Information Education for Communication Strategy Project	135	34	-	-	25	-
8	Social Education Grants to Local Bodies	28	29	29	24	-	-
9	Water Supply Schemes through Panchayat Union	93	94	72	95	100	-
10	Grants to Panchayat Union for Drought affected areas	166	154	400	652	760	823
11	Assistance to Local Bodies for District Decentralised Plan	6000	3454	3352	621	143	-
12	Special Programme for restoration/renovation of Minor Irrigation Tanks	223	235	235	-	-	-
<b>Demand No.33</b>							
13	Urban basic Service for Poor implemented by DMA	-	194	-	-	1	-
<b>Demand 48</b>							
14	Grants to Chennai Metropolitan Water Supply and Sewerage Board	-	165	-	-	-	-
15	Minimum needs Programme	6000	3997	7333	7333	-	-
16	Minimum Needs Programme under Special Component Plan	1936	1500	3667	3667	-	-
17	Grants to water supply schemes to District Panchayat	1600	1000	2000	1000	-	-
18	Grants to TWAD Board for execution of accelerated urban water supply programme *	-	-	-	-	688	1061
19	Grants to Municipalities for Water supply Scheme	419	716	850	700	-	-
<b>Demand 49</b>							
20	Slum Improvement Programme in ULBs	2147	3810	3490	2711	2711	2711
21	Grants to Corporations other than Chennai for upgradation of Basic services	-	1290	1250	1250	-	-
22	Assistance to Town panchayats for provision of amenities	2169	2548	2500	2500	-	-
23	The Urban wage employment Programme (UWEP) *	176	-	153	188	230	171
24	The Urban Self Employment Programme (USEP) *	-	-	111	281	264	264
25	Assistance to Community Structure Component Under "SJSRY" scheme	-	-	-	124	74	74
26	Assistance to Municipalities for Infrastructure Development	160	300	350	400	1175	1000
<b>Demand 60</b>							
27	NABARD - RIDF Roads	-	-	-	-	4125	5625
28	PMGSY Roads	-	-	-	-	17500	-
29	Margin Money/ capital Grant to ULBs for Water Supply	-	-	-	5000	7712	7000
30	Assistance to New Thruppur Water Supply Scheme	-	-	-	-	1000	175
31	Rural Water Supply Schemes under Minimum Needs Programme	-	-	-	-*	27400	22137
32	Rural Water Supply Schemes under Special Component Plan	-	-	-	-	13700	11068
33	Capital Grants to ULBs for Sewerage Scheme	-	-	-	-	-	3000
34	Formation of Metro Infrastructure Development Corporation (MEGA CITY)	5000	1950	-	1596	1595	1700
	Total	36258	42593	48825	57093	118169	91085
	Other Plan Grants	883	784	1387	541	390	841
	<b>Grand Total</b>	<b>37141</b>	<b>43377</b>	<b>50212</b>	<b>57634</b>	<b>118559</b>	<b>91926</b>

\* Centrally sponsored schemes with matching contribution by the state Government



## ANNEXURE - XIII-10

(Ref. Para.9-2.1)

## STATEMENT SHOWING THE DETAILS OF NON-PLAN DISCRETIONARY GRANTS TO LOCAL BODIES

Sl.No.	Details of the Grant	(Rs. in Lakhs)					
		1996-97	1997-98	1998-99	1999-2000	2000-01 (RE)	2001-02 (BE)
	Demand No.27						
1	Maintenance grant for Maternity Centres of Local Bodies	273.68	258.52	247.13	253.79	261	261
2	Grants to local roads	2076.59	42.01	-	11.06	-	-
3	Grants for dispensaries of Panchayat Union	0.97	0.27	1.03	0.22	0.33	-
4	Maintenance of Hand Pump	536.44	-	-	-	-	-
5	Provision of Street lights to weak Panchayats	346.4	-	-	32.16	-	-
6	Maintenance grants for dispensaries of Local Bodies	9.48	9.63	10.22	7.38	8.14	8.06
7	Local Irrigation grants to Local Bodies	99.96	99.46	99.17	94.66	100	100
8	Social Education Grants to Local Bodies	28.43	28.65	29.27	23.8	27.84	822.9
9	Grants to Panchayat Union for drought affected areas	166.23	154.4	399.7	652.23	1055.63	-
	Demand No.33						
10	Grants to Corporation of Chennai for Slum improvement schemes	10					
	Demand No.38						
11	Grants to Municipalities for improving the surface of roads	33.03				0.01	
	Demand No.40						
12	Grants to Municipal Corporation for Road Maintenance	0.4					
13	Grants to Municipalities/Town ship Committee for Road maintenance	16.07					
14	Grants to Municipalities / Municipal Corporation for transportation and water supply in drought affected areas	428.43	40.2	38.26	0.2	0.01	0.01
15	Grants to Panchayat Union for transportation and water supply in drought affected areas	1277.24	376.33				0.01
16	Repairs and restoration of damaged roads under Local Bodies	35.91	829.31	1500.11	0.21	0.01	0.01
17	Repairs and restoration of damaged Panchayat Union Roads due to flood	216.23	29.97	120.81	0.14	0.01	0.01
	Demand No.48						
18	Grants to Chennai Metropolitan Water Supply and Sewerage Board for supply of water to Cancer Institute at concessional rate	6.32	3.16	5.25	3.5	3.5	7.6
19	Grants for water supply schemes to Town Panchayats	1600	1000	2000	1000	-	-
20	Grants to Municipalities for Water supply schemes	419	716.2	850	700	700	-
20A	Grants to TWAD for execution of accelerated urban water supply scheme						1060.61
	DEMAND NO.49						
21	Grants to Municipalities for environmental improvements in slumps	81.72					
22	Grants to Chennai Corporation for street lighting	30	30				459
23	Grants to Chennai Corporation for creation of parks and development of grounds	5	5				
24	Assistance to Municipalities for improvement of maternity and child welfare centres	18.5	15	13.3	15	15	15
25	Assistance to weak rural town Panchayats for water supply scheme (non -TWAD)	12.33	-	121.3	100		
26	Assistance to weak panchayats for provision of street lights	91.2	0.01				
27	Half grants to Panchayats for dust less surfacing of roads	45.55			0.07		
		7865.11	3638.12	5435.55	2894.42	2171.48	2734.21
	Total	7865	3638	5436	2894	2171	2734
	Other non plan grants (including receipts from Social Forestry, Geology and Mining)	21245	7888	8638	9817	9406	7638
	Grand Total	29110	11526	14074	12711	11577	10372

### ANNEXURE XIII -11

(Ref - Para 9.2.3)

#### TOTAL RESOURCE TRANSFERS TO LOCAL BODIES

(Rs. in Lakhs)

	Actuals						(R.E.)	(B.E.)
	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
I. ASSIGNED REVENUE								
1. Surcharge on Stamp duty	15911	21118	21367	22366	25114	27077	21750	22838
2. Entertainment Tax	5664	6596	7048	6559	9179	9133	6917	7816
3. LC / LCS	1274	1657	1300	397	828	1331	919	938
Total ( I )	22849	29371	29715	29322	35121	37541	29586	31592
II. Other Transfers								
A. Plan grants								
1. C.F.C. grants			7546	9493	9451	9545	50	9322
2. Capital Grants	5000	2000	5000	1950	-	6596	73032	50705
3. Loan	4442	4943	4563	3899	3384	3250		
4. Others	26907	30684	32141	41427	50212	51038	45527	41221
Total ( A )	36349	37627	49250	56769	63047	70429	118609	101248
B. Non-Plan grants								
1. S.F.C. grants				61256	79294	80519	101807	101807
2. Loan	2268	2091	2257	2284	2545	16		
3. Lease from geology & Mining	56	92	372	188	1370	1162	1000	1000
4. Social Forestry	24	34	200			493	557	
5. Others	12305	24446	28538	11338	12704	11056	10020	9372
Total ( B )	14653	26663	31367	75066	95913	93246	113384	112179
Total II (A+B)	51002	64290	80617	131835	158960	163675	231993	213427
Total Transfers to Local Bodies (I+II)	73851	93661	110332	161157	194081	201216	261579	245019

### ANNEXURE XIII-12

(Ref - Para 12.b)

#### DATES OF ADJUSTMENT OF DEVOLUTION FUNDS UNDER STATE FINANCE COMMISSION RECOMMENDATION FROM 1997-98 TO 2000-2001

##### MUNICIPALITIES

S. No	Year	Quarter	Due Rs. in Crores	Drawn Rs. in Crores	Loan Recovery Rs. in Crores	Date of Drawal	Month on which due
1	1997-98	I	19.62	19.62	-	26.5.97	April
		II	19.62	19.62	-	14.7.97	July
		III	19.62	19.62	-	14.10.97	October
		IV	18.62	17.43	-	13.1.98	January
				1.19	-	31.3.98	January
2	1998-99	I	16.26	16.26	-	22.6.98	June
		II	16.26	16.26	-	7.10.98	September
		III	16.26	16.26	-	9.12.98	December
		IV	13.19	13.19	10.27	25.3.99	March
3	1999-2000	I	15.67	15.67	-	8.7.99	June
		II	15.67	9.12	6.55	17.12.99	September
		III	15.67	15.67	-	2.2.2000	December
		IV	15.67	6.69	6.36	31.3.2000	March
4	2000-2001	I	26.13	26.13	-	17.8.2000	June
		II	26.13	26.13	-	13.11.2000	September
		III	26.13	26.13	-	23.3.2001	December
		IV	26.13	26.13	-	-	March



**ANNEXURE XIII- 13**  
**(Ref -11.7)**

**ILLUSTRATIVE MODEL FOR RESOURCE TRANSFERS**  
**(PRE-RECLASSIFICATION POSITION)**  
**PROJECTION FOR 2002 -03**

(Rs. in Crores)  
1295  
198  
1493  
Rounded to 1500  
195  
1305

8% of SOTR  
5% Central Devolution  
Total

Deduct Reserve, Equalization and Incentive Fund (13%)  
Balance

**Inter-se**

Formula 58:42

Panchayat Raj Institutions

Urban Local Bodies

757

548

**Vertical**

Rural

2002-2003

Devolution to PRIs  
Deduct salary requirements for District Panchayats(approximate salary requirements)  
Net

757.00  
5.00  
752.00

Village Panchayats

Panchayat Unions

451 (60%)

301 (40%)

Deduct Pension Commitment  
Net

451

40.34  
260.66

Urban:

Share of Urban Local Bodies: Rs.548 Crores

Corporations

Municipalities

Town Panchayats

33 :  
Rs.181 crores

32 :  
Rs.175 crores

35  
Rs. 192 crores

Deduct

Pension Commitment

66

19.55

Net

181

109

172.45

Sharing among Municipal Corporations

(Total Share - Rs. 181 Crores)

Criteria	Weightage	Chennai Corporation	Other Corporations
Population	50%	48.05	42.45
Slum Population	10%	9.66	8.44
Per capita Own Income	20%	24.25	11.95
Asset Maintenance	10%	6.60	11.50
Salary and Pension	10%	10.54	7.56
Expenditure restricted to 49% of total revenue income			
	100.00%	99.10	81.90

Chennai Corporation  
89.19

Metro Water  
9.91

**ANNEXURE XIII-14**  
(Ref - Para 13.8)  
**ILLUSTRATIVE MODEL FOR RESERVE, EQUALIZATION & INCENTIVE FUNDS**

Total estimated devolution for 2002 -2003		Rs.1500 crores		(Rs. in Crores)	
Reserve	30	15		<u>Total</u>	45
		Collectors Development Fund			
Equalization	75				75
Incentive	75				75
<b>Total</b>	<b>180</b>	<b>15</b>			<b>195</b>
Division among Panchayat Raj Institutions /Urban Local Bodies					
Panchayat Raj Institutions	17.40				
	43.50				
	43.50		9		113.40
<b>Total</b>	<b>104.40</b>				
Urban Local Bodies	12.60				
	31.50				
	31.50		6		81.60
<b>Total</b>	<b>75.60</b>				
Reserve Fund					
		<u>PRIs</u>		<u>ULBs</u>	
Disaster Management		8.70		6.30	
Training Needs		3.75		2.75	
Rain Water harvesting		4.95		3.55	
Collector's Development Fund		9.00		6.00	
		<b>Total:</b>		<b>18.60</b>	
Equalization					
		<u>PRIs</u>		<u>ULBs</u>	
		43.50			
Election Fund				3.00	
TNUDF				20.00	
Self Financing Projects				8.50	
		<b>Total:</b>	<b>43.50</b>	<b>31.50</b>	
Incentive					
		<u>PRIs</u>		<u>ULBs</u>	
House Tax matching Grant	43.35	55.85			
Incentive (50%) on granite lease income	12.50				
Report card		0.15		* 4.05	
Solid Waste Management (Corporations & Municipalities)				* 1.55	
Property Tax matching Grants (Town Panchayats)				* 7.51	
Balance to be distributed based on better Tax and Non Tax Collection and prompt debt repayment				* 18.39	
		<b>Total:</b>	<b>56.00</b>	<b>31.50</b>	
<b>Grand Total</b>			<b>125.90</b>	<b>81.60</b>	
* Incentive Fund for Urban Local Bodies					
		Rs. 31.50 Crores			
		Corporations	Municipalities	Town Panchayats	
Incentive Fund		10.395 (33%)	10.080 (32%)	11.025(35%)	
Report Card		3.00	0.75	0.30	
Solid Waste Management For Chennai		0.50			
For Other Corporations exceeding 5 lakh population (4 Corporations)		0.40			
Corporation below 5 lakh population (Tirunelveli)		0.05	0.90		
			(18 Municipalities)		
Property Tax Matching Grant				(Gr.II) 25%	2.68
				(Gr.I) 20%	2.15
				(S.G.) 15%	1.61
				(Spl.G) 10%	1.07
		<b>3.950</b>	<b>1.65</b>	<b>7.51</b>	
<b>Balance</b>		<b>6.445 ***</b>	<b>8.43 ***</b>	<b>3.215 **</b>	

\*\*\* To be distributed based on better tax and non tax collection and prompt debt repayment..

\*\* To be distributed for prompt clearance of debt and non debt liabilities.



**ANNEXURE-XIII- 15(a)**  
(Ref – Para 13.4)

**CORPORATIONS**

**DISTRIBUTION OF INCENTIVE AND EQUALISATION FUND**

(Rs. in Crores)

Sl.No	Year	Incentive Fund	Purpose for which utilized	Equalization Fund	Purpose for which utilized
1.	1997-98	6.16	i) Incentive for property tax collection ii) Incentive for repayment of loans to MUDF, IUDP & IDSMT	6.16	Distribution of Tirunelveli, Salem and Tiruchirappalli Corporations equally.
2.	1998-99	7.56	i) Incentive for property tax collection ii) Incentive for completion of above 90% Plan schemes. iii) Incentive for repayment of loans to MUDF, IUDP & IDSMT	7.56	Distribution of all Corporations on the basis of population.
3.	1999-2000	4.55	-	10.63	-
4.	2000-2001	5.78	-	13.49	i) Repayment of loan to TUFIDCO ii) Balance amount distributed to the Corporations.

**ANNEXURE -XIII 15 (b)**  
(Ref – Para 13.4)  
**MUNICIPALITIES**

**DISTRIBUTION OF INCENTIVE AND EQUALISATION FUND**

(Rs. in Lakhs)

Sl.No	Year	Incentive Fund	Purpose for which utilized	Equalization Fund	Purpose for which utilized
1.	1997-98	616.24	<ul style="list-style-type: none"> <li>For 85% collection in property tax during 1996-97</li> <li>For 100% annuity repayment in respect of MUDF and IDSMT loans</li> </ul>	616.24	<ul style="list-style-type: none"> <li>For Grade I, II &amp; III Municipalities based on Property Tax / House Tax collection in previous year</li> </ul>
2.	1998-99	756.64	<ul style="list-style-type: none"> <li>For 75% collection in Property Tax</li> <li>For completion of 90% plan schemes before the year end.</li> </ul>	756.64	<ul style="list-style-type: none"> <li>For Grade I &amp; II Municipalities based on Property Tax collection in previous year</li> <li>To improve level of civic services in tourist and pilgrim centres</li> <li>Payment of salary to staff of Palani Municipality</li> </ul>
3.	1999-2000	759.12	<ul style="list-style-type: none"> <li>For 90% annuity repayment in respect of IUDP and IDSMT loan and 100% in respect of TUFIDCO &amp;</li> </ul>	759.12	<ul style="list-style-type: none"> <li>For Grade I &amp; II Municipalities based on Property Tax collection in previous year</li> <li>To improve level of civic services in tourist and pilgrim centers</li> <li>Repayment of loan dues to MUDF and TNUDF</li> </ul>
4.	2000-01	217.65	TUFISL loans	1958.83	<ul style="list-style-type: none"> <li>For Grade I &amp; II Municipalities based on Property Tax collection in previous year</li> <li>To improve level of civic services in Tourist and pilgrim centers</li> <li>Deduction towards loan payable to TUFIDCO towards LCS and SJSRY schemes</li> <li>Deduction towards loans for water supply scheme implemented in peripheral areas of Chennai.</li> </ul>



**ANNEXURE-XIII 15 (c)**  
**(Ref – Para 13.4)**  
**TOWN PANCHAYATS**

**DISTRIBUTION OF INCENTIVE AND EQUALISATION FUND**

(Rs. in Crores)

Sl.No	Year	Incentive Fund	Purpose for which utilized	Equalization Fund	Purpose for which utilized
1.	1997-98	7.55	House Tax Collection	7.55	Distributed to all Town Panchayats based on population.
2.	1998-99	9.27	i) House tax / Property tax collection ii) Prompt payment of loan dues. iii) Prompt payment of non-debt dues	9.27	i) Temple town / Tourism Town Development. ii) NSDP Short fall. iii) TWAD dues.
3.	1999- 2000	1.86	i) House tax / Property tax collection ii) Prompt payment of loan dues. iii) Prompt payment of non-debt dues	16.75	i) Temple town / Tourism Town Development. ii) Conversion of Dry type Latrines into flush out latrines.
4.	2000- 2001	5.28	i) House tax / Property tax collection ii) Prompt payment of loan dues. iii) Prompt payment of non-debt dues	15.86	i) Shandy improvement ii) Burial ground improvement

**ANNEXURE –XIII 15 (d)**  
**(Ref – Para 13.4)**  
**Panchayat Raj Institutions**

**Distribution of Incentive and Equalization Fund**

S. No	Year	Incentive Fund (Rs. in crores)	Purpose for Which utilized	Equalization Fund (Rs. in crores)	Purpose for which utilized
1)	1997-98	20.00	House tax matching/incentive grant	10.09 17.48 12.01 <b>Total</b> 39.58	i) for arrears of C.C. to TNEB ii) Arrears of TWAD iii) Basic amenities for the places affected by natural calamities
2)	1998-99	28.47	House tax incentive grant	2.80 12.20 2.80 12.60 2.65 11.53 2.50 <b>Total</b> 47.08	i) Water charges to TWAD for weaker Village Panchayats ii) Provision of water facilities to Village Panchayats iii) C.C. to weaker Panchayats iv) Provision of street lights v) Provision of Sodium Vapour lamps vi) Infrastructure to Pilgrim centres vii) Development of shandies
3)	1999-2000	40.14 1.82 2.50 0.14 <b>Total</b> 44.60	House tax incentive Award for Best VP/PU/District Panchayat for common burial ground for all Communities For organizing function at State level	2.80 2.80 1.00 20.06 0.20 2.00 <b>Total</b> 28.86	Payment towards maintenance charge to TWAD Provision of street lights and C.C.C to Village Panchayats Sodium vapour lamps Development of infrastructure to VP Admn. Expenditure for Madukarai PU N.M.P. centres repairs
4)	2000-01	45.99 2.70 1.82 <b>Total</b> 50.51	House tax incentive SamathuvaMayanam Awards for Best VP/PU/District Panchayat	15.57 8.81 5.43 2.00 2.85 4.65 3.16 <b>Total</b> 42.47	Dev.of infrastructure to V.P Provision of street lights E.B.charges to TNEB Admn. Expenditure for P.U For creating Revolving Fund under Rural Water Supply scheme. Infrastructure for Samathuva mayanam Repairs to NMP centres



**ANNEXURE XIII-16**  
**(Ref – Para 13.6.1)**

Case studies on Village Panchayats

During the interaction with Presidents of Village Panchayats, possibility of developing 1000 model Panchayats during our award period (2002-07) came up. We tried to identify good Panchayats for giving incentives and for motivating others towards replication. Accordingly, two case studies are given below.

**Odandurai Village Panchayat in Coimbatore District**

Odandurai Village Panchayat has been described as the "role model" for other Village Panchayats in entire State by Dr. S.P.Jain, Director, Centre for Panchayat Raj, NIRD, Hyderabad. He has remarked that the Village Panchayat President and his team are responsible for remarkable progress in the life style of tribals, a majority of whom are Irulas.

About 97% of House tax has been collected during 1997-98 and 98-99 and 100% during 1999-2000 and the eligible incentive has been availed according to the collection. House Tax has also been revised during 98-99 and increase is 50%. Water is being supplied from Bhavani river. Power pumps were installed in all the habitations and water supply attained self-sufficiency in all habitations.

During 97-98, 45 group houses were constructed in the Harijan Colonies and declared as first Village Panchayat in the district in completing Group Houses. Streetlights were provided to all the streets and free lights have been provided to SC/STs. Drainage facilities, concrete and black top roads were provided in all areas of the Village Panchayats. Under NNT scheme, overhead tanks and fair price shops were provided at Kallar and Oomapalayam and earned the name of first Village Panchayat in the District to implement the NNT scheme, during 98-99 and 99-2000. About 70% of the people are availing bank loan under IRDP scheme. Periodical meetings are being conducted in the Village Panchayat.

Permission for building plan approval is accorded within 24 hours from the time of receiving application subject to verification. Action is being taken to augment the own source of the Panchayats by collecting house tax, approving plan, water charges and getting income from auction. Grama sabha is being conducted in a smooth manner and accounts are being placed at the Grama sabha meetings.

Keerapalayam Village Panchayat in Cuddalore District.

In Cuddalore District the pilot scheme of DANIDA Assisted water supply and sanitation programme is being implemented. The scheme is similar to concept of NNT scheme. Keerapalayam Village Panchayat in particular has been considered as the forerunner of DANIDA assisted water supply and sanitation programme in rural areas. President Keerapalayam Village Panchayat and his team had taken effective steps to implement all the welfare schemes in this Panchayat.

Keerapalayam Village Panchayat has been adjudged as a cent percent self-sufficient village in rural sanitation programme. Public have cultivated the use of toilet.

Women had been trained to carry out the repairs in the hand pump or power pumps. Every lane in Keerapalayam symbolises environmental cleanliness and hygiene; dustbins have slogans painted on them emphasizing the need for maintaining hygiene.

Apart from the DANIDA assisted Programme, the DRDA has also contributed its mite for the cent percent self-sufficiency for the Keerapalayam Village Panchayat. The success story of the DANIDA Project implemented in Keerapalayam attracted the adjacent Village Panchayats and the nearby Village Panchayats are trying to emulate this panchayat in implementation of programme in their villages.

Works were also taken up by means of gifts and contribution from the public. Under the NNT, works like rejuvenation of community well, construction of minor irrigation tanks, road works were also taken up

To sum up:

Government may evolve detailed guidelines for disbursing incentive fund to such good Village Panchayat based on the factors detailed above.

**ANNEXURE-XIII-17**  
**(Ref – Para 13.9.2)**

**CASE STUDIES**  
**Panchayat Unions**

In the Chapter on Resource base of local bodies, we have explained that the resource base of Panchayat Unions has shrunk considerably. Two case studies are given below.

Cheyyar Panchayat Union, T.V. Malai District

This Panchayat Union comes under category IV and it comprises of 63 Village Panchayats. It is one of the biggest Panchayat Unions in Tiruvannamalai district. During the year 1999-2000, Local Cess Surcharge amount had not been adjusted. However, a sum of Rs.0.53 lakhs from Entertainment Tax has been adjusted. The other receipt for 1999-2000 was Rs.9.72 lakhs. Thus the annual receipt of this Panchayat Union for 1999-2000 was Rs.10.25 lakhs only, whereas the establishment cost for 1999-2000 was Rs.33.15 lakhs and expenditure on maintenance cost was Rs.1.15 lakhs. The State Finance Commission devolution on an average per annum is Rs.34.07 lakhs. This is a typical Panchayat Union depending on State Finance Commission devolution funds.

MADUKARAI PANCHAYAT UNION, COIMBATORE DISTRICT

This Panchayat Union comes under category II and comprises nine Village Panchayats. The own source of income derived to this Panchayat Union was only Rs.3.95 lakhs for the year 1999-2000. The State Finance Commission devolution is Rs.12.46 lakhs average per annum. The establishment cost itself comes to Rs.42.55 lakhs for 1999-2000 and expenditure on maintenance incurred for 1999-2000 is Re.0.15 lakh. There is ample evidence that even State Finance Commission devolution fund is not sufficient to meet out the establishment cost. As such, during the year 1999-2000, Government had sanctioned a sum of Rs.20.00 lakhs to Madukarai Panchayat Union under equalization fund to meet out establishment cost alone.

This kind of Panchayat Union has to be taken up for reorganization by amalgamating with nearby Panchayat Unions as already indicated in the Chapter "Reclassification of local bodies" which would reduce the establishment cost to the considerable extent. Even after reorganization / amalgamation, if some Panchayat Unions could not meet out establishment cost from their own source or devolution fund, such needy Panchayat Unions are to be assisted from incentive fund.

**ANNEXURE-XIV-I**  
**(Ref – Para 1)**

Many State Finance Commission reports have not addressed the specific terms listed in article 243(I) and 243(Y), nor have they provided a clear idea of the powers, authority and responsibilities actually entrusted to the local bodies. Many of these reports also do not clearly indicate the principles formulated for sharing or assignment of State taxes, duties, tolls, fees and the grants-in-aid. It is not our intention to limit the freedom of any State Finance Commission in the manner of preparation of its report, but in order that the report of the State Finance Commission could be of use to the Finance Commission at the Centre, it is necessary to get an idea of the specific recommendation on each Terms of Reference as indicated in article 243(I). We, therefore, suggest that it would be immensely helpful if the State Finance Commission reports contain specific chapters narrating the approach adopted by it; an analysis of the resources of the State Government; an analysis of the resources of each tier of the rural local bodies and each level of the urban local bodies; the principles for distribution between the State and the Panchayats/Municipalities of the net proceeds of the taxes, duties, tolls, and fees leviable by the State; the principles on which these may be distributed among different tiers/levels of rural/urban local bodies; and the grants-in-aid to be given by the State to the Panchayats and the Municipalities. A separate chapter may also be devoted to specific measures that need to be taken for improving the financial position of these bodies to make them institutions of self-government.



